

BANCO SANTANDER CHILE  
Form 20-F  
June 30, 2010

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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, 2009

OR

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

Commission file number: 1-14554

BANCO SANTANDER-CHILE

(d/b/a Santander, Banco Santander, Banco Santander Santiago, and Santander Santiago)

(Exact name of Registrant as specified in its charter)

SANTANDER-CHILE BANK

(d/b/a Santander, Banco Santander, Santander Santiago Bank, and Santander Santiago)

(Translation of Registrant's name into English)

Chile

(Jurisdiction of incorporation or organization)

Bandera 140

Santiago, Chile

Telephone: 011-562-320-2000

(Address of principal executive offices)

Robert Moreno Heimlich

Tel: +562-320-8284, Fax: +562-687-3855, E-mail: rmorenoh@santander.cl

Bandera 140, 19th Floor, Santiago, Chile

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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  
New York Stock Exchange

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

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:

7.375% Subordinated Notes due 2012  
(Title of Class)

The number of outstanding shares of each class of common stock of Banco Santander-Chile at December 31, 2009, 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 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

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CAUTIONARY STATEMENT CONCERNING  
FORWARD-LOOKING STATEMENTS

We have made statements in this Annual Report on Form 20-F that constitute forward-looking statements within the meaning of 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:
    - 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—Strategy,” “Item 5: Operating and Financial Review and Prospects,” “Item 8: 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,” “objective,” “future” or similar expressions.

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

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

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

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

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

CERTAIN TERMS AND CONVENTIONS

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

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

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

In this Annual Report, references to “\$”, “US\$”, “U.S. dollars” and “dollars” are to United States dollars, references to “Chilean pesos,” “pesos” or “Ch\$” are to Chilean pesos and references to “UF” are to Unidades de Fomento. The UF is an inflation-indexed Chilean monetary unit with a value in Chilean pesos that changes daily to reflect changes in the official Consumer Price Index (“CPI”) of the Instituto Nacional de Estadísticas (the Chilean National Institute of Statistics) for the previous month. The Bank does not perform inflation accounting, but some loan and deposits products are contracted in “UF” and are accounted for in a similar fashion as a variable rate financial instrument. See “Item 5: Operating and Financial Review and Prospects”.



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

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

PRESENTATION OF FINANCIAL INFORMATION

Santander-Chile is a Chilean bank and maintains its financial books and records in Chilean pesos and prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), in order to comply with requirements of the Securities and Exchange Commission (the "SEC").

As required by local regulations, our locally filed consolidated financial statements have been prepared in accordance with accounting principles issued by the Superintendency of Banks and Financial Institutions (the "SBIF"). The accounting principles issued by the SBIF are substantially similar to IFRS but there are some exceptions. Therefore, our locally filed consolidated financial statements have been adjusted according to IFRS 1: First Time Adoption of International Financial Reporting Standards (see Note 2 to our audited consolidated financial statements attached to this Annual Report).

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

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

The Consolidated Statement of Financial Position as of December 31, 2008, and January 1, 2008, as well as the Consolidated Statement of Income, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year ended December 31, 2008, included for comparative purposes, were also prepared in accordance with IFRS, on a basis consistent with the financial statements for the period ending December 31, 2009.

The transition of the consolidated financial statements of the Bank to IFRS has been carried out through the application of IFRS 1: First time adoption of International Financial Reporting Standards, applying the exemptions provided by this standard.

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

Our auditors, Deloitte Auditores y Consultores Limitada, an independent registered public accounting firm, have audited our consolidated financial statements in respect of the years ended December 31, 2009 and 2008 included in this Annual Report in accordance with IFRS. See page F-1 to our consolidated financial statements for the 2009 and 2008 report prepared by Deloitte Auditores y Consultores Limitada.

Functional and Presentation currency

According to International Accounting Standard No 21, the Chilean peso, which is the currency of the primary economic area in which the Bank operates and the currency which influences its structure of costs and revenues, has been defined as the functional and presentation currency. Accordingly, all the balances and transactions denominated in currencies other than the Chilean peso are treated as “foreign currency.”

For presentation purposes we have translated millions of Chilean pesos (MCh\$) into thousands of US dollars (ThUS\$) using the rate as indicated below, for the Consolidated Statement of Financial Position, Consolidated Statement of Income, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flow for the period ended as of December 31, 2009.

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### Loans

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

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

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

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

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

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

### Effect of Rounding

Certain figures included in this Annual Report and in the Audited Consolidated Financial Statements have been rounded 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 Superintendency of Banks 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

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indicated in preparing the Audited Consolidated Financial Statements, could be converted into U.S. dollars at the rate indicated, were converted or will be converted at all.

Unless otherwise indicated, all the U.S. dollar amounts at any year end or for any full year 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 year. On December 31, 2009, and June 25, 2010, the exchange rate in the Informal Exchange Market as published by Reuters at 1:30 pm on these days was Ch\$507.25 and Ch\$537.25, or 0.16% more expensive and 0.45% cheaper, respectively, than the published observed exchange rate for such date of Ch\$506.43 and Ch\$539.68, respectively, per US\$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for the Chilean peso. For more information on the observed exchange rate. See “Item 3: A. Selected Financial Data—Exchange Rates.”

## PART I

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

Not applicable.

## ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

## ITEM 3. KEY INFORMATION

## A. Selected Financial Data

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

We have selected the following financial information from our audited consolidated financial statements. You should read this information in connection with, and this information is qualified in its entirety by reference to, our consolidated financial statements included in this Annual Report.

	As of December 31,		
	2009 In US\$ thousands(1)	2009 In Ch\$ millions(2)	2008
<b>CONSOLIDATED STATEMENT OF INCOME DATA (IFRS)</b>			
Net interest revenue	1,688,548	856,516	892,066
Provision for loan losses	(658,151 )	(333,847 )	(287,983 )
Fee income	500,995	254,130	243,129
Operating costs (3)	(804,128 )	(407,894 )	(428,168 )
Other income, net (4)	308,782	156,629	61,665
Income before taxes	1,036,046	525,534	480,709
Income tax	(175,306 )	(88,924 )	(59,742 )
Net income	860,740	436,610	420,967

Net income attributable to:			
Net income attributable to shareholders	850,778	431,557	413,370
Minority interest	9,962	5,053	7,597
Net income attributable to shareholders per share	4.52	2.29	2.19
Net income attributable to shareholders per ADS (5)	4,690.76	2,379.39	2,279.12
Dividends per share (6)	2.70	1.37	1.13
Dividends per ADS (6)	2,812.48	1,426.63	1,176.00
Weighted-average shares outstanding (in millions)	-	188,446.13	188,446.13
Weighted-average ADS outstanding (in millions)	-	181.373	181.373

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	As of December 31,		
	2009 In US\$ thousands(1)	2009 In Ch\$ millions(2)	2008
<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA (IFRS)</b>			
Cash and deposits in banks	4,028,503	2,043,458	855,411
Financial investments (7)	5,209,756	2,642,649	2,746,666
Loans	27,109,465	13,751,276	14,681,088
Loan loss allowance	(689,063 )	(349,527 )	(274,240 )
Financial derivative contracts (assets) (8)	2,747,911	1,393,878	1,846,509
Other assets (9)	2,545,374	1,291,141	1,229,073
<b>Total assets</b>	<b>40,951,946</b>	<b>20,772,875</b>	<b>21,084,507</b>
Deposits	21,111,466	10,708,791	12,704,428
Other interest bearing liabilities	12,287,790	6,232,982	4,769,980
Financial derivative contracts (liabilities) (8)	2,659,253	1,348,906	1,469,724
<b>Total shareholder's equity (10)</b>	<b>3,331,500</b>	<b>1,689,903</b>	<b>1,517,649</b>
Attributable to shareholders (11)	3,272,754	1,660,104	1,491,770

	As of December 31,			
	2009		2008	
<b>CONSOLIDATED RATIOS (IFRS)</b>				
<b>Profitability and performance:</b>				
Net interest margin (12)	5.3	%	5.7	%
Return on average total assets (13)	2.2	%	2.3	%
Return on average equity (14)	27.3		32.4	%
<b>Capital:</b>				
Average equity as a percentage of average total assets (15)	8.0	%	7.0	%
Total liabilities as a multiple of equity (16)	11.3		12.9	
<b>Credit Quality:</b>				
Non-performing loans as a percentage of total loans (17)	2.97	%	2.61	%
Allowance for loan losses as percentage of total loans	2.54	%	1.87	%
<b>Operating Ratios:</b>				
Operating expenses /operating revenue (18)	34.0	%	37.6	%
Operating expenses /average total assets	2.2	%	2.5	%

**OTHER DATA**

Inflation Rate (19)	-1.4	%	7.1	%
Revaluation (devaluation) rate (Ch\$/US\$) at period end (19)	-19.5	%	26.9	%
Number of employees at period end	11,118		11,592	
Number of branches and offices at period end	498		505	

(1) Amounts stated in U.S. dollars at and for the year ended December 31, 2009, have been translated from Chilean pesos at the interbank market exchange rate of Ch\$507.25 = US\$1.00 as of December 31, 2009. See "Item 3: A. Selected Financial Data—Exchange Rates" for more information on the observed exchange rate.

- (2) Except per share data, percentages and ratios, share numbers, employee numbers and branch numbers.
- (3) Operating costs is equal to the sum of personnel expenses, administrative expenses, depreciation and amortization and impairment. See “Note 1—Impairment” to our Audited Consolidated Financial Statements.
- (4) Other income, net is the sum of other operating income, other operating expenses, net gains (losses) from mark-to-market and trading and foreign exchange transactions, and income from investments in other companies.
- (5)  $1 \text{ ADS} = 1,039 \text{ shares of common stock.}$
- (6) The dividends per share of common stock and per ADS are determined based on the previous year’s net income. The dividend per ADS is calculated on the basis of 1,039 shares per ADS.
- (7) Includes financial investments held for trading, repos, financial investments available for sale and financial investments held to maturity.
- (8) For figures at December 31, 2008, derivatives are valued at market price and classified as a separate line item on the balance sheet. See “Note 1” of our Audited Consolidated Financial Statements.
- (9) Includes unsettled transactions, investments in other companies, intangible assets, property, plant and equipment, current taxes, deferred taxes and other assets.



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(10) Equity includes shareholders' equity plus non-minority interest. According to IFRS, equity must include minority interest and a minimum provision for mandatory dividends. This provision is made pursuant to Article 79 of the Corporations Act, in accordance with the Bank's internal policy, and pursuant to which at least 30% of net income for the period is distributed, except in the case of a contrary resolution adopted at the respective shareholders' meeting by the unanimous vote of the outstanding shares.

(11) Shareholders' equity is calculated according to IFRS. The main difference between this and equity is that the provision for mandatory dividends equal to 30% of net income and minority interest are not included.

(12) Net interest revenue divided by average interest earning assets (as presented in "Item 5: F. Selected Statistical Information").

(13) Net income divided by average total assets (as presented in "Item 5: F. Selected Statistical Information").

(14) Net income divided by average equity (as presented in "Item 5: F. Selected Statistical Information").

(15) This ratio is calculated using total equity including minority interest.

(16) Total liabilities divided by equity.

(17) Non-performing loans include the aggregate unpaid principal and accrued but unpaid interest on all loans with at least one installment over 90 days overdue. December 31, 2008 non-performing loans amount is as reported on January 1, 2009.

(18) The efficiency ratio is equal to operating expenses over operating revenue. Operating expenses includes personnel expenses, administrative expenses, depreciation and amortizations, deterioration (See "Note 1—Impairment" to our Audited Consolidated Financial Statements) and other operating expenses. Operating revenue includes net interest revenue, fee income, net gain (loss) from mark-to-market and trading, foreign exchange transactions and other operating income.

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

Exchange Rates

Chile has two currency markets, the Mercado Cambiario Formal, or the Formal Exchange Market and the Mercado Cambiario Informal, or the Informal Exchange Market. According to Law 18,840, the organic law of the Central Bank, and the Central Bank Act (Ley Orgánica Constitucional del Banco Central de Chile), the Central Bank determines which purchases and sales of foreign currencies must be carried out in the Formal Exchange Market. Pursuant to Central Bank regulations which are currently in effect, all payments, remittances or transfers of foreign currency abroad which are required to be effected through the Formal Exchange Market may be effected with foreign currency procured outside the Formal Exchange Market. The Formal Exchange Market is comprised of the banks and other entities so authorized by the Central Bank. The 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. Current regulations require that the Central Bank be informed of certain transactions and that they be effected through the Formal Exchange Market.

Purchases and sales of foreign currencies performed 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. On December 31, 2009, and June 25, 2010, the exchange rate in the Informal Exchange Market as published by Reuters at 1:30 pm on these days was Ch\$507.25 and Ch\$537.25, or 0.16% more expensive and 0.45% cheaper, respectively, than the published observed exchange rate for such date of Ch\$506.43 and Ch\$539.68, respectively, per US\$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.

Year	Daily Observed Exchange Rate Ch\$ Per US\$(1)			
	Low(2)	High(2)	Average(3)	Period End(4)
2004	559.21	649.45	609.55	559.83
2005	509.70	592.75	559.86	514.21
2006	511.44	549.63	530.26	534.43
2007	493.14	548.67	522.69	495.82
2008	431.22	676.75	521.79	629.11
2009	491.09	643.87	559.67	506.43

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Month	Daily Observed Exchange Rate Ch\$ Per US\$(1)			
	Low(2)	High(2)	Average(3)	Period End(4)
November 2009	491.09	531.83	507.78	495.84
December 2009	494.82	508.75	501.45	506.43
January 2010	489.47	531.75	500.66	531.75
February 2010	525.48	546.18	532.56	529.69
March 2010	508.66	533.87	523.16	526.29
April 2010	514.91	527.38	520.62	520.99
May 2010	517.23	549.17	533.21	529.23
June 2010 (up to June 25, 2010)	530.32	548.16	536.27	539.68

Source: Central Bank.

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

### Dividends

Under the current General Banking Law, a Chilean bank may only pay a single dividend per year (i.e., interim dividends are not permitted). Santander-Chile's annual dividend is proposed by its Board of Directors and is approved by the shareholders at the annual ordinary shareholders' meeting held the year following that in which the dividend is generated. For example, the 2009 dividend must be proposed and approved during the first four months of 2010. 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 date for the payment of dividends to holders of ADSs will, to the extent practicable, be the same.

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

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

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

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

Year	Dividend			% over earnings (4)	% over earnings (5)
	Ch\$ mn (1)	Per share Ch\$/share (2)	Per ADR Ch\$/ADR (3)		
2009	213,295	1.13	1,176.00	65	52
2010	258,751	1.37	1,426.63	60	60

(1) Million of nominal pesos.

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

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

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

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

#### B. Capitalization and Indebtedness

Not applicable.

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

Not applicable.

#### D. Risk Factors

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

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

#### Risks Associated with Our Business

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

In the past two years, the global financial system has experienced difficult credit and liquidity conditions and disruptions leading to less liquidity, greater volatility, general widening of spreads and, in some cases, lack of price transparency on interbank lending rates. Global economic conditions deteriorated significantly in the second half of 2008, and many countries, including the United States, fell into recession. Many major financial institutions, including some of the world’s largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and

insurance companies, have been experiencing significant difficulties. Around the world, there have also been runs on deposits at several financial institutions, numerous institutions have sought additional capital and many lenders and institutional investors have reduced or ceased providing funding to borrowers (including to other financial institutions).

Continued or worsening disruption and volatility in the global financial markets could have a material adverse effect on our ability to access capital and liquidity on financial terms acceptable to us, if at all. If capital markets financing ceases to become available, or becomes excessively expensive, we may be forced to raise the rates we pay on deposits to attract more customers. Any such increase in capital markets funding costs or deposit rates could have a material adverse effect on our interest margins.

In Chile, the continued economic recession has also caused a rise in unemployment, a fall in consumer spending, a fall in real estate prices and a general decline in economic activity. All of these may lead to a decrease in demand for individual and corporate borrowing, a decrease in demand for financial services and a decrease in credit card spending, which may in turn materially adversely affect our financial condition and results of operation.

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

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

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

The increase in competition within the Chilean banking industry in recent years has led to consolidation in the industry. We expect the trends of increased competition and consolidation to continue and result in the formation of large new financial groups. Consolidation in the industry, which can result in the creation of larger and stronger competitors, may adversely affect our financial condition and results of operations by decreasing the net interest margins we are able to generate. In addition, since November 7, 2001, insurance companies have been allowed to participate and compete with banks in the residential mortgage and credit card businesses.

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

At December 31, 2009, our allowance for impairment losses on loans and other assets was Ch\$349,527 million, and the ratio of our allowance for impairment losses to total loans was 2.5%. The amount of allowances is based on our current assessment of and expectations concerning various factors affecting the quality of our loan portfolio. These factors include, among other things, our borrowers' financial condition, repayment abilities and repayment intentions, the realizable value of any collateral, the prospects for support from any guarantor, Chile's economy, government macroeconomic policies, interest rates and the legal and regulatory environment. As the recent global financial crisis has demonstrated, many of these factors are beyond our control. In addition, as these factors evolve, the models we use to determine the appropriate level of allowance for impairment losses on loans and other assets require recalibration, which can lead to increased provision expense. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for Years Ended December 31, 2008 and 2009—Provision for loan losses". We believe our allowance is adequate as of the date hereof for all known losses. If our assessment of and expectations concerning the above mentioned factors differ from actual developments, or if the quality of our loan portfolio deteriorates or the future actual losses exceed our estimates, our allowance for impairment losses may not be adequate to cover actual losses and we may need to make additional provisions for impairment losses, which may materially and adversely affect our results of operations and financial condition.

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

A substantial number of our customers consist of individuals (approximately 53.0% of the value of the total loan portfolio at December 31, 2009, if interbank loans are included) and, to a lesser extent, small- and mid-sized companies (those with annual sales of less than US\$2.4 million), which comprised approximately 18.1% of the value of the total loan portfolio at December 31, 2009. As part of our business strategy, we seek to increase lending and

other services to small companies and individuals. Small companies and lower- to middle-income individuals are, however, more likely to be adversely affected by downturns in the Chilean economy than large corporations and individuals with high incomes. In addition, at December 31, 2009, our residential mortgage loan book totaled Ch\$4,159,053 million, representing 30.2% of our total loans. (See “Note 9: Interbank Loans” and “Note 10: Loans and Accounts Receivables from Customers” in our Audited Consolidated Financial Statements for a description and presentation of residential mortgages in the balance sheet). If the economy and real estate market in Chile experience a significant downturn, as it may due to the global financial and economic crisis, this could materially adversely affect the liquidity, businesses and financial conditions of our customers, which may in turn cause us to



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experience higher levels of past due loans, thereby resulting in higher provisions for loan losses and subsequent write-offs. This may materially and adversely affect our asset quality, results of operations and financial condition.

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

At December 31, 2009, our non-performing loans were Ch\$409,067 million, and the ratio of our non-performing loans to total loans was 2.97%. For additional information on our asset quality, see “Selected Statistical Information at and for the Years Ended December 31, 2009 and 2008—Classification of Loan Portfolio Based on the Borrower’s Payment Performance”. We seek to continue to improve our credit risk management policies and procedures. However, we cannot assure you that our credit risk management policies, procedures and systems are free from any deficiency. Failure of credit risk management policies may result in an increase in the level of non-performing loans and adversely affect the quality of our loan portfolio. In addition, the quality of our loan portfolio may also deteriorate due to various other reasons, including factors beyond our control, such as the macroeconomic factors affecting Chile’s economy. If such deterioration were to occur, it could materially adversely affect our financial conditions and results of operations.

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

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

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

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

From December 31, 2004 to December 31, 2009, our aggregate loan portfolio grew by 81.0% in nominal terms to Ch\$13,751,276 million (US\$27.1 billion), while our consumer loan portfolio grew by 106.2% in nominal terms to Ch\$2,244,049 million (US\$4.4 billion). 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.

Our loan portfolio may not continue to grow at the same rate. The current 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. 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. The continuing economic turmoil could materially adversely affect the liquidity, businesses and financial condition of our customers

as well as lead to a general decline in consumer spending and a rise in unemployment. All this could in turn lead to decreased demand for borrowings in general.

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

In assessing customers' creditworthiness, we rely largely on the credit information available from our own internal databases, the Superintendency of Banks, Dicom (a Chilean nationwide credit bureau) and other sources. Due to limitations in the availability of information and the developing information infrastructure in Chile, our

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assessment of the credit risks associated with a particular customer may not be based on complete, accurate or reliable information. In addition, although we have been improving our credit scoring systems to better assess borrowers' credit risk profiles, we cannot assure you that our credit scoring systems collect complete or accurate information reflecting the actual behavior of customers or that their credit risk can be assessed correctly. Without complete, accurate and reliable information, we have to rely on other publicly available resources and our internal resources, which may not be effective. As a result, our ability to effectively manage our credit risk may be materially adversely affected.

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

Inflation in Chile gained momentum in 2007 and 2008. In 2007 and 2008, inflation reached 7.1% and 7.8%, respectively. 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, inflation was (1.4%).

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 "Management's Discussion and Analysis of Financial Condition and Results of Operations—Impact of Inflation", "Selected Statistical Information at and for the Years Ended December 31, 2009 and 2008—Average Balance Sheets, Income Earned from Interest-Earning Assets And Interest Paid on Interest-Bearing Liabilities" and "Item 5: F. Selected Statistical Information—Average Balance Sheets, Income Earned from Interest-Earning Assets And Interest Paid on Interest-Bearing Liabilities." Although we benefit from inflation in Chile, due to the current structure of our assets and liabilities (i.e., a significant portion of our loans are indexed to the inflation rate, but there are no corresponding features in deposits, or other funding sources that would increase the size of our funding base), there can be no assurance that our business, financial condition and result of operations in the future will not be adversely affected by changing levels of inflation, including from extended periods of inflation that adversely affect economic growth or periods of deflation.

Our results of operations are affected by interest rate volatility.

Our results of operations depend to a great extent on our net interest income. Net interest income represented 72.4% of our operating income in 2008 and 65.7% in 2009. Changes in market interest rates could affect the interest rates earned on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities, leading to a reduction in our net interest income or a decrease in customer demand for our loan or deposit products. Interest rates are highly sensitive to many factors beyond our control, including the reserve policies of the Central Bank, deregulation of the financial sector in Chile, domestic and international economic and political conditions and other factors. In the current economic climate, there is a greater degree of uncertainty and unpredictability in the policy decisions and the setting of interest rates by the Central Bank. Any changes in interest rates could adversely affect our business, our future financial performance and the price of our securities. The following table shows the yields on the Chilean government's 90-day notes as reported by the Central Bank of Chile at year-end 2004 to 2009 and up to March 31, 2010.

Year	Yield on 90-day note at Period-end
2004	2.24%
2005	4.90
2006	5.11

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2007	6.15
2008	7.86
2009	0.48
March 31, 2010	0.50%

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Source: Central Bank.

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

Customer deposits are our primary source (56.1%) of funding. At December 31, 2009, 90.3% of our customer deposits had remaining maturities of one year or less, or were payable on demand. A significant portion of our assets have longer maturities, resulting in a mismatch between the maturities of liabilities and the maturities of assets. If a substantial number of our depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, our liquidity position, results of operations and financial condition may be materially and adversely affected. We cannot assure you that in the event of a sudden or unexpected shortage of funds in the banking system, any money markets in which we operate will be able to maintain levels of funding without incurring high funding costs or the liquidation of certain assets. If this were to happen, our results of operations and financial condition may be materially adversely affected.

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

Chilean regulations impose restrictions on the share of assets that a Chilean pension fund management company (Administradora de Fondos de Pension, an “AFP”) may allocate to a single issuer, which is currently 7% per fund managed by an AFP (including any securities issued by the issuer and any bank deposits with the issuer). If the exposure of an AFP to a single issuer exceeds the 7% limit, the AFP is required to reduce its exposure below the limit within three years. At December 31, 2009, the aggregate exposure of AFPs to us was approximately US\$4.7 billion or 3.9% of their total assets. If the exposure of any AFP to us exceeds the regulatory limit, we would need to seek alternative sources of funding, which could be more expensive and, as a consequence, may have a material adverse effect on our financial condition and results of operations.

Pension funds must also comply with other investment limits. Recently approved legislation in Chile (Reformas al Mercado de Capitales II (also known as MK2) relaxed the limits on making investments abroad in order to permit pension funds to further diversify their investment portfolios. As of December 31, 2009, the limit on making investments abroad was 60%. This limit was increased from 55% as of April 1, 2009 to its current level in August 2009, and will gradually increase to 80% in 2011. As a result, pension funds may change the composition of their portfolios, including reducing their deposits with local banks. At December 31, 2009, 15.8% of our time deposits were from AFPs. Although the legislation referred to above is intended to promote a gradual relaxation of the investment limits, and we may be able to substitute the reduced institutional funds with retail deposits, there can be no assurance that this occurrence will not have a materially adverse impact on our business, financial condition and results of operations.

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

Chilean banks are required by the General Banking Law to maintain regulatory capital of at least 8% of risk-weighted assets, net of required loan loss allowance and deductions, and paid-in capital and reserves (“basic capital”) of at least 3% of our total assets, net of required loan loss allowances. As we are the result of the merger between two predecessors, we are currently required to maintain a minimum regulatory capital to risk-weighted assets ratio of 11%. At December 31, 2009, the ratio of our regulatory capital to risk-weighted assets, net of loan loss allowance and deductions, was 15.59%. Certain developments could affect our ability to continue to satisfy the current capital adequacy requirements applicable to us, including:

- the increase of risk-weighted assets as a result of the expansion of our business or regulatory changes;
- the failure to increase our capital correspondingly;

- losses resulting from a deterioration in our asset quality;
- declines in the value of our investment instrument portfolio;
- changes in accounting rules;
- changes in provisioning guidelines that are charged directly against our equity or net income; and
- changes in the guidelines regarding the calculation of the capital adequacy ratios of banks in Chile.

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In 2012, Chilean banks will most likely adopt the guidelines set forth under Basel II with adjustments incorporated by the Superintendency of Banks. This should result in a different level of minimum capital required to be maintained by us. No assurance can be given that these changes 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 Superintendency of Banks may increase the minimum capital adequacy requirements applicable to us. Accordingly, although we currently meet the applicable capital adequacy requirements, we may face difficulties in meeting these requirements in the future. If we fail to meet the capital adequacy requirements, we may be required to take corrective actions. These measures could materially and adversely affect our business reputation, financial condition and results of operations. In addition, if we are unable to raise sufficient capital in a timely manner, the growth of our loan portfolio and other risk-weighted assets may be restricted, and we may face significant challenges in implementing our business strategy. As a result, our prospects, results of operations and financial condition could be materially and adversely affected.

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

Our business is highly dependent on the ability of our information technology systems to accurately process a large number of transactions across numerous and diverse markets and products in a timely manner. The proper functioning of our financial control, risk management, accounting, customer service and other data processing systems is critical to our business and our ability to compete effectively. We have backup data for our key data processing systems that could be used in the event of a catastrophe or a failure of our primary systems, and have established alternative communication networks where available. However, we do not operate all of our redundant systems on a real time basis and cannot assure you that our business activities would not be materially disrupted if there were a partial or complete failure of any of these primary information technology systems or communication networks. Such failures could be caused by, among other things, major natural catastrophes (such as earthquakes), software bugs, computer virus attacks or conversion errors due to system upgrading. In addition, any security breach caused by unauthorized access to information or systems, or intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, could have a material adverse effect on our business, results of operations and financial condition.

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

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

Like all large financial institutions, we are exposed to many types of operational risks, including the risk of fraud by employees and outsiders, failure to obtain proper internal authorizations, failure to properly document transactions, equipment failures and errors by employees. Fraud or other misconduct by employees or third parties may be difficult to detect and prevent and could subject us to financial losses and sanctions imposed by governmental authorities as well as seriously harm our reputation. Although we maintain a system of operational controls, there can be no

assurance that operational problems or errors will not occur and that their occurrence will not have a materially adverse impact on our business, financial condition and results of operations.

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

We are subject to regulation by the Superintendency of Banks. In addition, we are subject to regulation by the Central Bank with regard to certain matters, including reserve requirements, interest rates, foreign exchange



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mismatches and market risks. During the Chilean financial crisis of 1982 and 1983, the Central Bank and the Superintendency of Banks strictly controlled the funding, lending and general business matters of the banking industry in Chile.

Pursuant to the General Banking Law, all Chilean banks may, subject to the approval of the Superintendency of Banks, 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 Superintendency of Banks 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. However, since June 1, 2002, the Central Bank has allowed banks to pay interest on checking accounts. Currently, there are no applicable restrictions on the interest that may be paid on checking accounts. We have begun to pay interest on some checking accounts under certain conditions. If competition or other factors lead us to pay higher interest rates on checking accounts, to relax the conditions under which we pay interest or to increase the number of checking accounts on which we pay interest, any such change could have a material adverse effect on our financial condition or results of operations.

We must maintain higher regulatory capital to risk-weighted assets than other banks in Chile. Our current required minimum regulatory capital to risk-weighted assets ratio is 11% and as of December 31, 2009, we were at 15.59%. Although we have not failed in the past to comply with our capital maintenance obligations, there can be no assurance that we will be able to do so in the future.

We are subject to regulatory inspections and examinations.

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

### Risks Relating to Chile

The recent earthquake in Chile is likely to adversely affect the quality of our loan portfolio in segments of the Chilean economy that have been negatively affected and, as a result, is likely to negatively affect our results of operations.

Chile lies on the Nazca tectonic plate, making it one of the world's most seismically active regions. Chile has been adversely affected by powerful earthquakes in the past, including an 8.0 magnitude earthquake that struck Santiago in 1985 and a 9.5 magnitude earthquake in 1960 which was the largest earthquake ever recorded.

On February 27, 2010, an 8.8 magnitude earthquake struck central Chile. The quake epicenter was located 200 miles southwest of Santiago and 70 miles north of Concepción, Chile's second largest city. Due to the severity of the

earthquake and its devastating consequences, former President Michelle Bachelet declared a national “state of catastrophe” on February 28, 2010. Significant aftershocks followed the initial earthquake, including aftershocks of 6.2, 5.4 and 5.6 magnitudes within an hour of the initial earthquake, aftershocks of 6.9, 6.7 and 6.0 magnitudes on March 11, 2010 and a 7.2 magnitude earthquake on March 13, 2010.

The regions of Bío Bío and Maule were the most severely affected regions. Concepción, located approximately 200 miles south of Santiago, was the most affected city, with its infrastructure and numerous buildings severely damaged. The coastal area of Concepción, including the neighboring cities Talcahuano and Penco, were hit by a

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tsunami shortly after the earthquake that significantly damaged port facilities. Several cities in the Maule region, including its capital city of Talca, were also seriously affected by the earthquake. The region of Valparaíso, including the port of Valparaíso and the city of Viña del Mar, was also severely affected. Region VI suffered serious damages as a result of the 7.2 magnitude quake on March 13, 2010 which forced President Sebastián Piñera to declare a “state of catastrophe” in that region. Rancagua, the capital city of Region VI, located approximately 56 miles from Santiago, also suffered significant damages.

The earthquake and its aftershocks, as well as tsunamis from adjacent coastal waters, caused severe damage to Chile’s infrastructure, including roads, bridges, ports and Santiago’s international airport. According to an initial assessment by Chile’s Minister of Infrastructure, the repair of these damages, excluding damages to port facilities, is likely to take between three and four years. On March 12, 2010, President Piñera said that preliminary assessments of reconstruction costs indicate that they could total approximately US\$30 billion. As of March 23, 2010, at least 1,500,000 homes are believed to have been damaged, more than 400 people are believed to have been killed and hundreds of people are missing.

The Bank’s branches, systems and employees were all impacted by the recent earthquake. Of the Bank’s 498 branches, 405 had some form of damage, of which 32 sustained serious damages and 9 were closed as of May 31, 2010. Of the Bank’s 1,856 ATMs, 100% were operating normally as of May 31, 2010. The Bank’s systems were not functioning immediately following the earthquake, but by March 1, 2010 the systems were functioning normally, all open branches were online and all remote channels were operating normally.

Of the Bank’s 11,118 employees, 194 sustained damage to their homes but there was no loss of lives. The Bank offered employees with severe damage to their homes an emergency loan of two months salary with a cap of Ch\$2,000,000. The terms of these employee loans include no interest, an 18 month maturity and a 3 month grace period. The Bank expects additional costs from the earthquake, net of insurance proceeds, to total US\$7.5 million related to the repair of branches, systems, ATMs and other costs. The Bank expects additional administrative expenses from the earthquake, net of insurance proceeds, recognized in 2010 to be US\$6 million.

The damage to Chile’s roads, port and other infrastructure is likely to have an adverse impact on the Chilean economy, and in particular on export businesses that operate in the affected areas. The Central Bank of Chile has stated that it expects the growth of Chilean gross domestic product to slow in 2010 as a result of the earthquake. The regions of Chile most affected by the earthquake, regions VI, VII and VIII, account for approximately 12% of our loan portfolio and a broadly similar portion of our fee income. Although it is premature to assess the extent of the adverse effect of the recent earthquake on our customers and our loan portfolio, it is likely that these events will adversely affect economic activity of our customers. As a result, we may experience deterioration of asset quality and an increase in provision expense, lower fee growth due to lower consumer spending and usage of bank products and an uncertain impact on loan growth as some sectors will be negatively affected while others will be positively affected by the earthquake. All of these factors could have a material adverse impact on us, including our results of operations and financial condition. We and our corporate customers may also experience an increase in the corporate tax rate as certain government officials have proposed legislation that would raise the corporate income tax rate in order to pay for reconstruction following the earthquake, which if enacted would have an adverse effect on us. The proposed legislation would increase the corporate tax rate to 20% in 2011 from 17% currently. In 2012 the rate would be 18.5% and 17% in 2013.

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

A substantial amount of our loans are to borrowers doing business in Chile. Accordingly, the recoverability of these loans in particular, and our ability to increase the amount of loans outstanding and our results of operations and financial condition in general, are dependent to a significant extent on the level of economic activity in Chile. Our

results of operations and financial condition could be affected by changes in economic or other policies of the Chilean government, which has exercised and continues to exercise substantial influence over many aspects of the private sector, or other political or economic developments in Chile. Chile's economy may not continue to grow in the future and future developments could negatively affect Chile's exports and economic activity. In line with the global economic climate, Chile's economy contracted in 2009 for the first time since 1999. Although the economy is expected to recover in 2010, overall economic activity in Chile could be negatively affected as a consequence of the 2010 earthquake that struck parts of Chile. All this may materially adversely affect our business, financial condition or results of operations.

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

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

We are directly exposed to risks related to the weakness and volatility of the economic and political situation in Asia, the United States, Europe, Brazil, Argentina and other nations, including the recent global credit crunch and economic world crisis. If these nations' economic environments deteriorate, the economy in Chile could also be affected and could experience slower growth than in recent years. Thus, we may need to increase our allowances for loan losses, thus affecting our financial results, our results of operations and the price of our securities. At December 31, 2009, approximately 0.83% of our assets were held abroad. The global financial and sub-prime crisis has had a significant impact on the growth rate of the Chilean economy in 2009 and is expected to continue to negatively impact growth, consumption, unemployment, investment and the price of exports.

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

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

Historically, one of our principal sources of funds has been time deposits. Time deposits represented 49.9% and 37.6% of our total funding as of December 31, 2008 and December 31, 2009, respectively. Large-denominations in time deposits from institutional investors may, under some circumstances, be a less stable source of funding than savings and bonds, such as during periods of significant changes in market interest rates for these types of deposit products and any resulting increased competition for such funds. The recent liquidity crisis triggered by the U.S. subprime market impacted global markets and affected sources of funding, including time deposits. As of December 31, 2009, our investment portfolio did not contain instruments (i) backed by, or otherwise related to, U.S. subprime mortgages or (ii) with exposure to monoline financial guarantors. Although our results of operations and financial position have not suffered a significant impact as a consequence of the recent credit market instability in the U.S. and the liquidity available in the Chilean market has permitted us to fund our operations and maintain our regular business activities, we cannot assure you that we will be able to continue funding our business or, if so, maintain our current levels of funding without incurring higher funding costs or having to liquidate certain assets.

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

Any future changes in the value of the Chilean peso against the U.S. dollar will affect the U.S. dollar value of our securities. The Chilean peso has been subject to large devaluations and appreciations in the past and could be subject to significant fluctuations in the future. Our results of operations may be affected by fluctuations in the exchange rates between the peso and the dollar despite our policy and Chilean regulations relating to the general avoidance of material exchange rate exposure. In order to avoid material exchange rate exposure, we enter into forward exchange transactions. The following table shows the value of the Chilean peso relative to the U.S. dollar as reported by the Central Bank at period end for the last six years and the five months ended May 31, 2010 and the devaluation or revaluation of the peso relative to the U.S. dollar in each of those periods.

Year	Exchange rate (Ch\$) Period-end	Devaluation (Revaluation) (%)	
2004	559.83	(6.6	%)
2005	514.21	(8.1	%)
2006	534.43	3.9	%
2007	495.82	(7.2	%)
2008	629.11	26.9	%
2009	506.43	(19.5	%)
May 31, 2010	529.23	4.5	%

Source: Central Bank.

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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.

Furthermore, Chilean trading in the shares underlying our ADSs is conducted in pesos. Cash distributions with respect to our shares of common stock are received in Chilean pesos by the Depositary, which converts such amounts to U.S. dollars at the then-prevailing exchange rate for the purpose of making payments in respect of our ADSs. If the value of the Chilean peso falls relative to the U.S. dollar, the dollar value of our ADSs and any distributions to be received by our ADS holders from the Depositary will be reduced.

Chile's banking regulatory and capital markets environment is continually evolving and may change.

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

Further new regulations governing the Chilean capital markets are being discussed. Chile's Congress passed a new bill on June 1, 2010 (known as MK3) that aims to increase trading in Chile, Latin America's third-biggest securities market, by allowing new instruments such as exchange-traded funds and covered bonds. The Chamber of Deputies, Chile's lower house, voted in favor of the bill, which also seeks to ease credit access for consumers and small companies. The measures will make it easier for foreign banks to offer loans in Chile, cut securitization costs and allow banks to sell bonds backed by mortgages. The new law will also offer tax breaks to foreign investors in Chilean mutual funds. The bill also aims to reduce the cost of setting up mutual funds and create an exchange-traded funds industry by modifying mutual fund rules to allow secondary trading and enable pension funds to invest in them. The new law also removes limits on employing non-Chileans that may have prevented overseas fund managers from opening offices in Chile. It also strikes down a law that prevented foreign banks from advertising loans. The new class of bonds, known as "mortgage bonds," will be debt backed by the company that sells them as well as by a pool of mortgages, as in European covered bonds. Unlike covered bonds, they may be issued by non-banks as well as banks.

The current Finance Minister, Felipe Larrain, plans another package of reforms known as MKB (Reformas al Mercado Financiero Bicentenario). The MKB is comprised of a series of administrative changes and new regulations over the next four years. The reforms include the creation of a financial consumer protection agency, the transformation of the local securities exchange regulator (SVS) into a securities commission and giving more autonomy to the SBIF. The new regulations would also aim to expand the use of the Chilean peso and simplify taxes on fixed-income securities. The proposed legislation would also include measures to increase bank penetration and household savings. The reforms also aim to create new instruments that give more efficient financing alternatives to small and mid-sized companies and individuals, together with creating specific statutes for niche banks and micro credit financing. The proposed legislation would also reduce the pro-cyclicality of loan loss provisions and seek to enhance solvency and

liquidity (the latter must be done through a change in the General Banking Law).

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



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Increased regulation of the financial services industry in Chile could increase our costs and result in lower profits.

As a result of the recent global financial crisis, there has been an increase in government regulation of the financial services industry in many countries. Such regulation may also be increased in Chile, including the imposition of higher capital requirements, heightened disclosure standards and restrictions on certain types of transaction structures. In addition, novel regulatory proposals abound in the current environment. If enacted, new regulations could require us to inject further capital into our business as well as in businesses we acquire, restrict the type or volume of transactions we enter into, or set limits on or require the modification of rates or fees that we charge on certain loans or other products, any of which could lower the return on our investments, assets and equity. We may also face increased compliance costs and limitations on our ability to pursue certain business opportunities.

In line with the future adoption of Basel II regulations in Chile, the Superintendency of Banks has recently proposed to increase the minimum regulatory capital ratio from 8% to 10%, which would require an amendment to the General Banking Law. Although currently we have a regulatory capital ratio of 15.59%, this change could require us to inject additional capital to our business in the future.

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

As of December 31, 2009, on a consolidated basis we had 11,118 employees, of which 58.2% were unionized. In May 2010, a new collective bargaining agreement was signed, which will become effective on January 1, 2011 and that will expire on December 31, 2014, but this may be negotiated 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. We have traditionally enjoyed good relations with our employees and their unions, but we cannot assure you that in the future a strengthening of cross-industry labor movements will not materially and adversely affect our business, financial condition or results of operations.

Any downgrading of Chile's debt credit rating for domestic and international debt and/or our parent company's ratings by international credit rating agencies may also affect our ratings, our business, our future financial performance, stockholder's equity and the price of our shares and ADSs.

Our foreign currency deposit ratings are equivalent to the Chilean sovereign ratings. On July 31, 2009, Moody's downgraded our foreign currency senior ratings, foreign currency subordinated bond ratings and local currency deposit ratings, following similar action on the ratings of our parent company, Banco Santander Spain. In addition, on February 23, 2010, Moody's further downgraded the subordinated debt ratings and preferred share ratings of our parent company. Moody's and Standard and Poor's both have a negative outlook for our parent company's ratings. Any adverse revisions to our parent company's ratings and/or Chile's credit ratings for domestic and international debt by international rating agencies may adversely affect our ratings, our business, future financial performance, stockholder's equity and the price of our equity shares and ADSs.

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

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

The securities laws of Chile, which govern open or publicly listed companies such as us, aim to promote disclosure of all material corporate information to the public. Chilean disclosure requirements, however, differ from those in the

United States in some material respects. In addition, although Chilean law imposes restrictions on insider trading and price manipulation, applicable Chilean laws are different from those in the United States and in certain respects the Chilean securities markets are not as highly regulated and supervised as the U.S. securities markets.

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

We are a “controlled company” and a “foreign private issuer” within the meaning of the NYSE corporate governance standards. Under the NYSE rules, a controlled company is exempt from certain NYSE corporate governance requirements. In addition, a foreign private issuer may elect to comply with the practice of its home country and not to comply with certain NYSE corporate governance requirements, including the requirements that (1) a majority of the Board of Directors consist of independent directors, (2) a nominating and corporate governance committee be established that is composed entirely of independent directors and has a written charter addressing the committee’s purpose and responsibilities, (3) a compensation committee be established that is composed entirely of independent directors and has a written charter addressing the committee’s purpose and responsibilities and (4) an annual performance evaluation of the nominating and corporate governance and compensation committees be undertaken. We currently use these exemptions and intend to continue using these exemptions. Accordingly, you will not have the same protections afforded to shareholders of companies that are subject to all NYSE corporate governance requirements. For more details on the differences between our corporate governance standards and the NYSE standards, please see “Item 6: C. Board Practices – Summary Comparison of Corporate Governance Standards and NYSE Listed Company Standards”.

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.

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

We are a Chilean corporation. None of our directors are residents of the United States and most of our executive officers reside outside the United States. In addition, a substantial portion of our assets and the assets of our directors and executive officers are located outside the United States. As a result, it may be difficult for ADS holders to effect service of process outside Chile upon us or our directors and executive officers or to bring an action against us or such persons in the United States or Chile to enforce liabilities based on U.S. federal securities laws. It may also be difficult for ADS holders to enforce in the United States or in Chilean courts money judgments obtained in United States courts against us or our directors and executive officers based on civil liability provisions of the U.S. federal securities laws. If a U.S. court grants a final money judgment in an action based on the civil liability provisions of the federal securities laws of the United States, enforceability of this money judgment in Chile will be subject to the obtaining of the relevant “exequatur” (i.e., recognition and enforcement of the foreign judgment) according to Chilean civil procedure law currently in force, and consequently, subject to the satisfaction of certain factors. The most important of these factors are the existence of reciprocity, the absence of a conflicting judgment by a Chilean court relating to the same parties and arising from the same facts and circumstances and the Chilean courts’ determination that the U.S. courts had jurisdiction, that process was appropriately served on the defendant and that enforcement would not violate Chilean public policy. Failure to satisfy any of such requirements may result in non-enforcement of your rights.

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

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

### Risks Relating to Our ADSs

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

Our ADSs are listed and traded on the NYSE. Our common stock is listed and traded on the Santiago Stock Exchange, the Chile Electronic Stock Exchange and the Valparaiso Stock Exchange, which we refer to collectively as the Chilean Stock Exchanges, although the trading market for the common stock is small by international standards. At December 31, 2009, 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 23.09% of our outstanding common stock is held by the public (i.e., shareholders other than Banco Santander Spain and its affiliates), including our

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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.

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

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

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

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

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

## ITEM 4. INFORMATION ON THE COMPANY

## A. History and Development of the Company

### Overview

We are the largest bank in Chile in terms of total assets, total deposits and shareholders' equity. At December 31, 2009, we had total assets of Ch\$20,772,875 million (US\$40,952 million), loans net of allowances outstanding of Ch\$13,751,276 million (US\$27,109 million), total deposits of Ch\$10,708,791 million (US\$21,111 million) and



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shareholders' equity of Ch\$1,689,903 million (US\$3,331 million). As of December 31, 2009, we employed 11,118 people (on a consolidated basis) and had the largest private branch network in Chile with 498 branches. Our headquarters are located in Santiago and we operate in every major region of Chile.

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

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

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

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

Our principal executive offices are located at Bandera 140, Santiago, Chile. Our telephone number is +562-320-2000 and our website is [www.santander.cl](http://www.santander.cl). None of the information contained on our website is incorporated by reference into, or forms part of, this Annual Report.

### Relationship with Banco Santander Spain

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

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

exposure to operational risks.

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

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B. Organizational Structure

Banco Santander Spain controls Santander-Chile through its holdings in Teatinos Siglo XXI Inversiones Ltda. and Santander-Chile Holding, which are controlled subsidiaries. This gives Banco Santander Spain control over 76.91% of the shares of the Bank and actual participation when excluding minority shareholders that participate in Santander Chile Holding is 76.74%.

Shareholder	Number of Shares	Percentage
Teatinos Siglo XXI Inversiones Ltda.	78,108,391,607	41.45 %
Santander Chile Holding	66,822,519,695	35.46 %

Management Team

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

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

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### C. Business Overview

We have 498 total branches, 260 of which are operated under the Santander brand name, with the balance under certain specialty names, including 98 under the Santander Banefe brand name, 46 under the SuperCaja brand name, 24 under the BancaPrime brand name and 41 as auxiliary and payment centers. We provide a full range of financial services to corporate and individual customers. We divide our clients into the following segments: (i) Retail, (ii) Middle–Market and (iii) Global Banking and Markets.

The Retail segment is comprised of the following sub–segments:

- Lower–middle to middle–income, consisting of individuals with monthly incomes between Ch\$150,000 (US\$296) and Ch\$400,000 (US\$789) and served through our Banefe branch network. This segment accounts for 4.4% of our total loans outstanding at December 31, 2009. This segment offers customers a range of products, including consumer loans, credit cards, auto loans, residential mortgage loans, debit card accounts, savings products, mutual funds and insurance brokerage.
- Middle– and upper–income, consisting of individuals with a monthly income greater than Ch\$400,000 (US\$789). Clients in this segment account for 48.6% of our total loans outstanding at December 31, 2009 and are offered a range of products, including consumer loans, credit cards, auto loans, commercial loans, foreign trade financing, residential mortgage loans, checking accounts, savings products, mutual funds and insurance brokerage.
- Small and mid-sized companies, consisting of small companies with annual revenue of less than Ch\$1,200 million (US\$2.4 million). At December 31, 2009, this segment represented approximately 18.1% of our total loans outstanding. Customers in this segment are offered a range of products, including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, savings products, mutual funds and insurance brokerage.
- Institutional, such as universities, government agencies, municipalities and regional governments. At December 31, 2009, these clients represented 2.1% of our total loans outstanding. Customers in this sub-segment are also offered the same products that are offered to the customers in our small businesses segment. This sub-segment is included in the Retail segment because customers in this sub-segment are a potential source for new individual customers.

The Middle–Market segment is comprised of the following sub–segments:

- Companies, consisting of companies with annual revenue over Ch\$1,200 million (US\$2.4 million) and up to Ch\$10,000 million (US\$19.7 million). Customers in this segment are offered a wide range of products, including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, cash management, treasury services, financial advisory, savings products, mutual funds and insurance brokerage. At December 31, 2009, these clients represented 7.6% of our total loans outstanding.
- Real estate, consisting of all companies in the real estate sector with annual revenue over Ch\$800 million (US\$1.6 million), including construction companies and real estate companies that execute projects for sale to third parties. At December 31, 2009, these clients represented 7.1% of our total loans outstanding. To these clients we offer, in addition to traditional banking services, specialized services for financing, primarily residential projects, in order to increase the sale of residential mortgage loans.
- Large corporations, consisting of companies with annual revenue over Ch\$10,000 million (US\$19.7 million). Customers in this segment are also offered the same products that are offered to the customers in our mid–sized

companies segment. At December 31, 2009, these clients represented 3.2% of our total loans outstanding.

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

- Wholesale banking corporate, consisting of companies that are foreign multinationals or part of a larger Chilean economic group with sales of over Ch\$10,000 million (US\$19.7 million). At December 31, 2009, these clients represented 8.7% of our total loans outstanding. Customers in this segment are offered a wide range of products, including commercial loans, leasing, factoring, foreign trade, mortgage loans, checking accounts, cash management, treasury services, financial advisory, savings products, mutual funds and insurance brokerage.
- The Treasury Division provides sophisticated financial products mainly to companies in the wholesale banking and the middle-market segments. This includes products such as short-term financing and funding, securities brokerage, interest rate and foreign currency derivatives, securitization services and other tailor made financial products. The Treasury division also manages our trading positions.

In addition, we have a Corporate Activities segment comprised of all other operational and administrative activities that are not assigned to a specific segment or product mentioned above. These activities include Financial Management, which manages global functions such as the management of our structural foreign exchange gap position, our structural interest rate risk and our liquidity risk. Financial Management also oversees the use of our resources, the distribution of capital among our different units and the overall financing cost of investments.

The table below sets forth our lines of business and certain statistical information relating to each of them for the year ended December 31, 2009. Please see “Note 4” to our Audited Consolidated Financial Statements for details of revenue by business segment in the last three years.

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As of December 31, 2009 (Ch\$ million)

	Loans and accounts receivable from customers (1)	Net interest income	Net fee income	Financial transactions, net (2)	Net loan loss allowances (3)	Operating expenses (4)	Net segment contribution (5)
<b>SEGMENTS</b>							
Individuals	7,287,925	532,060	171,433	19,027	(230,503 )	(268,934 )	223,083
Santander Banefe	609,808	115,840	29,452	5,078	(82,588 )	(54,913 )	12,869
Commercial Banking	6,678,117	416,220	141,981	13,949	(147,915 )	(214,021 )	210,214
SMEs	2,485,505	228,928	41,917	11,037	(76,075 )	(58,741 )	147,066
Institutional	282,933	18,789	1,962	664	(327 )	(6,799 )	14,289
Companies	2,471,162	114,432	20,567	16,181	(24,333 )	(30,628 )	96,219
Companies	1,051,875	53,407	9,813	7,248	(8,618 )	(15,989 )	45,861
Real estate	982,938	17,792	2,338	148	2,041	(4,280 )	18,039
Large Corporations	436,349	43,233	8,416	8,785	(17,756 )	(10,359 )	32,319
<b>Global Banking &amp; Markets</b>							
Global Banking & Markets	1,194,706	33,738	18,747	64,557	(2,511 )	(29,485 )	85,046
Corporate	1,194,706	54,728	19,387	5	(2,511 )	(14,803 )	56,806
Treasury (6)	-	(20,990 )	(640 )	64,552	-	(14,682 )	28,240
Other (7)	29,045	(71,431 )	(496 )	55,662	(98 )	(13,307 )	(29,670 )
<b>TOTAL</b>	<b>13,751,276</b>	<b>856,516</b>	<b>254,130</b>	<b>167,128</b>	<b>(333,847 )</b>	<b>(407,894 )</b>	<b>536,033</b>
Other operating income							25,866
Other operating expenses							(36,662 )
Income from investments in other companies							297
Income tax							(88,924 )
Consolidated profit (loss) for the year							436,610

- (1) Loans and accounts receivables from customers plus interbank loans, gross of loan loss allowances.
- (2) Includes net gains from trading, net mark-to-market gains and foreign exchange transactions.
- (3) Includes gross provisions for loan losses, net of releases on recoveries.
- (4) Equal to the sum of personnel expenses, administrative expenses, amortizations and depreciations and deterioration.
- (5) Equal to the sum of the net interest revenue, net fee income and net financial transactions, minus net provision for loan losses and operating expenses.
- (6) Includes the Treasury's client business and trading business.
- (7) Includes contribution of non-segmented items such as interbank loans, the cost of the Bank's capital and fixed assets. Financial transactions, net included in other is mainly comprised of the results from the Financial Management Division (Gestion Financiera). The area of Financial Management carries out the function of

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



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## Operations through Subsidiaries

Today, the General Banking Law permits us to directly provide the leasing and financial advisory services that we could formerly offer only through our subsidiaries, to offer investment advisory services outside of Chile and to undertake activities 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, 2009, our subsidiaries collectively accounted for 2.8% of our total consolidated assets.

Subsidiary	Percentage Owned					
	As of December 2009			As of December 2008		
	Direct %	Indirect %	Total %	Direct %	Indirect %	Total %
Santander S.A. Corredores de Bolsa(1) (2)	50.59	0.41	51.00	50.59	0.41	51.00
Santander Corredores de Seguro Ltda. (Ex-Santander Leasing S.A.) (2) (3) (4)	99.75	0.01	99.76	99.75	0.01	99.76
Santander Asset Management S.A. Administradora General de Fondos	99.96	0.02	99.98	99.96	0.02	99.98
Santander S.A. Agente de Valores	99.03	–	99.03	99.03	–	99.03
Santander S.A. Sociedad Securitizadora	99.64	–	99.64	99.64	–	99.64
Santander Servicios de Recaudación y Pagos Limitada	99.90	0.10	100.00	99.90	0.10	100.00

- (1) During the Extraordinary Shareholders' Meeting held on January 15, 2007 by Santander Investment S.A. Corredores de Bolsa, a related company to Banco Santander Chile, the merger between Santiago Corredores de Bolsa Limitada, a subsidiary of Banco Santander Chile, into Santander Investment S.A. Corredores de Bolsa was approved and became effective January 1, 2007. Santander Investment S.A. Corredores de Bolsa, as of January 15, 2007, became a subsidiary of Banco Santander Chile and the legal successor of Santiago Corredores de Bolsa Limitada.
- (2) During fiscal year 2008, the following subsidiaries changed their registered commercial names:
- a. Santander Corredores de Seguro Ltda.
  - b. Santander S.A. Corredores de Bolsa
- (3) On December 4, 2007, the Superintendency of Bank, authorized the statutes modification, social rights sell and merger of the subsidiaries Santander Leasing S.A. (formerly Santiago Leasing S.A.) and Santander Corredora de Seguros Limitada (formerly Santander Santiago Corredora de Seguros Limitada).
- (4) During the Extraordinary Shareholders' Meeting held on October 1, 2008 by Santander Corredora de Seguros S.A., a company affiliated with Banco Santander Chile, approved the merger which incorporated the affiliated Santander Corredora de Seguros Limitada into Santander Corredora de Seguro S.A. (previously Santander Leasing S.A.). The merger was effective January 1, 2008. At the time of the above mentioned merger, Santander Corredora de Seguros S.A. became a legal extension of Santander Corredora de Seguros Limitada. The merger of Santander Corredora de Seguros S.A. and Santander Corredora de Seguros Limitada did not result in any changes in accounting for Banco Santander Chile.

The consolidation/valuation methods used up to December 31, 2008 will continue to be used for subsidiaries and investment in other companies. Furthermore, pursuant to the provisions of International Accounting Standard (IAS) 27 and Standard Interpretations Committee (SIC) 12, we must determine the existence of Special Purpose Entities (SPE), which must be consolidated with the financial results of the Bank. As a result, we have incorporated into our financial statements the following companies:

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

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## Competition

## Overview

The Chilean financial services market consists of a variety of largely distinct sectors. The most important sector, commercial banking, includes a number of privately-owned banks and one public-sector bank, Banco del Estado (which operates within the same legal and regulatory framework as the private sector banks). The private-sector banks include local banks and a number of foreign-owned banks which are operating in Chile. The Chilean banking system is comprised of 24 private-sector banks and one public-sector bank. The five largest private-sector banks along with the state-owned bank together accounted for 82.1% of all outstanding loans by Chilean financial institutions at December 31, 2009.

The Chilean banking system has experienced increased competition in recent years largely due to consolidation in the industry and new legislation. Effective in November 2007, Scotiabank Sud Americano merged with Banco del Desarrollo, while in January 2008, Banco de Chile merged with Citibank Chile. We also face competition from non-bank and non-finance competitors (principally department stores) with respect to some of our credit products, such as credit cards, consumer loans and insurance brokerage. In addition, we face competition from non-bank finance competitors, such as leasing, factoring and automobile finance companies, with respect to credit products, and mutual funds, pension funds and insurance companies, with respect to savings products. Currently, banks continue to be the main suppliers of leasing, factoring and mutual funds, and the insurance sales business has grown rapidly.

As shown in the following table, we are the market leader for nearly every banking service in Chile:

	As of December 31, 2009, unless otherwise noted	
	Market Share	Rank
Commercial loans	17.2 %	2
Consumer loans	25.8	1
Residential mortgage loans	23.7	2
Foreign trade loans (loans for export, import and contingent)	17.9	2
Total loans	19.9	1
Deposits(1)	18.2	3
Mutual funds (assets managed)	19.7	2
Credit card accounts	34.8	1
Checking Accounts(2)	26.2	1
Branches(3)	19.9	1

Source: Superintendency of Banks

(1)Net of clearance (excludes amounts being cleared with other banks).

(2)According to latest data available as of November 2009.

(3)According to latest data available as of September 2009. Excludes special-service payment centers.

The following tables set out certain statistics comparing our market position to that of our peer group, defined as the five largest banks in Chile in terms of total loans market share as of December 31, 2009.

#### Loans

As of December 31, 2009, our loan portfolio was the largest among Chilean banks. Our loan portfolio on a stand-alone basis represented 19.9% of the market for loans in the Chilean financial system at such date. The following table sets forth our and our peer group's market shares in terms of loans at the dates indicated.

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	Loans	As of December 31, 2009		
		Ch\$ million	US\$ million	Market Share
Santander Chile		13,727,864	27,063	19.9 %
Banco de Chile		13,184,553	25,992	19.1
Banco del Estado		11,078,221	21,840	16.1
Banco de Crédito e Inversiones		8,797,325	17,343	12.8
Corpbanca		5,011,656	9,880	7.3
BBVA, Chile		4,818,896	9,500	7.0
Others		12,319,530	24,287	17.9
Chilean financial system		68,938,045	135,905	100.0 %

Source: Superintendency of Banks

## Deposits

On a stand alone basis, we had a 18.3% market share in deposits, ranking third among banks in Chile at December 31, 2009. Deposit market share is based on total time and demand deposits at the respective dates. The following table sets forth our and our peer group's market shares in terms of deposits at the dates indicated.

	Deposits	As of December 31, 2009		
		Ch\$ million	US\$ million	Market Share
Santander Chile		10,708,791	21,111	18.2 %
Banco de Chile		11,145,557	21,973	19.0
Banco del Estado		10,763,983	21,220	18.4
Banco de Crédito e Inversiones		7,892,111	15,559	13.5
BBVA, Chile		3,837,236	7,565	6.6
Corpbanca		3,812,315	7,516	6.5
Others		10,409,967	20,522	17.8
Chilean financial system		58,569,960	115,466	100.0 %

Source: Superintendency of Banks

## Shareholders' equity

With Ch\$1,658,316 million (US\$3,269 million) in shareholders' equity at December 31, 2009, we were the largest commercial bank in Chile in terms of shareholders' equity. The following table sets forth our and our peer group's shareholders' equity at December 31, 2009.

	Shareholders' Equity(1)	As of December 31, 2009		
		Ch\$ million(2)	US\$ million	Market Share
Santander Chile		1,658,316	3,269	20.7 %
Banco de Chile		1,392,745	2,746	17.4
Banco del Estado		933,484	1,840	11.7
Banco de Crédito e Inversiones		896,150	1,767	11.2
Corpbanca		503,535	993	6.3
BBVA, Chile		479,960	946	6.0

Others	2,139,319	4,217	26.7	
Chilean financial system	8,003,509	15,778	100.0	%

Source: Superintendency of Banks.

(1) Percentage of total shareholders' equity of all Chilean banks.

(2) As required by local regulations.

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## Efficiency

For the year ended December 31, 2009, 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)) for the twelve-month period indicated.

	As of December 31, 2009(1)	
Efficiency ratio	%	
Santander Chile	32.2	%
Banco de Chile	46.7	
Banco del Estado	61.9	
Banco de Crédito e Inversiones	46.4	
BBVA, Chile	48.0	
Corpbanca	40.8	
Chilean financial system	46.1	%

Source: Superintendency of Banks.

(1) As required by local regulations.

## Net income

For the twelve-month period ended December 31, 2009, we were the largest bank in Chile in terms of net income with Ch\$436,306 million (US\$860.1 million). The following table sets forth our and our peer group's net income for the year ended December 31, 2009.

	Net income(1)	As of December 31, 2009			
		Ch\$ million(2)	US\$ million	Market Share	
Santander Chile		436,306	860.1	35.6	%
Banco de Chile		257,887	508.4	21.0	
Banco de Crédito e Inversiones		160,774	317.0	13.1	
Corpbanca		85,109	167.8	6.9	
BBVA, Chile		68,030	134.1	5.6	
Banco del Estado		60,357	119.0	4.9	
Others		156,724	309.0	12.8	
Chilean financial system		1,225,187	2,415.4	100.0	%

Source: Superintendency of Banks.

(1) Net income before minority interest.

(2) As required by local regulations.





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## Return on average equity

As of December 31, 2009, we were the most profitable bank in our peer group (as measured by return on average equity) and the most capitalized bank as measured by the BIS ratio. The following table sets forth our and our peer group's return on average equity and BIS ratio for the year ended December 31, 2009.

	Return on average equity as of December 31, 2009	BIS Ratio as of December 31, 2009	
Santander Chile	27.3	15.6	%
Banco de Chile	19.0	12.7	
Banco del Estado	6.3	12.4	
Banco de Crédito e Inversiones	19.3	12.1	
BBVA, Chile	14.7	14.0	
Corpbanca	17.5	13.9	
Chilean Financial System	15.5	% 14.3	%

Source: Superintendency of Banks, except Santander Chile. Calculated by dividing annual net income by monthly average equity. For Santander Chile, the average equity is calculated on a daily basis.

## Asset Quality

At December 31, 2009, on a stand alone basis, we had the second highest loan loss allowance to total loans ratio (expected loss ratio) in our peer group. The following table sets forth our and our peer group's loan loss allowance to total loans ratio as defined by the Superintendency of Banks at the dates indicated.

	Loan loss allowances/total loans as of December 31, 2009	
Santander Chile	2.54	%
Banco de Chile	2.45	
Banco del Estado	2.75	
Banco de Crédito e Inversiones	2.21	
BBVA, Chile	1.61	
Corpbanca	1.91	
Chilean financial system	2.43	%

Source: Superintendency of Banks



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### Regulation and Supervision

#### General

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

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

#### The Central Bank

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

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

#### The Superintendency of Banks

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

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

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

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

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

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

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

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

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

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

Limitations on Types of Activities

Chilean banks can only conduct those activities allowed by the General Banking Law: making loans, accepting deposits and, subject to limitations, making investments and performing financial services. Investments are restricted to real estate for the bank's own use, gold, foreign exchange and debt securities. Through subsidiaries, banks may also engage in other specific financial service activities such as securities brokerage services, equity investments,

securities, mutual fund management, investment fund management, financial advisory and leasing activities. Subject to specific limitations and the prior approval of the Superintendency of Banks and the Central Bank, Chilean banks may own majority or minority interests in foreign banks.

Since June 1, 2002, Chilean banks are allowed to offer a new checking account product that pays interest. The Superintendency of Banks also stated that these accounts may be subject to minimum balance limits and different interest rates depending on average balances held in the account and that banks may also charge fees for the use of

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this new product. For banks with a solvency score of less than A the Central Bank has also imposed additional caps to the interest rate that can be paid.

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

### Deposit Insurance

The Chilean government guarantees up to 90.0% of the principal amount of certain time and demand deposits and savings accounts held by natural persons with a maximum value of UF120 per person (Ch\$2,513,146 or US\$4,954 as of December 31, 2009) per calendar year in the entire financial system.

### Reserve Requirements

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

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

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

### Minimum Capital

Under the General Banking Law, a bank is required to have a minimum of UF800,000 (approximately Ch\$16,754 million or US\$33.0 million as of December 31, 2009) of paid-in capital and reserves, regulatory capital of at least 8% of its risk weighted assets, net of required allowances, and paid in capital and reserves of at least 3% of its total assets, net of required allowances.

Regulatory capital is defined as the aggregate of:

- a bank’s paid-in capital and reserves, excluding capital attributable to subsidiaries and foreign branches or capital básico;
- its subordinated bonds, valued at their placement price (but decreasing by 20.0% for each year during the period commencing six years prior to maturity), for an amount up to 50.0% of its basic capital; and

- its voluntary allowances for loan losses for an amount of up to 1.25% of risk weighted-assets.

#### Capital Adequacy Requirements

According to the General Banking Law, each bank should have regulatory capital of at least 8.0% of its risk-weighted assets, net of required allowances. The calculation of risk weighted assets is based on a five-category risk classification system for bank assets that is based on the Basel Committee recommendations. On 2009, the Superintendency of Banks postponed until 2012 the application of the third pillar of Basel II in Chile, which



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includes the implementation of capital limits with market risk and operational risk-weighted assets. These changes must be approved by Congress as it involves a modification to the General Banking Law.

Banks should also have capital básico, or basic capital, of at least 3.0% of their total assets, net of allowances. Basic capital is defined as a bank's paid-in capital and reserves and is similar to Tier 1 capital except that it does not include net income for the period.

Starting in 2008, banks are able to include net income for the period as basic capital, net of a 30% deduction for minimum dividends accrued.

Within the scope of Basel II in Chile, further changes in regulation may occur. See "Risk Factors—Risks Relating to Chile—Chile's banking regulatory and capital markets environment is continually evolving and may change."

## Lending Limits

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

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

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

## Allowance for Loan Losses

Chilean banks are required to provide to the Superintendency of Banks detailed information regarding their loan portfolio on a monthly basis. The Superintendency of Banks examines and evaluates each financial institution's credit management process, including its compliance with the loan classification guidelines. Banks are classified into four categories: 1, 2, 3 and 4. Each bank's category depends on the models and methods used by the bank to classify its loan portfolio, as determined by the Superintendency of Banks. Category 1 banks are those banks whose methods and models are satisfactory to the Superintendency of Banks. Category 1 banks will be entitled to continue using the same methods and models they currently have in place. A bank classified as a category 2 bank will have to maintain the minimum levels of reserves established by the Superintendency of Banks while its Board of Directors will be made aware of the problems detected by the Superintendency of Banks and required to take steps to correct

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them. Banks classified as categories 3 and 4 will have to maintain the minimum levels of reserves established by the Superintendency of Banks until they are authorized by the Superintendency of Banks to do otherwise.

Under our loan classification categories loans are divided into: (i) consumer loans (including loans granted to individuals for the purpose of financing the purchase of consumer goods or payment of services); (ii) residential mortgage loans (including loans granted to individuals for the purchase, construction or improvements 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 (includes all loans other than consumer loans and residential mortgage loans). A detailed description of the models established for determining loan loss allowances is set forth in “Item 5: F. Selected Statistical Information—Classification of Loan Portfolio” and in Note 1 of our Audited Consolidated Financial Statements.

#### New Guidelines of Provisioning Levels for Contingent Loans in 2010

Commencing in January 2010, all Chilean banks will be required by the SBIF to include in the calculation of expected loss and reserve levels, a percentage of off-balance sheet contingent loans. This includes, among others, lines of credit approved but not disbursed, unused credit card lines, stand-by letters of credit and other operations guaranteed by the Bank. As a result, a greater percentage of these assets will be included in the calculation of risk weighted assets. The impact of this change was Ch\$52,662 million charged against equity as of March 31, 2010. This provision only applies to locally filed financial statements.

Off-balance sheet contingent operations	Percentage of total debt outstanding to be included in new risk weightings
Guarantees	50%-100%
Lines of credit and unused credit card balances	50%
Stand-by letters of credit	20%

#### Capital Markets

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

#### Legal Provisions Regarding Banking Institutions with Economic Difficulties

The General Banking Law provides that if specified adverse circumstances exist at any bank, its Board of Directors must correct the situation within 30 days from the date of receipt of the relevant financial statements. If the Board of Directors is unable to do so, it must call a special shareholders’ meeting to increase the capital of the bank by the amount necessary to return the bank to financial stability. If the shareholders reject the capital increase, or if it is not effected within the term and in the manner agreed to at the meeting, or if the Superintendency of Banks does not approve the Board of Directors’ proposal, the bank will be barred from increasing its loan portfolio beyond that stated in the financial statements presented to the Board of Directors and from making any further investments in any instrument other than in instruments issued by the Central Bank. In such a case, or in the event that a bank is unable to make timely payment in respect of its obligations, or if a bank is under provisional administration of the Superintendency of Banks, the General Banking Law provides that the bank may receive a two-year term loan from

another bank. The terms and conditions of such a loan must be approved by the directors of both banks, as well as by the Superintendency of Banks, but need not be submitted to the borrowing bank's shareholders for their approval. In any event, a creditor bank cannot grant interbank loans to an insolvent bank in an amount exceeding 25.0% of the creditor bank's regulatory capital. The Board of Directors of a bank that is unable to make timely payment of its obligations must present a reorganization plan to its creditors in order to capitalize the credits, extend their respective terms, condone debts or take other measures for the payment of the debts. If the Board of Directors of a bank submits a reorganization plan to its creditors and such arrangement is approved, all subordinated debt issued by the bank, whether or not matured, will be converted by operation of law into common stock in the amount required

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for the ratio of regulatory capital to risk-weighted assets not to be lower than 12.0%. If a bank fails to pay an obligation, it must notify the Superintendency of Banks, which shall determine if the bank is solvent.

## Dissolution and Liquidation of Banks

The Superintendency of Banks may establish that a bank should be liquidated for the benefit of its depositors or other creditors when such bank does not have the necessary solvency to continue its operations. In such case, the Superintendency of Banks must revoke a bank's authorization to exist and order its mandatory liquidation, subject to agreement by the Central Bank. The Superintendency of Banks must also revoke a bank's authorization if the reorganization plan of such bank has been rejected twice. The resolution by the Superintendency of Banks must state the reason for ordering the liquidation and must name a liquidator, unless the Chilean Superintendency of Banks assumes this responsibility. When a liquidation is declared, all checking accounts and other demand deposits received in the ordinary course of business, are required to be paid by using existing funds of the bank, its deposits with the Central Bank or its investments in instruments that represent its reserves. If these funds are insufficient to 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

Foreign currency denominated obligations of Chilean banks are subject to various limits and obligations. The regulations of the Central Bank do not permit the difference, whether positive or negative, between a bank's assets and liabilities denominated in any foreign currency (including assets and liabilities denominated in U.S. dollars but payable in pesos, as well as those denominated in pesos and indexed to the U.S. dollar exchange rate) to exceed 20% of the bank's paid-in capital and reserves; except in the case where the balance of such assets exceeds the balance of such liabilities and the excess difference does not exceed the bank's allowances and reserves denominated in such foreign currency (excluding profits to be remitted abroad). 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 Risks").

## Investments in Foreign Securities

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

Table 1

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

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

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Table 2

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

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

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

Table 3

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

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

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

## New regulations for the financial markets

Further new regulations governing the Chilean capital markets are being discussed. Chile's Congress passed a new bill on June 1, 2010 (known as MK3) that aims to increase trading in Chile, Latin America's third-biggest securities market, by allowing new instruments such as exchange-traded funds and covered bonds. The Chamber of Deputies, Chile's lower house, voted in favor of the bill, which also seeks to ease credit access for consumers and small companies. The measures will make it easier for foreign banks to offer loans in Chile, cut securitization costs and allow banks to sell bonds backed by mortgages. The new law will also offer tax breaks to foreign investors in Chilean mutual funds. The bill also aims to reduce the cost of setting up mutual funds and create an exchange-traded funds industry by modifying mutual fund rules to allow secondary trading and enable pension funds to invest in them. The new law also removes limits on employing non-Chileans that may have prevented overseas fund managers from opening offices in Chile. It also strikes down a law that prevented foreign banks from advertising loans. The new class of bonds, known as "mortgage bonds," will be debt backed by the company that sells them as well as by a pool of mortgages, as in European covered bonds. Unlike covered bonds, they may be issued by non-banks as well as banks.

The current Finance Minister, Felipe Larrain, plans another package of reforms known as MKB (Reformas al Mercado Financiero Bicentenario). The MKB is comprised of a series of administrative changes and new regulations over the next four years. The reforms include the creation of a financial consumer protection agency, the transformation of the local securities exchange regulator (SVS) into a securities commission and giving more autonomy to the SBIF. The new regulations would also aim to expand the use of the Chilean peso and simplify taxes on fixed-income securities. The proposed legislation would also include measures to increase bank penetration and household savings. The reforms also aim to create new instruments that give more efficient financing alternatives to



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small and mid-sized companies and individuals, together with creating specific statutes for niche banks and micro credit financing. The proposed legislation would also reduce the pro-cyclicality of loan loss provisions and seek to enhance solvency and liquidity (the latter must be done through a change in the General Banking Law).

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

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

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

## D. Property, Plants and Equipment

We are domiciled in Chile and own our principal executive offices located at Bandera 140, Santiago, Chile. We also own ten other buildings in the vicinity of our headquarters and we rent five other buildings. At December 31, 2009, we owned the locations at which 33.5% of our branches were located. The remaining branches operate at rented locations. We believe that our existing physical facilities are adequate for our needs.

The Bank's branches, systems and employees were all impacted by the recent earthquake. Of the Bank's 498 branches, 405 had some form of damage, of which 32 sustained serious damages and 9 were closed as of May 31, 2010. Of the Bank's 1,856 all were operating normally as of May 31, 2010. The Bank's systems were not functioning immediately following the earthquake, but by March 1, 2010 the systems were functioning normally, all open branches were online and all remote channels were operating normally. The Bank expects additional administrative expenses from the earthquake, net of insurance proceeds, recognized in 2010 to be US\$6 million.

Main properties as of December 31, 2009	Number
Central Offices	
Own	10
Rented	5
Total	15
Branches (1)	
Own	167
Rented	245
Total	412
Other property (2)	
Own	62
Rented	6

Total

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(1) Some branches are located inside central office buildings and other properties. Including these branches the total number of branches is 498. Special payment centers are included in Other property.

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

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

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

The main software systems that we use are:

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

## ITEM 4A. UNRESOLVED STAFF COMMENTS

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

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ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Accounting Standards Applied in 2009

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”) issued by the International Accounting Standards Board (“IASB”), in order to comply with requirements of the Securities and Exchange Commission (the “SEC”).

As required by local regulations, our locally filed consolidated financial statements have been prepared in accordance with accounting principles issued by the Superintendency of Banks and Financial Institutions (the “SBIF”). The accounting principles issued by the SBIF are substantially similar to IFRS but there are some exceptions. Therefore, our locally filed consolidated financial statements have been adjusted according to IFRS 1: First Time Adoption of International Financial Reporting Standards (see Note 2 to our audited consolidated financial statements attached to this Annual Report).

In Chile, the local securities exchange regulator (SVS) announced in 2004 that all public companies will be required to present full IFRS financial statements beginning in 2009. The convergence from local accounting regulations to IFRS is to follow a gradual adoption plan which will take place over at least a three-year period from 2009 to 2011, beginning with banking institutions in 2009. Full convergence is the intended goal of the transition to IFRS. However, due to the gradual approach to the adoption of IFRS and because not all regulators require full IFRS, different accounting frameworks will coexist for a period of time.

Chilean banks are subject to the regulatory supervision of the SBIF under the provisions of the General Banking Act (“Act”) of 1997. The Act establishes that in accordance with legal regulations, Chilean banks must abide by the accounting standards stipulated by the SBIF.

The SBIF, by means of Circular No. 3,410 (2007) and Circular No. 3,443 (2008) announced the “Compendium of Accounting Standards”, which contains new accounting standards and reporting formats for the financial industry required to be adopted by banking institutions effective January 1, 2009. Banks are required to apply the new accounting and reporting to the current period financial statements for 2009 and to retrospectively apply the new standard to January 1, 2008 and include an opening balance sheet for the reporting period ended December 31, 2008.

Although banks are required to apply IFRS as of January 1, 2009, certain exceptions introduced by the SBIF prevent the banks from achieving full convergence with IFRS. In those situations which are not addressed by the guidance issued by the SBIF, institutions shall follow the generally accepted accounting principles issued by the Association of Chilean Accountants which coincide with IFRS as issued by the IASB (“IFRS-IASB”).

Therefore, as stated above, in order to comply with requirements of the SEC, the Bank has prepared the consolidated financial statements included in this Annual Report under IFRS-IASB.

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

Note 2 to our consolidated financial statements, “First time adoption of International Financial Reporting Standards”, provides a reconciliation between the balances of the Consolidated Statement of Financial Position at the opening and closing of the year ending December 31, 2008 and the corresponding Consolidated Statement of Income, Consolidated Statement of Comprehensive Income and Consolidated Statement of Cash Flows generated during such

year. Therefore, the figures shown in the Bank's financial statements for 2008, included in the attached financial statements, differ from those reported in the previous year, which were prepared under the previous accounting standards.

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

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The financial statements for the period ending as of December 31, 2009 were the first prepared according to IFRS. This change incorporates the following important aspects:

- Significant changes in accounting policies, valuation criteria, and forms of presentation of financial statements.
- A significant increase in the information included in the notes to the financial statements.

The following is a description of the nature of the principal effects or adjustments arising from the first time adoption of IFRS:

### Financial Statements—Consolidation Requirements

The consolidation/valuation methods used up to December 31, 2008 under previous accounting standards have continued to be used for subsidiaries and investments in other companies. Furthermore, pursuant to the provisions of International Accounting Standard (IAS) 27 and Standard Interpretations Committee (SIC) 12, the Bank must determine the existence of Special Purpose Entities (SPE), which must be consolidated with the financial results of the Bank. As a result, we have incorporated into our financial statements the following companies:

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

### Investments in other companies

The effects generated by adopting IFRS on each of the companies in which we have investments consolidated by the equity method are reflected in this item based on the percentage of these companies' equity that is held by us.

### Price level restatement

Pursuant to IAS 29 "Financial Information in Hyperinflationary Economies," a price level restatement will henceforth be applied only when the entity whose functional currency is that of a hyperinflationary economy (defined as an economy experiencing 100 percentage points of inflation in 3 years). The Bank's functional currency is the Chilean peso. Since the Chilean economy does not meet the aforementioned requirements, the Bank was required to eliminate the price level restatement as of January 1, 2008. Pursuant to the use of exceptions permitted or required by IFRS 1, the price level restatement applied up to December 31, 2007 was not reversed.

### Property, plant and equipment and intangible assets

The main effects of the recalculation of depreciation and amortization of intangible assets (software and information technology developments) and property, plant and equipment as a result of the elimination of the price-level restatement (as described above) and the determination of the cost of property, plant and equipment on January 01, 2008 are included.

In accordance with IFRS 1, a first-time adopter may elect to use a revaluation pursuant to previous accounting standards of an item of property, plant and equipment at, or before, the date of transition to IFRS at deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to: (i) fair value; or

(ii) cost or depreciated cost in accordance with IFRS. The Bank has elected to revalue certain items of property, plant and equipment at its fair value and use that fair value at its deemed cost. For the remaining items of property, plant and equipment, it has used the depreciated cost for revaluation pursuant to previous accounting standards as its deemed cost.

#### Assets received in lieu of payment

Previously, assets received in lieu of payment (“ARP”) were valued at cost (the price agreed upon with the debtor for the transfer in payment or the value determined at a judicial auction, as the case may be, after price-level restatement), minus a provision for individual valuation based on an independent appraisal.

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The most important change in the valuation of ARP in IFRS (in addition to the elimination of the price-level restatement as described previously) is that, when making the provision for initial valuation, it is necessary to take into account its net realizable value, i.e., its fair value (independent appraised value), minus the necessary costs of maintaining and divesting it.

According to studies performed by the Bank, an average cost of sale (the cost of maintaining and divesting the good) estimated at 5.8% of the appraised value was determined as of January 1, 2008; such cost rose to 6.5% as of December 31, 2008.

The effects generated by the application of the cost of sale described above are presented in this item.

### Charge-offs

Under previous accounting standards, the term for charging off (or impairment loss on loans) past-due and late installments on credits and accounts receivable was calculated from the time of their classification in the past-due portfolio, which represented loans in arrears for payment of principal and interest by ninety days or more. This method was realized previously on a scheduled payment by payment basis.

Under IAS 39 “Financial Instruments: Recognition and Measurement” an impairment loss of a financial asset or a group of financial assets is recognized if, and only if, objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a loss event), and that loss (or events) has an impact on the estimated future cash flows of a financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single event that caused the impairment. According to this definition, the impairment is determined for each loan by considering its total amount and no longer on a scheduled payment by payment basis as under previous accounting standards.

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

Individually significant financial assets are individually tested to determine their impairment. All impairments are recorded in the Consolidated Statement of Income.

The Bank has recognized the effects arising from the application of IFRS for charge-offs of loans and accounts receivable, as well as the associated effect caused in the allowances established for each transaction (when 100% of the transaction was charged-off, the related allowances were released).

### Deferred taxes

This item brings together the tax effects (deferred taxes) generated by the timing differences arising, in turn, out of the aforementioned adjustments, whether they apply directly to shareholders' equity or to income.

### B. First time adoption of International Financial Reporting Standards (IFRS)

The transition of the consolidated financial statements of the Bank to IFRS has been carried out through the application of IFRS 1: First time adoption of International Financial Reporting Standards, applying the exemption provided by this standard.

The Bank has applied the following exemptions as permitted by IFRS 1:



i. Business Combinations

The Bank has applied the exemption provided under IFRS 1 for business combinations, and, therefore, did not apply IFRS 3, Business Combinations retrospectively to those business combinations that occurred prior to the transition date of January 1, 2008.

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### ii. Value or revaluations as deemed cost

The Bank elected to measure certain items of property, plant and equipment at the date of transition at their fair value and use that fair value as their deemed cost at that date. Likewise, the Bank decided to measure the other items of property, plant and equipment at their price-level restated cost as of January 1, 2008.

### C. Other Critical Accounting Policies

Our consolidated financial statements include various estimates and assumptions, including but not limited to the adequacy of the allowance for loan losses, estimates of the fair value of certain financial instruments, the selection of useful lives of certain assets and the valuation and recoverability of goodwill. We evaluate these estimates and assumptions on an ongoing basis. Management bases its estimates and assumptions on historical experience and on various other factors that it believes to be reasonable under the circumstances. Actual results in future periods could differ from those estimates and assumptions, and if these differences were significant enough, our reported results of operations would be affected materially. We believe that the following are the more critical judgment areas or involve a higher degree of complexity in the application of the accounting policies that currently affect our financial condition and results of operations.

#### Derivative activities

As of December 31, 2008 and 2009, derivatives are valued at market price on the balance sheet and the net unrealized gain (loss) on derivatives is classified as a separate line item on the income statement. In prior periods, the notional amounts were carried off the balance sheet.

Pursuant to the new accounting standards, banks must mark-to-market derivatives. A derivative financial instrument held for trading purposes must be marked to market and the unrealized gain or loss recognized in the income statement. The Superintendency of Banks recognizes three kinds of hedge accounting: (i) cash flow hedges, (ii) fair value hedges and (iii) hedging of foreign investments.

- When a cash flow hedge exists, the fair value movements on the part of the hedging instrument that is effective are recognized in equity. Any ineffective portion of the fair value movement on the hedging instrument is recognized in the income statement.
- When a fair value hedge exists, the fair value movements on the hedging instrument and the corresponding fair value movements on the hedged item are recognized in the income statement. Hedged items in the balance sheet are presented at their market value since 2006.
- When a hedge of foreign investment exposure exists (i.e., investment in a foreign branch), the fair value movements on the part of the hedging instrument that is effective are recognized in equity. Any ineffective portion of the fair value movement on the hedging instrument is recognized in the income statement.

#### Allowance for loan losses

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

Our internal provisioning models use statistical models that take into account a borrower's credit history and indebtedness levels. Group ratings that determine loan loss allowances based only on non-performance are being phased out and replaced by statistical scoring systems. Large commercial loans are rated on an individual basis. For large commercial loans, leasing and factoring, we assign a risk category level to each borrower and its respective loans. We consider the following risk factors in classifying a borrower's risk category: (i) the borrower's industry or sector, (ii) owners or managers, (iii) financial condition, (iv) payment ability and (v) payment behavior. For a detailed description of the models we use to determine loan loss allowances for commercial loans. See "Item 5: F. Selected Statistical Information—Loan Portfolio—Classification of Loan Portfolio—Allowances for large commercial loans." Group assessment for loan loss allowances is applied for a large number of borrowers whose individual loan amounts are relatively insignificant. Currently, we use group analysis to determine loan loss

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allowances for certain types of loans, such as loans to small- and mid-sized companies and commercial loans to individuals. (See “Item 5: F. Selected Statistical Information—Loan Portfolio—Classification of Loan Portfolio—Allowances for group evaluations on small- and mid-sized commercial loans.”)

D. Operating Results

Chilean Economy

All of our operations and substantially all of our customers are located in Chile. Accordingly, our financial condition and results of operations are substantially dependent upon economic conditions prevailing in this country. In the first half of 2009, the Chilean economy continued to feel the effects of the global financial crisis while in the second half of the year economic growth began to gather momentum. As a result, for the full year 2009, GDP contracted 1.4% compared to an increase of 3.4% in 2008. In 1Q10, the economy contracted 1.5% mainly due to the impacts of the earthquake that occurred in February 2010.

Quarterly and Yearly Evolution of GDP, %

The decline in the Chilean economy in 2009 was due in part to the fall in the average prices of Chile’s main exports. The average price of copper in 2009 fell 28% compared to the average price in 2008. In the same period, the average price of fish meal increased 1.7% and average paper pulp prices decreased 29.2%. This led to a 20.2% decrease in total exports which totaled US\$53.0 billion in 2009 compared to US\$66.5 billion in 2008. The recovery of the Chilean economy in the second half was led in part by a recovery of the prices of Chile’s main exports. The year-end price of copper increased 126.7%, fish meal increased 46% and paper pulp prices rose 19.4% compared to the year-end price of these products in 2008.

Evolution of Prices of Chile’s Main Exports (Base 100 = Dec. 2007)

Source: Banco Central de Chile

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The global economic crisis also affected domestic demand levels (investment and consumption) in 2009. Total investment in 2009 decreased 33.3% and private sector consumption increased 0.2%. This was partially offset by an 8.2% rise in government spending levels as the government used part of the sovereign funds accumulated in previous years. At year-end 2009 the Chilean government still had US\$17 billion in sovereign funds and the Chilean Central Bank had reserves of US\$26.2 billion. The general decline in domestic demand had a negative impact on unemployment, which averaged 9.9% in 2009 compared to 9.6% compared to 7.7% in 2008.

The CPI reversed the upward trend seen in 2008 and prices fell in 2009. CPI deflation reached 1.4% in 2009 compared to a 7.1% rise in prices in 2008. As a result of the contraction of price levels and lower economic activity, interest rates declined in 2009. The overnight interbank rate set by the Central Bank was lowered by 750 basis points in 2009 and is currently at 1.0%. Despite this deflation, the Chilean peso appreciated in 2009 as the value of the dollar weakened worldwide. As of December 31, 2009, the Chilean peso had appreciated 19.5% against the dollar since year-end 2008.

Central Bank Reference Rate, %

Source: Banco Central de Chile

Banking Sector

The Chilean banking sector also evolved in line with the economic developments during 2009 with a reduction in the volume of loan growth as result of the economic slowdown and an increase in disintermediation among large corporate clients through the local bond market. Total loans as of December 31, 2009 in the Chilean financial system were Ch\$68,938,045 million (US\$136 billion), a decrease of 1.9% compared to the balance of loans as of December 31, 2008. Total customer funds defined as time deposits plus checking accounts plus mutual funds totaled Ch\$75,929,201 million (US\$150 billion) as of December 31, 2009, an increase of 5.0% compared to year-end 2008. The table below demonstrates the deterioration of asset quality in the Chilean financial system was observable as a result of the economic slowdown from 2008 to 2009:

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Evolution of expected loan loss ratio\*

\* Expected loss divided by Total loans. Expected loss = Loan loss reserves / Total loans. Source: Superintendency of Banks

Earthquake

On February 27, 2010, Chile was struck by an 8.8 magnitude earthquake, which mainly affected the mid-southern regions of Chile. As a result of these developments, economic activity in Chile could be adversely affected in 2010. We also expect the economy and banking activity generally and our results of operations specifically in 2010 to be adversely affected. We may experience any or all of the following:

- deterioration of our asset quality and an increase in our provision expense;
- lower fee growth or fee decreases due to lower consumer expenditure and usage of bank products;
- higher net interest margins as a result of higher inflation; and
- uncertainty in our loan growth as some sectors will be negatively affected while others will be positively affected by the temblor.

Impact of Inflation

Our assets and liabilities are denominated in Chilean pesos, Unidades de Fomento (UF) and foreign currencies. The Bank no longer performs 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\$21,452.57 at December 31, 2008 and Ch\$20,942.88 at December 31, 2009. 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. Negative inflation rates also negatively impact our results. In 2009, CPI deflation reached 1.6% compared to a rise of 7.1% and 7.8% in 2008 and 2007, respectively. 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:

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- UF-denominated assets and liabilities. In 2009, UF inflation was -2.4% compared to +9.3% in 2008. The effect of any changes in the nominal peso value of our UF-denominated interest earning assets and interest bearing liabilities is reflected in our results of operations as an increase (or decrease, in the event of deflation) in interest income and expense, respectively. Our net interest income will be positively affected by an inflationary environment to the extent that our average UF-denominated interest earning assets exceed our average UF-denominated interest bearing liabilities. Our net interest income will be negatively affected in a deflationary environment if our average UF-denominated interest earning assets exceed our average UF-denominated interest bearing liabilities. Our net interest income will be negatively affected by inflation in any period in which our average UF-denominated interest bearing liabilities exceed our average UF-denominated interest earning assets. Our average UF-denominated interest earning assets exceeded our average UF-denominated interest bearing liabilities by Ch\$2,689,614 million in 2009 compared to Ch\$2,439,563 million in 2008. See “Selected Statistical Information at and for the Years Ended December 31, 2009 and 2008 Average Balance Sheets, Income Earned from Interest-Earning Assets And Interest Paid on Interest Bearing Liabilities.” In general, the Bank has more UF-denominated financial assets than UF-denominated financial liabilities. In the year ended December 31, 2009, the interest gained on interest earning assets denominated in UF decreased 77.3% compared to 2008 as a result of the deflation rates in 2009 compared to 2008. The interest paid on these liabilities decreased by 90.3% during this period.
- Inflation and interest rate hedge. A key component of our asset and liability policy is the management of interest rate risk. The Bank’s assets generally have a longer maturity than our liabilities. As the Bank’s mortgage portfolio grows, the maturity gap tends to rise as these loans, which are contracted in UF, have a longer maturity than the average maturity of our funding base. As most of our long term financial instruments and mortgage loans are contracted in UF and most of our deposits are in nominal pesos, the rise in mortgage lending increases the Bank’s exposure to inflation and to interest rate risk. The size of this gap is limited by internal and regulatory guidelines in order to avoid excessive potential losses due to strong shifts in interest rates (see “Item 11: Quantitative and Qualitative Disclosures About Market Risk”). In order to keep this duration gap below regulatory limits the Bank issues long term bonds denominated in UF or interest rate swaps. The financial cost of the bonds and the efficient part of these hedges is recorded as net interest income. In 2009, the gain from the swaps taken in order to hedge mainly for inflation and interest rate risk totaled Ch\$24,988 million compared to a financial cost of Ch\$53,956 million in 2008. The gain in 2009 compared to a negative result in 2008 was a direct result of the deflation rate in 2009.

	As of December 31,		% Change	
	2009	2008	2009/2008	
	(In million of Chilean pesos)			
Inflation sensitive income				
Interest gained on UF assets(1)	224,614	990,430	(77.3	%)
Interest paid on UF liabilities(1)	(67,559 )	(694,758 )	(90.3	%)
Hedging results	24,988	(53,956 )	(146.3	%)
Net gain	182,043	241,716	(24.7	%)

(1) Excludes results from hedging

- Peso-denominated assets and liabilities. Interest rates prevailing in Chile during any period primarily reflect the inflation rate during the period and the expectations of future inflation. The sensitivity of our peso-denominated interest earning assets and interest bearing liabilities to changes to such prevailing rates varies. (See “Item 5: D. Operating Results—Interest Rates”). We maintain a substantial amount of non-interest bearing peso-denominated demand deposits. Because such deposits are not sensitive to inflation, any decline in the rate of inflation would adversely affect our net interest margin on inflation indexed assets funded with such deposits, and any increase in the rate of inflation would increase the net interest margin on such assets. (See “Item 11: Quantitative and

Qualitative Disclosures About Market Risk” in our 2008 20-F). The ratio of the average of such demand deposits to average interest-earning assets was 15.66% and 15.12% for the years ended December 31, 2008 and 2009, respectively.



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## 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 generally reprice sooner than our assets, changes in the rate of inflation or short term rates in the economy are reflected in the rates of interest paid by us on our liabilities before such changes are reflected in the rates of interest earned by us on our assets. Therefore, when short term interest rates fall, our net interest margin is positively impacted, but when short term rates increase, our interest margin is negatively affected. At the same time, our net interest margin tends to be adversely affected in the short term by a decrease in inflation rates since generally our UF-denominated assets exceed our UF-denominated liabilities. (See “Item 5: C. Operating Results—Impact of Inflation—Peso-denominated Assets and Liabilities”). An increase in long term rates has a positive effect on our net interest margin, because our interest earning assets generally have longer terms than our interest bearing liabilities. In addition, because our peso-denominated liabilities have relatively short repricing periods, they are generally more responsive to changes in inflation or short term rates than our UF-denominated liabilities. As a result, during periods when current inflation or expected inflation exceeds the previous period’s inflation, customers often switch funds from UF-denominated deposits to peso-denominated deposits, which generally bear higher interest rates, thereby adversely affecting our net interest margin.

## Foreign Exchange Fluctuations

The Chilean government’s economic policies and any future changes in the value of the Chilean peso against the U.S. dollar could adversely affect our financial condition and results of operations. The Chilean peso has been subject to significant devaluation in the past and may be subject to significant fluctuations in the future. In 2009, the Chilean peso in relation to the U.S. dollar appreciated 19.5% compared to a 26.9% depreciation in 2008. (See “Item 3: A. Selected Financial Data—Exchange Rates”). A significant portion of our assets and liabilities are denominated in foreign currencies, principally the U.S. dollar, and we historically have maintained and may continue to maintain material gaps between the balances of such assets and liabilities. Because such assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains and losses realized upon the sale of such assets, are translated to Chilean pesos in preparing our financial statements, our reported income is affected by changes in the value of the Chilean peso relative to foreign currencies (principally the U.S. dollar). The translation gain or loss over assets and liabilities (excluding derivatives held for trading) is included as foreign exchange transactions in the income statement. The translation and mark-to-market of foreign currency derivatives held for trading is recognized as a gain or loss in the net results from mark-to-market and trading.

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

## Results of Operations for the Years Ended December 31, 2008 and 2009

The following discussion is based upon and should be read in conjunction with the Audited Consolidated Financial Statements. The Audited Consolidated Financial Statements have been prepared in accordance with IFRS. The following table sets forth the principal components of our net income for the years ended December 31, 2008 and 2009.



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	2009	2009	2008	% Change	
	US\$	Ch\$ million of constant		2009	
	ths.(1)	pesos		/2008	
<b>CONSOLIDATED INCOME STATEMENT DATA</b>					
<b>IFRS:</b>					
Interest income and expense					
Interest income	2,381,031	1,207,778	2,061,346	(41.4	%)
Interest expense	(692,483 )	(351,262 )	(1,169,280)	(70.0	%)
Net interest income	1,688,548	856,516	892,066	(4.0	%)
Fees and income from services					
Fees and commission income	622,819	315,925	295,969	6.7	%
Fees and commission expense	(121,824 )	(61,795 )	(52,840 )	16.9	%
Total net fees and commission income	500,995	254,130	243,129	4.5	%
Other operating income					
Net income from financial operations	7,663	3,887	273,477	(98.6	%)
Foreign exchange profit (loss), net	321,816	163,241	(187,042 )	(187.3	%)
Financial transactions, net	329,479	167,128	86,435	93.4	%
Other operating income	50,993	25,866	10,896	137.4	%
Total other operating income	380,472	192,994	97,331	98.3	%
Total operating income	2,570,015	1,303,640	1,232,526	5.8	%
Provision for loan losses	(658,151 )	(333,847 )	(287,983 )	15.9	%
Operating income, net of provisions	1,911,864	969,793	944,543	2.7	%
Operating expenses					
Personnel salaries and expenses	(442,551 )	(224,484 )	(246,775 )	(9.0	%)
Administrative expenses	(269,516 )	(136,712 )	(133,682 )	2.3	%
Depreciation and amortization	(91,913 )	(46,623 )	(47,627 )	(2.1	%)
Impairment	(148 )	(75 )	(84 )	(10.7	%)
Other operating expenses	(72,276 )	(36,662 )	(36,298 )	1.0	%
Total operating expenses	(876,404 )	(444,556 )	(464,466 )	(4.3	%)
Net Operating income	1,035,460	525,237	480,077	9.4	%
Other non-operating results					
Income from investments in other companies	586	297	632	(53.0	%)
Total other non-operating results	586	297	632	(53.0	%)
Income before tax	1,036,046	525,534	480,709	9.3	%
Income tax	(175,306 )	(88,924 )	(59,742 )	48.8	
Net income	860,740	436,610	420,967	3.7	
Net income attributable to:					
Equity holders of the Bank	850,778	431,557	413,370	4.4	
Minority interest	9,962	5,053	7,597	(33.5	%)

(1) Amounts stated in U.S. dollars at and for the year ended December 31, 2009, have been translated from Chilean pesos at the exchange rate of Ch\$507.25 = US\$1.00 as of December 31, 2009. See "Item 3: A. Selected Financial Data—Exchange Rates" for more information on exchange rate.

Net income for the year ended December 31, 2009, increased 3.7% to Ch\$436,610 million. Net income attributable to equity holders of the Bank in the same period increased 4.4% to Ch\$431,557 million. Our return on average equity was 27.4% in 2009 compared to 32.7% in 2008.

Total operating income was Ch\$1,303,640 million in 2009, an increase of 5.8% compared to the corresponding period in 2008. Our net interest income decreased by 4.0% to Ch\$856,516 million. The average balance of our interest-earning assets increased by 3.7% in 2009 compared to 2008. Our net interest margin decreased 40 basis points to 5.3% in 2009 due to the negative effects of deflation over margins.

Interest income decreased by 41.4% to Ch\$1,207.8 billion, reflecting a 43.5% decline in the average rate of interest earned on interest earning assets, offset in part by a 3.7% increase in average interest earning assets. As

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discussed in further detail below, the decline in the average rate of interest earned resulted from steep declines in market rates of interest and the effect of deflation on our UF-denominated assets, both resulting from the overall recessionary environment of 2009.

Net fees and commission income grew by 4.5% to Ch\$254,130 million in the year ended December 31, 2009 compared to the same period of 2008. The growth in fee income was mainly driven by fees from credit, debit and ATM cards, which increased by 18.0%, reflecting increased usage of these credit cards. Fees from collections increased by 11.0% in the year ended December 31, 2009 compared to the same 2008 period. The fees from the collection of insurance increased 28.4% in 2009 compared to 2008 and was also a contributor to the overall increase in fee income. This growth in fee income was partially offset by the 17.2% decrease in fees from checking accounts and lines of credit, which includes the maintenance fee for checking accounts and lines of credit and fees charged for the unauthorized overdraft of lines of credit. This decrease was mainly due to a 68.5% decrease in fees from unauthorized overdrafts of credit lines, which fees were prohibited by the Superintendency of Banks beginning in May 2009.

Results of financial transactions, net, which is the sum of trading activities, mark-to-market adjustments and foreign exchange transactions, totaled Ch\$167,128 million in 2009, an increase of 93.4% compared to 2008. The net result from mark-to-market and trading was Ch\$3,887 million in 2009, a decrease of 98.6% compared to 2008. This lower result was mainly due to the appreciation of the Chilean peso and its effect on the mark-to-market of foreign currency derivatives, which produced a loss of Ch\$102,825 million, compared to a gain of Ch\$178,883 million in the same period in 2008. These results were offset in part by the mark-to-market of and the realized gains from our available-for-sale fixed income portfolio. These results produced a gain of Ch\$47,335 million in 2009 compared to a gain of Ch\$3,807 million in 2008. In the first half of 2009, as a result of decreases in interest rates, we recognized gains from sales of our fixed income portfolio, which is mainly comprised of Central Bank bonds.

These results were offset by the gain from conversion to pesos of assets and liabilities denominated in foreign currencies and hedge-accounted derivatives recorded as a gain in the foreign exchange transactions line item. Foreign exchange profit (loss), net totaled a net gain of Ch\$163,241 million in 2009 compared to a loss of Ch\$187,042 million in 2008. The appreciation of the Chilean peso in 2009 compared to a depreciation in 2008 explains this difference in results, which was largely offset by the mark-to-market of foreign exchange derivatives in net gains from trading and our mark-to-market as described above.

Other operating income totaled a gain of Ch\$25,866 million in 2009, a 137.4% increase from Ch\$10,896 million in 2008. The gains from the sale of Bank property, plant and equipment increased 510.7% to Ch\$7,622 million. This result includes a one-time gain of Ch\$7,072 million from the sale of a building in December 2009. Income from the reversal of provisions for non-specific contingencies increased to Ch\$14,793 million in 2009 compared to 2008 (See Note 36(a) of the Audited Consolidated Financial Statements). The Bank reversed in the second half of 2009 provisions for non-specific contingencies recognized at the beginning of 2009 and previous periods, as the Bank assigned specific credit provisions to loans in the provision for loan losses as a result of recalibration of its credit models.

Provisions for loan losses totaled Ch\$333,847 million for the one-year period ended December 31, 2009, an increase of 15.9% compared to the corresponding period in 2008. Gross provision expense increased by 50.1% to Ch\$77,290 million in 2009 compared to the corresponding period in 2008. This increase was mainly due to the recalibration of our consumer credit scoring model, which resulted in approximately Ch\$35,000 million in additional provisions of which Ch\$32,000 million related to loans to individuals and Ch\$3,000 million to the commercial loan book. Charge-offs in 2009 increased 7.8% compared to 2008, totaling Ch\$295,831 million. This was mainly due to a 46.1% increase in charge-offs in the commercial loan portfolio in 2009 compared to 2008 which resulted from the economic downturn that adversely affected asset quality in various sectors of the economy. Recoveries on loans

previously charged off increased by 3.6% from 2008.

Despite the rise in provision expense, operating income, net of provisions, increased 2.5% in 2009 compared to 2008 and totaled Ch\$971,772 million.

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Operating expenses in 2009 decreased by 4.3% compared to 2008. The efficiency ratio improved from 37.6% in 2008 to 34.0% in 2009. Personnel salaries and expenses decreased by 9.0%, mainly due to a 5.3% reduction in average headcount, an 82.7% reduction in severance payments and other cost saving measures. Administrative expenses increased 2.3% in 2009 compared to 2008, mainly due to higher rent expenses for branch and ATM locations. Depreciation and amortization expense decreased by 2.1%, mainly due to lower depreciation expense of real estate as the Bank spent less on improvements and remodeling, and lower depreciation of intangibles as three important computer systems were fully depreciated in 2008.

Other operating expenses were Ch\$36,662 million in 2009, a 1.0% increase compared to 2008, principally due to a 92.8% increase in expenses related to repossessed assets, which was a result of an increase in provisions for repossessed assets in line with the general economic downturn.

Net operating results, which are operating income net of provisions and operating expense, increased by 9.4% in 2009, compared to the corresponding period in 2008.

These operating results were offset by a 48.8% increase in income tax expense. The effective tax rate for 2009 was 16.9%, compared to 12.4% in the corresponding period in 2008, due to the change in our taxable income base. Our taxable income base changed as a result of the adoption of the new accounting standards, which eliminated price level restatement which in prior periods generated tax deductible losses. The statutory tax rate in Chile has not changed and continues to be 17% on income before taxes.

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## Net interest income

(in millions of Ch\$, except percentages)	Year ended December 31,		% Change	
	2009	2008	2009/2008	
Individuals	532,060	520,332	2.3	%
Small and mid sized companies	228,928	220,058	4.0	%
Institutional	18,789	17,591	6.8	%
Total retail	779,777	757,981	2.9	%
Total middle-market	114,432	113,223	1.1	%
Global banking & markets	33,738	31,783	6.2	%
Other(1)	(71,431 )	(10,921 )	554.1	%
Net interest income	856,516	892,066	(4.0)	%
Average interest-earning assets	16,265,592	15,681,754	3.7	%
Average non-interest-bearing demand deposits	2,475,050	2,456,747	0.7	%
Net interest margin(2)	5.3	% 5.7	%	—
Average shareholders' equity and average non-interest-bearing demand deposits to total average interest-earning assets	25.1	% 24.0	%	—

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

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

Our net interest income decreased 4.0% to Ch\$856,516 million in the fiscal year ended December 31, 2009 from net interest income of Ch\$892,066 million in the corresponding period in 2008. Average interest earning assets increased 3.7% in 2009 compared to 2008, principally reflecting a 5.1% increase in average loans, offset in part by a 16.6% decrease in financial investments.

Net interest margin in 2009 was 5.3% compared to 5.7% in the same period in 2008, reflecting the deflationary environment in 2009, offset in part by a higher spread loan mix. In the twelve month period ended December 31, 2009, the value of the UF declined by 2.4% compared to an increase of 9.3% in the same period of 2008. As we have more interest-earning assets than liabilities linked to the UF, our net interest income is negatively affected by deflation. In 2009, the average gap between UF-denominated interest-earning assets and UF-denominated average interest bearing liabilities was approximately Ch\$2,689,614 million compared to Ch\$2,439,563 million in the corresponding period in 2008.

Net interest income and margins were positively affected by the fall in short-term interest rates. As interest-bearing liabilities generally have shorter terms than interest-earning assets, a fall in short-term rates has a positive effect on our margins. The overnight interbank rate set by the Central Bank was lowered by 775 basis points in 2009 and is currently at 0.50%. As a result, the average nominal rate we paid on our interest-bearing liabilities was 2.6% in 2009 compared to 11.1% in 2008.

The evolution of net interest income by segment was as follows:

- Net interest income from the retail banking segment increased by 2.9% in 2009 compared to the 2008, with increases of 2.3% in the individuals segment, 4.0% in the small and mid-sized companies segment and 6.8% to the institutional client segment. This increase in net interest income was mainly due to a 5.3% increase in loans in retail banking in 2009 compared to 2008. Loans to small and mid-sized companies increased 0.7% and lending to institutions rose 25.9% in 2009 compared to 2008. Loan growth in Santander Banefe, the Bank's business segment



for mid-lower income individuals, decreased 12.7% in 2009 compared to 2008, reflecting the Bank's increased selectivity in making loans in the context of 2009's recessionary economic environment. This was offset by an 8.4% increase in lending to individuals in Banca Comercial that targets mainly mid-upper income individuals.

- Net interest income from the middle-market segment increased by 1.1%, due to higher margins in this segment as funding costs fell at a faster pace than the rate earned over interest-earning assets. This was achieved despite a 14.3% decline in loan volumes in the period being analyzed.

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- Net interest income from the global banking and markets segment increased by 6.2%. This was achieved despite a 46.2% decline in loan volumes in the period as this segment's margins were positively impacted by the lower interest rate environment as funding costs declined more than lending rates.
- The 554.1% increase in the loss in other net interest income principally resulted from the impact of the deflationary environment on our UF asset/liability gap, which is managed by the Financial Management division.

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

Loans by product	As of December 31,		% Change	
	2009	2008	2009/2008	
	(in millions of Ch\$)			
Individuals	7,287,925	6,859,547	6.2	%
Small and mid-sized companies	2,485,505	2,468,820	0.7	%
Institutional	282,933	224,776	25.9	%
Total retail	10,056,363	9,553,143	5.3	%
Total middle-market	2,471,162	2,882,943	(14.3	%)
Global banking & markets	1,194,706	2,221,144	(46.2	%)
Other	29,045	23,858	21.7	%
Total loans(1)	13,751,276	14,681,088	(6.3	%)

(1) Includes interbank loans.

## Fee and commission income

The following table sets forth certain components of our income from services (net of fees paid to third parties directly connected to providing those services, principally fees relating to credit card processing and ATM network administration) in the years ended December 31, 2008 and 2009.

	Year ended December		% Change	
	2009	2008	2009/2008	
	(in millions of Ch\$)			
Collections	65,782	59,237	11.0	%
Checking accounts and lines of credit	53,388	64,483	(17.2	%)
Credit, debit and ATM cards	51,670	43,772	18.0	%
Asset management	30,766	28,220	9.0	%
Letters of credit	24,558	17,092	43.7	%
Insurance brokerage	16,307	15,284	6.7	%
Custody and brokerage services	6,532	6,538	(0.1	%)
Office banking	2,552	1,944	31.3	%
Other fees	2,575	6,559	(60.7	%)
Total fees and commission income, net	254,130	243,129	4.5	%

Net fees and commission income grew by 4.5% to Ch\$254,130 million in the year ended December 31, 2009 compared to the same period of 2008.

Fees from collections increased by 11.0% in the year ended December 31, 2009 compared to the same 2008 period. The fees from the collection of brokerage premiums on in-force credit insurance increased 28.4% in 2009 compared to 2008 and was the principal driver of this fee item.

Fees from checking accounts and lines of credit, which includes the maintenance fee for checking accounts and lines of credit and fees charged for the unauthorized overdraft of lines of credit, decreased 17.2% in 2009 compared to 2008. This decrease was principally due to a 68.5% decrease in fees from unauthorized overdrafts of credit lines, which fees were prohibited by the Superintendency of Banks beginning in May 2009.

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Fees from credit, debit and ATM cards increased by 18.0%, reflecting increased usage of our credit cards, the total number of which remained substantially constant. As of December 2009, the Bank, with 33.1% of all bank credit cards in Chile, generated 38.2% of all monetary purchases in Chile. Billing was up 22.9% in real terms in 2009 compared to 8.1% for the rest of the market, excluding Santander.

Fees from our asset management business increased 9.0% in 2009 compared to 2008. Total funds under management increased 55.9% in the period being analyzed and totaled Ch\$3,427,829 million (US\$6.8 billion). The recovery of the local and global equity markets in 2009 resulted in an increase in funds under management. The Bank's commercial teams have also proactively funneled customer deposits to mutual funds, which is a more profitable product for the Bank.

Fees were also driven by a 43.7% increase in fees from letters of credit and other contingent operations. This was mainly due to higher income from stand-by letters of credit from our foreign trade finance business and correspondent banking resulting from a differential pricing strategy, based on segmenting the client base more thoroughly.

Insurance brokerage fees increased by 6.7%. This was mainly due to greater business volumes in our insurance brokerage subsidiary and higher sale of insurance products through our website.

Custody and brokerage fees decreased 0.1% in 2009 compared to 2008. This was primarily due to the lower stock brokerage fees, especially in the first quarter of 2009 when equity market activity generally decreased due to perceived adverse market conditions in 2009.

Fees from office banking increased 31.3%. This was mainly due to increase on-line banking activities on behalf of middle-market and corporate clients.

Other fee income decreased by 60.7%. This was due in part to lower fees from the issuance of cashier's checks and other services on behalf of companies which are now done more efficiently through automated processes but at lower prices.

The following table sets forth, for the periods indicated our fee income from our business segments.

	Year ended December		% Change 2009/2008	
	2009	31, 2008		
	(in millions of Ch\$)			
Individuals	171,433	160,286	7.0	%
Small and mid-sized companies	41,917	39,931	5.0	%
Institutional	1,962	1,789	9.7	%
Total retail	215,312	202,006	6.6	%
Total middle-market (Companies)	20,567	16,846	22.1	%
Global banking and markets	18,747	14,786	26.8	%
Other	(496 )	9,491	–	%
Total fees and commission income, net	254,130	243,129	4.5	%

Retail banking fees increased by 6.6% in 2009 compared to 2008 mainly as a result of the increase in fees from credit and debit cards, asset management and insurance brokerage. This was partially offset by lower fees from checking accounts and lines of credit.

Fees in the middle market segment increased by 22.1% mainly as a result from the rise in fees from letters of credit and contingent operations and office banking fees. The fees from the global banking and markets segment increased by 26.8% mainly as a result of an increase in fees from letters of credit, investment banking, advisory services and office banking.

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## Financial transactions, net

The following table sets forth information regarding our income (expenses) from financial transactions in the year-ended December 31, 2008 and 2009.

	Year ended December		% Change	
	2009	2008	2009/2008	
	31, (in millions of Ch\$)			
Net income from financial operations	3,887	273,477	(98.6	%)
Foreign exchange profit (loss), net	163,241	(187,042 )	–	%
Total financial transactions, net	167,128	86,435	93.4	%

The net gains from financial transactions, which is the sum of trading activities, mark-to-market adjustments and foreign exchange transactions totaled Ch\$167,128 million for 2009, an increase of 93.4% compared to the corresponding period in 2008. These results include the results of our Treasury Department's trading business and financial transactions with customers as well the results of our Financial Management division.

The net income from financial operations was Ch\$3,887 million in 2009, a decrease of 98.6% compared to 2008. This lower result was mainly due to the appreciation of the Chilean peso and its effect on the mark-to-market of foreign currency derivatives, which was a loss of Ch\$102,825 million, compared to a gain of Ch\$178,883 million in the same period in 2008. These lower results were also due to lower interest income from our investments classified as trading. This was mainly due to the deflation in the period, which lowered the interest earned on these assets. These results were offset in part by the mark-to-market and the realized gains from our available-for-sale fixed income portfolio. These results totaled a gain of Ch\$47,335 million in 2009 compared to a gain of Ch\$3,807 million in 2008. In the last quarter of 2008, we increased our domestic bond portfolio as a result of the strong inflow of deposits and the high interest rate environment. In the first half of 2009, as interest rates decreased we recognized gains from our fixed income portfolio. This portfolio is mainly comprised of Central Bank bonds.

	Year ended December		% Change	
	2009	2008	2009/2008	
	31, (in millions of Ch\$)			
Derivatives classified as trading	(102,825 )	178,883	–	%
Trading investments	49,220	77,222	(36.3	%)
Sale of loans	9,231	15,017	(38.5	%)
Available-for-sale instruments sales	47,335	3,807	1143.4	%
Other results	926	(1,452 )	(163.8	%)
Net income from financial operations	3,887	273,477	(98.6	%)

These results were offset by the conversion gain of assets and liabilities denominated in foreign currencies and hedge-accounted derivatives recorded as a gain in the foreign exchange transactions line item. The derivatives included in this line item are mainly cross-currency swaps that hedge interest rate risk of bonds issued abroad. Foreign exchange profit (loss), net totaled a net gain of Ch\$163,241 million in 2009 compared to a loss of Ch\$187,042 million in 2008. The appreciation of the Chilean peso in 2009 compared to a depreciation in 2008 explains this difference in results and which was largely offset by the mark-to-market of foreign exchange derivatives in net gains from trading and mark-to-market as described above.

% Change

	Year ended December			2009/2008
	2009	2008		
	31,			
	(in millions of Ch\$)			
Foreign exchange transactions	401,695	(402,927 )	–	%
Hedge-accounting derivatives	(266,221 )	243,979	–	%
Translation gains and losses over assets and liabilities indexed to foreign currencies	27,767	(28,094 )	–	%
Net results from foreign exchange profit (loss)	163,241	(187,042 )	–	%

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

	Year ended December		% Change 2009/2008	
	2009	31, 2008		
	(In million of Chilean pesos)			
Santander Global Connect and market-making	89,847	89,659	0.2	%
Proprietary trading	14,360	4,311	233.1	%
Sale of loans and charged-off loans	9,231	15,017	(38.5	%)
Financial Management (ALCO) and other results	53,690	(22,552 )	–	%
Total financial transactions, net	167,128	86,435	93.4	%

The results from Santander Global Connect (SGC) and market-making mainly include the results from the sale of derivatives, foreign exchange and fixed income instruments to our client base. Santander Global Connect is a specialized platform designed to facilitate the sale of derivatives to a broad range of companies in all segments and through the branch network. In 2009, the results from SGC and market-making increased by 0.2% to Ch\$89,847 million.

The results from proprietary trading totaled a gain of Ch\$14,360 million in 2009 compared to a gain of Ch\$4,311 million in 2008. The sharp reduction in rates, especially in the first half of 2009, had a positive effect on our proprietary trading positions compared to the surge in inflation and rates in 2008.

The results from the Financial Management Division and other results totaled a gain of Ch\$53,690 million in 2009 compared to a loss of Ch\$22,552 million in 2008. The Financial Management Division manages the structural interest rate risk, the structural position in inflation-indexed assets and liabilities, shareholders' equity and liquidity. The aim of the Financial Management Division is to inject stability and recurrence into the net interest income of commercial activities and to ensure that we comply with internal and regulatory limits regarding liquidity, regulatory capital, reserve requirements and market risk. The gain recognized by the Financial Management Division was mainly due to the sale of available-for-sale fixed income instruments as rates fell, especially in the first quarter of 2009 in order to offset the negative impact of deflation on net interest margins.

## Other operating income

	Year ended December		% Change 2009/2008	
	2009	31, 2008		
	(In million of Chilean pesos)			
Gain on sales of assets received in lieu of payment	29	1,518	(98.1	%)
Recovery of charged-off of assets received in lieu of payment	--	--		
Income from assets received in lieu of payment	29	1,518	(98.1	%)
Net results from sale of investment in other companies	1,859	4,348	(57.2	%)
Operational leases	1,123	1,304	(13.9	%)
Gain on sale of Bank premises and equipment	7,622	1,248	510.7	%



Recovery of provisions for non-specific contingencies	14,793	1,246	1087.2	%
Other	440	1,232	(64.3	%)
Sub-total other income	23,978	5,030	376.7	%
Total other operating income	25,866	10,896	137.4	%

Other operating income totaled a gain of Ch\$25,866 million in 2009, an 137.4% increase from Ch\$10,896 million in 2008. In 2009, income from repossessed assets totaled Ch\$29 million, a 98.1% decline compared to the corresponding period in 2008, mainly due to the economic downturn, which led to us holding on to repossessed assets for longer periods. Income from the sale of investments in other companies decreased by 57.2% mainly as a result of a Ch\$1,847 million gain from the sale of shares in Visa Inc. and MasterCard in the first half of 2009,

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compared to a Ch\$974 million one-time gain from the sale of shares in the Santiago Stock Exchange and a Ch\$3,368 million one-time gain from the sale of shares in Visa Inc. in the first half of 2008.

The gains from the sale of Bank premises and equipment increased 510.7% to Ch\$7,622 million. This result includes a one-time gain of Ch\$7,072 million from the sale of a building in December 2009.

Finally, gains from the recovery of provisions for non-specific contingencies increased 1,087.2% to Ch\$14,793 million. This figure includes the reversal during 2009 of non-specific contingencies, recognized at the beginning of 2009 and previous periods, as the Bank assigned specific credit provisions to loans, which were reflected under provision for loan losses, as a result of recalibration of its credit models (See Provision Expense and Note 36(a) to our Audited Consolidated Financial Statements.

## Provision for loan losses

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

	Year ended December 31,		% Change	
	2009	2008	2009/2008	
	(in millions of Ch\$)			
Gross provision expenses(1)	(77,290 )	(51,505 )	50.1	%
Charge-offs	(295,831 )	(274,372 )	7.8	%
Recoveries of loans previously charged-off	39,274	37,894	3.6	%
Provision expenses, net	(333,847 )	(287,983 )	15.9	%
Period-end loans(2)	13,751,276	14,681,088	(6.3	%)
Past due loans(3)	193,250	160,824	20.2	%
Non-performing loans(4)	409,067	383,458	6.7	%
Substandard loans(5)	1,485,737	870,259	70.7	%
Loan loss allowance(6)	349,527	274,240	27.5	%
Non-performing loans / period-end loans(4)	2.97	%	2.61	%
Past due loans / period-end loans	1.41	%	1.10	%
Expected loan loss ratio(7)	2.54	%	1.87	%
Coverage ratio non-performing loans(8)	85.44	%	71.52	%
Coverage ratio past due loans(9)	180.87	%	170.52	%

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

(2) Includes Ch\$95,534 million in 2008 and Ch\$23,412 million in 2009 in interbank loans.

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

(4) Non-performing loans include the aggregate unpaid principal and accrued but unpaid interest on all loans with at least one installment over 90 days overdue. December 31, 2008 non-performing loans amount is as reported on January 1, 2009.

(5) Substandard loans prior to December 2009 include: (i) all non-performing loans, (ii) all renegotiated consumer loans, and (iii) all commercial loans that are at risk of default. As of December 31, 2009, substandard loans include: (i) all loans to a single client that are evaluated on a group basis, including performing loans, that have a loan classified as non-performing, (ii) all renegotiated consumer loans and (iii) all commercial loans at risk of default. See Note 10(a) of the Consolidated Financial Statements. As a result of this change in definition

substandard loans as of December 31, 2009 are not comparable to December 31, 2008 figures.

- (6) Includes Ch\$35 million in 2008 and Ch\$42 million in 2009 in loan loss allowances for interbank loans.
- (7) Loan loss allowance divided by total loans.
- (8) Loan loss allowance divided by non-performing loans.
- (9) Loan loss allowance divided by past due loans.

Net provision expense for loan losses totaled Ch\$287,983 million for the year ended December 31, 2009, an increase of 15.9% compared to 2008.

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Gross provision expense increased by 50.1% to Ch\$77,290 million in 2009 compared to the corresponding period in 2008. This rise was mainly due to the recalibration of our consumer credit scoring model. All consumer loans are now assigned a provision at the moment a loan is granted that depends on the risk profile of the client. In addition, the historical time period used for statistically determining the risk level of consumer loans was shortened in the first half of 2009 from 21 months to 18 months for non-renegotiated loans and 12 months for renegotiated loans. This recalibration was done in order to increase the weighting of the time period in which the economic downturn has been affecting the risk levels of the consumer loan book. The Bank also made some adjustments to its commercial loan portfolio credit scoring models in 2009. In total these changes resulted in approximately Ch\$35,000 million in additional provisions in 2009 of which Ch\$32,000 million were with respect to loans to individuals and Ch\$3,000 million the commercial loan book. The rise in gross provisions was also due to an increase in risk of the commercial loan book, especially in the salmon sector. The following table shows provision expense by type of loan:

Gross provision expense by loan product	Year ended December		% Change 2009/2008	
	31, 2009	2008		
	(in millions of Ch\$)			
Consumer loans	(19,030 )	(12,207 )	55.9	%
Residential mortgage loans	(3,903 )	(3,044 )	28.2	%
Commercial loans	(53,042 )	(35,812 )	48.1	%
Contingent loans (off-balance sheet)	(1,308 )	(407 )	221.4	%
Interbank loans	(7 )	(35 )	80.0	%
Total gross provisions	(77,290 )	(51,505 )	50.1	%

Charge-offs increased 8.1% in 2009 compared to 2008, totaling Ch\$296,526 million. This was mainly due to a 48.2% increase in charge-offs in the commercial loan portfolio in 2009 compared to 2008 as a result of the economic downturn that hurt asset quality in various sectors of the economy. Charge-offs in the consumer loan portfolio increased 1.1%. The following table shows charge-offs by type of loan.

Charge-offs by loan product	Year ended December		% Change 2009/2008	
	31, 2009	2008		
	(in millions of Ch\$)			
Consumer loans	(239,005 )	(236,405 )	1.1	%
Residential mortgage loans	(8,708 )	(5,032 )	73.1	%
Commercial loans	(48,118 )	(32,935 )	46.1	%
Total charge-offs	(295,831 )	(274,372 )	7.8	%

Recoveries on loans previously charged off increased by 3.6% in from to 2008. This was mainly due to increased collection efforts by our commercial teams, whose compensation was revised in 2009 to provide greater incentives to increase recoveries. The increased participation by our commercial teams in the recovery process and our efforts toward controlling initial non-performance has had a positive effect on the levels of loan loss recoveries in the period.

Recovery of loans previously charged-off	Year ended December		% Change 2009/2008	
	31, 2009	2008		
	(in millions of Ch\$)			
Consumer loans	28,268	26,718	5.8	%
Residential mortgage loans	2,560	1,932	32.5	%
Commercial loans	8,446	9,244	(8.6)	%

Total recoveries	39,274	37,894	3.6	%
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The following table sets forth, for the periods indicated our provision expense broken down by business segment.

	Year ended December		% Change 2009/2008	
	31, 2009	2008		
	(in millions of Ch\$)			
Individuals	(230,503 )	(221,715 )	4.0	%
Small and mid sized companies (SMEs)	(76,075 )	(53,669 )	41.7	%
Institutional	(327 )	(290 )	12.8	%
Total retail	(306,905 )	(275,674 )	11.3	%
Total middle-market (Companies)	(24,333 )	(16,188 )	50.3	%
Global banking & markets	(2,511 )	(759 )	230.8	%
Other	(98 )	4,638	(102.1	%)
Total provisions, net	(333,847 )	(287,983 )	15.9	%

By business segment, the 15.9% increase in provision was provision expense was mainly due to the 41.7% increase in net provision expense among SMEs, the middle market and global banking and markets. This rise was due to an increase in risk of the commercial loan book as a result of the economic downturn and higher provisions in the salmon sector, which are mainly middle market clients.

Net provision expense among individuals only increased 4.0% in 2009 compared to 2008. During 2009, we also sought to reduce exposure to the riskiest consumer loans. Loan growth in Santander Banefe, the Bank's business segment for mid-lower income individuals, decreased 12.7% in 2009 compared to 2008. This was offset by an 8.4% increase in lending to individuals in Banca Comercial that encompasses mainly the less riskier mid-upper income individuals. We also modified our collection procedures for short-term non-performing consumer loans (< 90 days and before being charged-off) by placing commercial teams as the main responsible for performing this task instead of the collections area. This was done by increasing the weighting of recoveries on variable incentives for commercial teams and improving IT systems so commercial teams could receive more quickly alerts regarding their client base.

Asset quality indicators deteriorated in 2009 as a result of the economic recession, but with a more favorable evolution in the second half of the year. The expected loss ratio, loan loss allowances over total loans, which measures how much we expect to lose on our loan book, according to our internal models and the Superintendency of Banks guidelines, reached 2.54% as of December 31, 2009 compared to 1.87% as of December 31, 2008. The ratio of past due loans as a percentage of total loans reached 1.41% as of December 31, 2009 compared to 1.10% as of December 31, 2008. Total non-performing loans, a new measure of asset quality introduced in 2009, which includes not only the past due installments, but also the full balance of any loan with one or more installments more than 90 days overdue, reached 2.97% as of December 31, 2009 compared to 2.61% as of December 31, 2008.

We believe that our loan loss allowances are currently adequate for all known and expected losses. In 2010 our required loan loss allowances will be impacted by the effects of the recent earthquake on asset quality, in addition to the normal evolution of our business. On February 27, 2010, areas of Chile were affected by an earthquake. These areas should be negatively affected economically and therefore asset quality indicators should deteriorate in these areas. The Bank's loan exposure to the areas most affected (Regions VI-VIII) is approximately Ch\$1,658,845 million or 11.8% of the Bank's loan portfolio as of February 28, 2010. We are currently unable to estimate the extent of the earthquake's impact on asset quality because not enough time has passed since the earthquake, although the impact could be material. See "Risk Factors— The recent earthquake in Chile is likely to adversely affect the quality of our loan portfolio in segments of the Chilean economy that have been negatively affected and, as a result, is likely to negatively affect, as a result, is likely to negatively."



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## Operating expenses

The following table sets forth information regarding our operating expenses in the year ended December 31, 2008 and 2009.

	Year ended December		% Change	
	2009	31, 2008	2009/2008	
	(in millions of Ch\$)			
Personnel salaries and expenses	(224,484 )	(246,775 )	(9.0	%)
Administrative expenses	(136,712 )	(133,682 )	2.3	%)
Depreciation and amortization	(46,623 )	(47,627 )	(2.1	%)
Impairment	(75 )	(84 )	(10.7	%)
Other operating expenses	(36,662 )	(36,298 )	1.0	%)
Total operating expenses	(444,556 )	(464,466 )	(4.3	%)
Efficiency ratio (1)	34.0	% 37.6	%	

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

Operating expenses in 2009 decreased by 4.3% compared to 2008. The efficiency ratio improved from 37.6% in 2008 to 34.0% in 2009. The 9.0% decrease in personnel salaries and expenses was mainly due to the 5.3% reduction in average headcount, an 82.7% reduction in severance payments and other cost saving measures.

Administrative expenses increased 2.3% in 2009 compared to 2008, mainly due to higher rent expenses for branch and ATM locations.

The impact on administrative expenses from the earthquake, net of insurance proceeds, recognized in 2010 is expected to be US\$6 million.

Depreciation and amortization expense decreased by 2.1%, mainly due to lower depreciation expense of real estate as we spent less on improvements and remodeling and lower depreciation of intangibles as three important computer systems completed their depreciation schedule in 2008.

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

	Year ended December		% Change	
	2009	31, 2008	2009/2008	
	(in millions of Ch\$)			
Individuals	(268,934 )	(281,532 )	(4.5	%)
Small and mid-sized companies	(58,741 )	(61,663 )	(4.7	%)
Institutional	(6,799 )	(7,189 )	(5.4	%)
Total retail	(334,474 )	(350,384 )	(4.5	%)
Total middle-market (Companies)	(30,628 )	(32,692 )	(6.3	%)
Global banking and markets	(29,485 )	(31,184 )	(5.4	%)
Other	(13,307 )	(13,908 )	(4.3	%)
Total personnel, administrative, depreciation and impairment expense	(407,894 )	(428,168 )	(4.7	%)



By business segment, the 4.7% decrease in personnel, administrative and depreciation expenses was mainly due to cost cutting and increases in productivity among all business segments.

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	Year ended December		% Change	
	2009	31, 2008	2009/2008	
Other operating expenses	(in millions of Ch\$)			
Reposessed asset expenses	(6,128 )	(3,178 )	92.8	%
Credit card expenses	(5,902 )	(7,286 )	(19.0	%)
Customer service expenses	(8,807 )	(9,366 )	(6.0	%)
Other expenses	(15,825 )	(16,468 )	(3.9	%)
Total	(36,662 )	(36,298 )	1.0	%

Other operating expenses were Ch\$36,662 million in 2009, a 1.0% increase compared to 2008. Other operating expenses include provisions and expenses related to reposessed assets, expenses related to our credit card business, customer service expenses mainly related to our call-center and other expenses such as non-credit charge-offs, the cost of insurance policies (mainly life insurance) over products, tax paid on interest of foreign debt issued by us. Other operating expenses also include provisions for contingencies that may be non-specific credit or other impairments such as tax and legal contingencies. The rise in other expenses was mainly due to a 92.8% rise in expenses related to reposessed assets, which was a results of an increase in provisions for reposessed assets in line with the economic downturn and higher expenses to maintain reposessed assets.

## Income tax

	Year ended December		% Change	
	2009	31, 2008	2009/2008	
Income before tax	(in millions of Ch\$)			
Income before tax	525,534	480,709	9.3	%
Income tax	(88,924 )	(59,742 )	48.8	%
Effective tax rate(1)	16.9 %	12.4 %		

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

Our income tax expense increased by 48.0% in 2009 compared to 2008. As a consequence of the adoption of new accounting standards, our taxable income base changed, mainly as a result of the elimination of price level restatement. In a positive inflationary environment, we previously recognized a tax deductible loss from price level restatement in our income statement. In 2008, we recognized in our historical income statement a Ch\$78,027 million loss from price level restatement. Historical and non-restated income before taxes in 2008 totaled Ch\$394,745 million. The effective tax rate paid on non-restated historical income before taxes was 16.1% in 2008 compared to 16.9% in 2009. The statutory tax rate in Chile has not changed and is 17% on income before taxes. Going forward and in line with the Chilean government's proposal for financing the reconstruction of the areas of Chile affected by the earthquake the statutory corporate tax rate will rise to 20% in 2011 to gradually return to 17% by 2013.

	Year ended December 31,		% Change	
	2009	2008 (historical non-restated)	2009/2008	
	(in millions of Ch\$)			
Income before tax	525,534	394,745	33.1	%
Income tax	(88,924 )	(63,728 )	39.5	%

Effective tax rate(1)	16.9	%	16.1	%
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(1) The effective tax is the income tax divided by net income before tax.

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## E. Liquidity and Capital Resources

## Sources of Liquidity

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

The following table sets forth our contractual obligations and commercial commitments by time remaining to maturity. As of the date of the filing of this Annual Report, the Bank does not have significant purchase obligations. At December 31, 2009, the scheduled maturities of our contractual obligations and of other commercial commitments, including accrued interest, were as follows:

Contractual Obligations	Due within 1 year	Due after 1 year but within 3 years	Due after 3 years but within 6 years	Due after 6 years	Total
Deposits and other obligations (1)	6,035,291	1,006,289	23,157	11,535	7,076,272
Mortgage finance bonds	50,011	60,378	72,064	81,411	263,864
Subordinated bonds	-	132,110	172,832	287,084	592,026
Bonds	166,814	656,785	674,846	570,341	2,068,786
Chilean Central Bank borrowings:					
Credit lines for renegotiations of Loans	1,850	-	-	-	1,850
Other Central Bank borrowings	947,753	-	-	-	947,753
Borrowings from domestic financial institutions					
Investments under repurchase agreements	26,301	-	-	-	26,301
Foreign borrowings	1,812,296	206,343	-	-	2,018,639
Derivatives	375,097	370,429	329,440	273,940	1,348,906
Other obligations	37,898	8,097	33,523	67,393	146,911
<u>Total of cash obligations</u>	<u>9,620,163</u>	<u>2,440,431</u>	<u>1,305,862</u>	<u>1,291,704</u>	<u>14,658,160</u>

(1) Excludes demand deposit accounts and saving accounts.

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## Operational Leases

Certain bank premises and equipment are leased under various operating leases. Future minimum rental commitments as of December 31, 2009, under non-cancelable leases are as follows:

	As of December 31, 2009 (in millions of Ch\$)
Due within 1 year	12,161
Due after 1 year but within 2 years	11,201
Due after 2 years but within 3 years	9,139
Due after 3 years but within 4 years	7,685
Due after 4 years but within 5 years	6,478
Due after 5 years	22,240
<b>Total</b>	<b>68,904</b>

## Other Commercial Commitments

As of December 31, 2009, the scheduled maturities of other commercial commitments, including accrued interest, were as follows:

Other Commercial Commitments	Due within 1 year	Due after 1 year but within 3 years	Due after 3 years but within 6 years	Due after 6 years	Totals
	(in millions of Ch\$)				
Letters of credit issued	148,521	7,435	-	-	155,956
Letters of credit confirmed	33,239	2,417	162	-	35,818
Available credit lines	4,615,787	-	-	-	4,615,787
Guarantees	455,583	161,314	37,952	931	655,780
Other commercial commitments	153,482	15,980	469	-	169,931
<b>Total other commercial commitments</b>	<b>5,406,612</b>	<b>187,146</b>	<b>38,583</b>	<b>931</b>	<b>5,633,272</b>

## Risk-Weighted Assets and Regulatory Capital

We currently have regulatory capital in excess of the minimum requirement under the current Chilean regulations. According to the General Banking Law, a bank is required to have regulatory capital of at least 8% of its risk weighted assets, net of required loan loss allowances, and paid-in capital and reserves (i.e., the basic capital, as defined above) of at least 3% of its total assets, net of required loan loss allowances. For these purposes, the regulatory capital of a bank is the sum of (1) the bank's basic capital, (2) subordinated bonds issued by the bank valued at their placement price for an amount up to 50% of its basic capital; provided that the value of the bonds is required to be decreased by 20% for each year that elapses during the period commencing six years prior to their maturity, and (3) its voluntary allowances for loan losses, for an amount of up to 1.25% of its risk weighted assets. Santander Chile does not have goodwill, but if it did, this value would be required to be deducted from regulatory capital. When calculating risk weighted assets, the Bank also includes off-balance sheet contingent loans. The merger of Old Santander-Chile and Santiago required a special regulatory pre-approval of the Superintendency of Banks, which was granted on May 16, 2002. The resolution granting this pre-approval imposed a regulatory capital to risk weighted assets ratio of 12% for the merged bank. This requirement was reduced to 11% by the Superintendency of Banks 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, 2008 and 2009.

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	Consolidated assets		Risk-weighted assets	
	2009	2008	2009	2008
	(Ch\$ million)			
Asset Balance (Net of allowances)				
Cash and deposits in bank	2,043,458	855,411	-	-
Unsettled transactions	468,134	335,405	191,287	58,580
Trading investments	798,539	1,166,426	41,918	97,594
Investments under resale agreements	14,020	-	14,020	-
Financial derivative contracts	1,391,886	1,459,901	837,692	844,892
Interbank loans	23,370	95,499	4,674	19,100
Loans and accounts receivables from customers	13,378,379	14,311,349	11,717,337	12,721,633
Available for sale investments	1,830,090	1,580,240	154,089	167,995
Investments in other companies	7,417	7,277	7,417	7,277
Intangibles assets	77,260	68,232	77,260	68,232
Property, plant and equipment	184,122	200,389	184,122	200,389
Current taxes	4,541	18,715	454	1,872
Deferred taxes	95,229	88,825	9,523	8,883
Other assets	452,559	508,655	269,313	382,452
Off-balance sheet assets				
Contingent loans	1,160,118	1,240,690	693,009	735,126
Total	21,929,122	21,937,014	14,202,115	15,314,025
				Ratio
	2009	2008	2009	2008
	(Ch\$ million)		%	%
Basic capital	1,658,316	1,489,689	7.56	(1) 6.79
Regulatory capital	2,214,092	2,104,225	15.59	(2) 13.74

(1) As a percentage of total assets.

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

### Financial Investments

The following table sets forth our investment in Chilean government and corporate securities and certain other financial investments at the dates indicated. Financial investments that have a secondary market are carried at market value. All other financial investments are carried at acquisition cost, plus accrued interest and indexation readjustments, as applicable. Interest income from the trading portfolio is no longer included as interest income, but as income from trading and mark-to-market of securities.

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## a) Trading

	As of December 31,	
	2009	2008
	(in millions of Ch\$)	
Chilean Central Bank and Government Securities		
Chilean Central Bank bonds	667,703	786,263
Chilean Central Bank notes	63,868	218,355
Other Chilean Central Bank and government securities	29,806	71,739
Subtotal	761,377	1,076,357
Other Chilean Securities		
Time deposits in Chilean financial institutions	-	-
Mortgage bonds of Chilean financial institutions	11	2,787
Chilean financial institutions bonds	-	3,030
Chilean corporate bonds	-	24,832
Other Chilean securities	-	-
Subtotal	11	30,649
Foreign Financial Securities		
Other foreign financial instruments	-	-
Subtotal	-	-
Investments in mutual funds		
Funds managed by related entities	37,151	59,420
Subtotal	37,151	59,420
Total	798,539	1,166,426



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## b) Available for sale

	As of December 31,	
	2009	2008
	(in millions of Ch\$)	
Chilean Central Bank and Government Securities		
Chilean Central Bank bonds	1,063,879	690,123
Chilean Central Bank notes	264,011	49,204
Other Chilean Central Bank and government securities	212,362	93,128
Subtotal	1,540,252	832,455
Other Chilean Securities		
Time deposits in Chilean financial institutions	41,407	1,305
Mortgage bonds of Chilean financial institutions	236,847	284,033
Chilean corporate bonds	11,584	13,522
Subtotal	289,838	298,860
Others Financial Securities		
Central Bank and Government Foreign Securities	-	-
Other Foreign financial securities(1)	-	448,925
Subtotal	-	448,925
<b>Total</b>	<b>1,830,090</b>	<b>1,580,240</b>

(1) Corresponds to overnight dollar deposits in the U.S.

## c) Held-to-maturity

No financial investments were classified as held-to-maturity as of December 31, 2008 and 2009.

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The following table sets forth an analysis of our investments as of December 31, 2009, by remaining maturity and the weighted average nominal rates of such investments.

	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)										
Held for Trading										
Central Bank and Government Securities										
Central Bank bonds	639,870	1.5 %	25,850	2.2 %	1,983	3.2 %	–	–	667,703	1.5 %
Central Bank notes	26,551	3.4 %	32,599	2.4 %	1,250	3.0 %	3,468	2.8 %	63,868	2.8 %
Other Chilean Central Bank and Treasury securities	–	– %	12,813	2.8 %	16,993	3.5 %	–	–	29,806	3.2 %
Subtotal	666,421		71,262		20,226		3,468		761,377	
Other Chilean Securities										
Mortgage finance bonds	–	– %	–	– %	–	– %	11	4.0 %	11	4.0 %
Chilean financial institutions bonds	–	– %	–	– %	–	– %	–	– %	–	– %
Chilean corporate bonds	–	– %	–	– %	–	– %	–	– %	–	– %
Subtotal	–		–		–		11		11	
Investment in mutual funds										
Mutual funds administered by related parties										
Subtotal	37,151	0.1 %	–		–		–		37,151	0.1 %
Total	703,572		71,262		20,226		3,479		798,539	

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	Weighted average Within one year	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 percentages )										
Available-for-sale Investments										
Central Bank and Government Securities										
Central Bank										
Bonds	310,326	0.8 %	537,921	2.9 %	205,813	4.1 %	9,819	3.1 %	1,063,879	2.5 %
Central Bank notes	198,877	0.1 %	63,533	0.2 %	1,601	1.8 %	–	– %	264,011	0.1 %
Others securities	10,838	1.5 %	5,800	2.8 %	177,653	4.9 %	18,071	3.2 %	212,362	4.5 %
Subtotal	520,041		607,254		385,067		27,890		1,540,252	
Other Chilean Securities										
Deposits in Chilean Financial Institutions	41,407	0.1 %	–	– %	–	– %	–	– %	41,407	0.1 %
Mortgage Finance Bonds	28	5.4 %	2,125	3.6 %	26,073	3.8 %	208,621	3.9 %	236,847	3.9 %
Chilean Corporate Bonds	–	– %	11,584	4.9 %	–	– %	–	– %	11,584	4.9 %
Subtotal	41,435	– %	13,709	– %	26,073	– %	208,621	– %	289,838	– %
Total	561,476	– %	620,963	– %	411,140	– %	236,511	– %	1,830,090	– %

Credit Risk Ratings

The Bank also has credit ratings from three international agencies.

Moody's	Rating
Long-term foreign currency bank deposits	Aa3
Senior bonds	Aa3
Subordinated debt	A1
Bank Deposits in Local Currency	Aa3
Bank financial strength	B-
Short-term deposits	P-1
Outlook	Stable
Standard & Poor's	Rating

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Long-term Foreign Issuer Credit	A+
Long-term Local Issuer Credit	A+
Short-term Foreign Issuer Credit	A-1
Short-term Local Issuer Credit	A-1
Outlook	Stable

Fitch	Rating
Foreign Currency Long-term Debt	A+
Local Currency Long-term Debt	A+
Foreign Currency Short-term Debt	F1
Local Currency Short-term Debt	F1
Individual rating	B
Outlook	Stable

On June 15, 2009, Moody's downgraded the credit risk ratings of 25 Spanish banks, but maintained the rating of our parent company, but with negative outlook. Any adverse revisions to our parent company's ratings and/or Chile's credit ratings for domestic and international debt by international rating agencies may adversely affect our ratings. In 2010 Fitch ratings performed a similar downgrade of Spanish banks. Our ratings may also be negatively affected by a worsening of our financial condition, especially in terms of asset quality indicators.

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On June 16, 2010, Moody's upgraded the Bank's foreign currency rating to Aa3 in line with a similar action to Chile's sovereign rating.

### Working Capital

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

### Liquidity Management

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

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

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

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

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

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## Cash Flow

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

Millions of Ch\$	Year ended December 31,	
	2009	2008
Net cash provided by operating activities	1,323,587	(10,324 )

Cash provided by operating activities totaled Ch\$1,323,587 million in 2009 as a result of higher business activity, bond issuances and the decrease of our loan book. This was partially offset by the decrease in deposits. The Ch\$(10,324) million in cash consumed by operating activities in 2008 was mainly due to an increase in the Bank's loan book offset in part by the rise in deposits.

Millions of Ch\$	Year ended December 31,	
	2009	2008
Net cash provided by investment activities	(28,129 )	(45,339 )

Net cash used in investing activities in 2009 totaled Ch\$28,129 million. The largest consumption of cash involved the purchase of fixed and intangible assets offset in part by the sale of fixed assets. In 2008, the consumption of cash for investing totaled Ch\$45,339 million for the same reasons as in 2009.

Millions of Ch\$	Year ended December 31,	
	2009	2008
Net cash provided by financing activities	(172,065 )	(173,608 )

In 2009, the net cash used by financing activities totaled Ch\$172,065 million and the main consumption the redemption of bonds and dividends paid. In 2008 the consumption of cash by financing activities was due to similar reasons.

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## Deposits and Other Borrowings

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

	(millions of Ch\$, except percentages)					
	Average Balance	2009 % of Total Average Liabilities	Average Nominal Rate	Average Balance	2008 % of Total Average Liabilities	Average Nominal Rate
Savings accounts	100,294	0.5%	(1.0%)	100,520	0.5%	8.5%
Time deposits	8,355,446	41.8%	2.8%	8,343,001	45.1%	9.8%
Central Bank borrowings	297,346	1.5%	0.9%	58,546	0.3%	8.6%
Repurchase agreements	486,000	2.4%	2.9%	376,365	2.0%	10.6%
Mortgage finance bonds	301,501	1.5%	2.8%	372,493	2.0%	15.0%
Other interest bearing liabilities	3,909,793	19.6%	2.5%	3,373,806	18.3%	14.3%
Subtotal interest bearing liabilities	13,450,380	67.3%	2.6%	12,624,731	68.2%	11.1%
Non-interest bearing liabilities						
Non-interest bearing deposits	2,475,050	12.4%		2,456,747	13.3%	
Derivatives	1,387,026	6.9%		1,332,232	7.2%	
Other non-interest bearing liabilities	1,079,516	5.4%		769,286	4.2%	
Shareholders' equity	1,599,938	8.0%		1,299,098	7.1%	
Subtotal non-interest bearing liabilities	6,541,530	32.7%		5,857,363	31.8%	
Total liabilities	19,991,910	100.0%		18,482,094	100.0%	

Our most important source of funding is our time deposits. Average time deposits represented 41.8% of our average total liabilities and shareholders' equity in 2009. Our current funding strategy is to continue to utilize all sources of funding in accordance with their costs, their availability and our general asset and liability management strategy. Special emphasis is being placed on lengthening the maturities of time deposits with institutional clients and increasing in general our deposits from retail customers. We also intend to continue to broaden our customer deposit base and to emphasize core deposit funding. We have also followed the strategy in 2009 of increasing senior and subordinated bonds to increase the duration of liabilities and fund the growth of the mortgage portfolio. We believe that broadening our deposit base by increasing the number of account holders has created a more stable funding source.

## Composition of Deposits

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

	2009	2008
	(in millions of Ch\$)	
Demand deposits and other demand obligations		

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Current accounts	2,776,607	2,268,991
Other deposits and demand accounts	303,495	206,347
Other demand obligations	453,432	472,824
Subtotals	3,533,534	2,948,162
Time deposits and other time deposits		
Time deposits	4,219,392	9,476,024
Time saving accounts	98,985	102,951
Other time deposits	2,856,880	177,291
Subtotals	7,175,257	9,756,266
Total deposits and other commitments	10,708,791	12,704,428



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## Maturity of Deposits

The following table sets forth information regarding the currency and maturity of our deposits as of December 31, 2009, 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	0.1%	-	-	0.0%
Savings accounts	0.0%	3.7%	-	1.4%
Time deposits:				
Maturing within 3 months	75.9%	24.2%	77.8%	57.0%
Maturing after 3 but within 6 months	10.8%	12.0%	13.4%	11.6%
Maturing after 6 but within 12 months	7.9%	28.2%	8.8%	15.5%
Maturing after 12 months	5.3%	31.9%	0.0%	14.5%
Total time deposits	99.9%	96.3%	100.0%	98.6%
Total deposits	100.0%	100.0%	100.0%	100.0%

The following table sets forth information regarding the maturity of our outstanding time deposits in excess of US\$100,000 as of December 31, 2009.

	Ch\$	UF	Foreign Currencies	Total
		(in millions of Ch\$)		
Time deposits:				
Maturing within 3 months	2,338,964	644,901	618,582	3,602,447
Maturing after 3 but within 6 months	399,730	342,275	120,692	862,697
Maturing after 6 but within 12 months	258,880	743,318	79,976	1,082,174
Maturing after 12 months	159,056	746,733	68	905,857
Total time deposits	3,156,630	2,477,227	819,318	6,453,175

## Short-term Borrowings

The principal categories of our short-term borrowings are amounts borrowed under foreign trade lines of credit, domestic interbank loans, Central Bank borrowings and repurchase agreements. 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.

	2009		2008	
	Balance	Weighted-Average Nominal Interest Rate	Balance	Weighted-Average Nominal Interest Rate
	in millions of Ch\$, except percentages			
Balances under repurchase agreements	166,852	0.2%	291,940	6.3%
Central Bank borrowings	947,753	0.5%	269,430	8.5%
Domestic interbank borrowings	26,301	0.4%	5,003	8.1%

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Borrowings under foreign trade credit lines	1,812,296	0.7%	1,107,997	1.9%
Total short-term borrowings	2,953,202	0.6%	1,674,370	3.7%

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

	2009		2008	
	Average Balance	Average Nominal Interest Rate	Average Balance	Average Nominal Interest Rate
	(in millions of Ch\$, except percentages)			
Investment under repurchase agreements	486,000	2.9%	376,365	9.9%
Central Bank borrowings	297,346	0.9%	58,546	8.5%
Domestic interbank borrowings	81,767	1.7%	43,341	8.1%
Borrowings under foreign trade credit lines	1,433,710	1.9%	1,276,543	3.9%
Total short-term borrowings	2,298,823	2.0%	1,754,795	5.4%

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

In millions of Ch\$	Maximum 2009	Maximum 2008
	Month-End Balance	Month-End Balance
Investment under repurchase agreements	1,165,241	425,463
Central Bank borrowings	2,711	2,675
Domestic interbank borrowings	256,717	154,101
Borrowings under foreign trade credit lines	2,014,913	1,751,620
Total short-term borrowings	3,439,582	2,333,859

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## Total Borrowings

	As of December 31, 2009		
	Long-term	Short-term	Total
	(in millions of Ch\$)		
Central Bank Credit lines for renegotiations of loans (a)	-	1,850	1,850
Investment under repurchase agreements	-	1,114,605	1,114,605
Mortgage finance bonds (b)	213,853	50,011	263,864
Senior bonds (c)	1,901,972	166,814	2,068,786
Subordinated bonds (d)	592,026	-	592,026
Borrowings from domestic financial institutions	-	26,301	26,301
Foreign borrowings (e)	206,343	1,812,296	2,018,639
Other obligations (f)	109,013	37,898	146,911
<b>Total borrowings</b>	<b>3,023,207</b>	<b>3,209,775</b>	<b>6,232,982</b>

	As of December 31, 2008		
	Long-term	Short-term	Total
	(in millions of Ch\$)		
Central Bank Credit lines for renegotiations of loans (a)	-	3,012	3,012
Investment under repurchase agreements	853	561,370	562,223
Mortgage finance bonds	289,913	54,767	344,680
Senior bonds	1,362,198	256,582	1,618,780
Subordinated bonds	687,912	-	687,912
Borrowings from domestic financial institutions	-	5,003	5,003
Foreign borrowings	309,055	1,107,997	1,417,052
Other obligations	32,277	99,041	131,318
<b>Total borrowings</b>	<b>2,682,208</b>	<b>2,087,772</b>	<b>4,769,980</b>

## (a) Interbank borrowings

As of December 31, 2009 and December 31, 2008, interbank borrowings are summarized as follows:

Ch\$ million	As of December 31,	
	2009	2008
Central Bank borrowings	1,850	3,012
Financial entities borrowings	26,301	5,003
Foreign Financial entities borrowings	2,018,639	1,417,052
<b>Total</b>	<b>2,046,790</b>	<b>1,425,067</b>

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## Credit lines for renegotiations of loans

Central Bank borrowings include credit lines for the renegotiations of loans and other Central Bank borrowings. These credit lines were provided by the Central Bank for the renegotiations of loans due to the need to refinance debts as a result of the economic recession and crisis of the banking system in the early 1980s. The lines for the renegotiations, which are considered long-term, are related with mortgage loans linked to the UF index and bore a real annual interest rate of 3% as of December 31, 2008 and 2009. The maturities of the outstanding amounts due under these credit lines, which are considered long-term, are as follows:

	As of December 31, 2009 (in millions of Ch\$)
Due within 1 year	1,850
Total	1,850

## (b) Mortgage finance bonds

These bonds are used to finance the granting of mortgage loans. The outstanding principal amounts of the bonds are amortized on a quarterly basis. The range of maturities of these bonds is between five and twenty years. The bonds are linked to the UF index and bear a real weighted-average annual interest rate of 4.6% and 4.7% as of December 31, 2008 and 2009, respectively. The following table sets forth the remaining maturities of our mortgage finance bonds at December 31, 2009.

	As of December 31, 2009 (in millions of Ch\$)
Due within 1 year	50,011
Due after 1 year but within 2 years	31,804
Due after 2 years but within 3 years	28,574
Due after 3 years but within 4 years	23,277
Due after 4 years but within 5 years	27,350
Due after 5 years	102,848
Total mortgage finance bonds	263,864

## (c) Senior Bonds

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

	As of December 31,	
	2009	2008
	(in millions of Ch\$)	
Santander bonds denominated in UF	1,660,877	1,362,198
Santander bonds denominated in US\$	407,909	256,582
Total bonds	2,068,786	1,618,780



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The maturities of these bonds are as follows:

	As of December 31, 2009 (in millions of Ch\$)
Due within 1 year	166,814
Due after 1 year but within 2 years	218,339
Due after 2 years but within 3 years	438,446
Due after 3 years but within 4 years	378,064
Due after 4 years but within 5 years	171,647
Due after 5 years	695,476
Total bonds	2,068,786

In 2009 the Bank also issued senior bonds for UF 16,289,000 and USD 800,000,000.

Bonds Series	Amount	Term	Issue Rate	Issue Date	Maturity Date
F1	UF 3,000,000	8 years	3.50% per annum simple	5/2/2008	5/2/2016
F2	UF 2,379,000	9 years	4.20% per annum simple	9/1/2008	9/1/2017
F3	UF 3,000,000	5 years	4.50% per annum simple	2/1/2009	2/1/2014
F4	UF 3,000,000	4 years	4.50% per annum simple	2/1/2009	2/1/2013
F5	UF 3,000,000	4.5 years	2.50% per annum simple	5/1/2009	11/1/2013
F6	UF 3,000,000(*)	5 years	3.50% per annum simple	9/1/2009	9/1/2014
F7	UF 3,000,000(**)	4.5 years	3.30% per annum simple	11/1/2009	5/1/2014
Total	UF 20,379,000				
144 A	USD 500,000,000	3 years	2.88% per annum simple	11/13/2009	11/13/2012
144 A	USD 300,000,000	3 years	2.88% per annum simple	11/13/2009	11/13/2012
Total	USD 800,000,000				

(\*) On September 1, 2009 a line of bank bonds totaling UF 3,000,000 corresponding to Series F6 with a 5-year term was registered in the SBIF's Registry of Securities. The F6 bond has an unplaced face value of UF 1,090,000 as of December 31, 2009.

(\*\*) On November 1, 2009 a line of bonds totaling UF 3,000,000 corresponding to Series F7 with a 4.5-year term was registered in the Superintendency of Banks and Financial Institutions' registry of securities. No placements of this bond have been made in the current fiscal year.

(d) Subordinated bonds

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

	As of December 31,	
	2009	2008
	(in millions of Ch\$)	
Subordinated bonds denominated in US\$	278,087	364,410
Subordinated bonds linked to the UF	313,939	323,502
Total subordinated bonds	592,026	687,912



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

	As of December 31, 2009 (in millions of Ch\$)
Due within 1 year	-
Due after 1 year but within 2 years	12,899
Due after 2 years but within 3 years	119,211
Due after 3 years but within 4 years	-
Due after 4 years but within 5 years	158,876
Due after 5 years	301,040
Total subordinated bonds	592,026

In 2009, the Bank issued subordinated bonds in the local market for UF 300,000 (Ch\$6,283 million), as follows:

Subordinated  
bonds

Series	Amount	Term	Issue rate	Issue date	Maturity date
G2 (*)	UF 300,000	30 years	4.8% per annum simple	9/1/2008	3/1/2038
Total	UF 300,000				

(\*) As of December 31, 2009 there are unplaced Series G2 bonds with a U.F. face value 1,950,000.

(e) Foreign borrowings

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

	As of December 31, 2009 (in millions of Ch\$)
Due within 1 year	1,812,296
Due after 1 year but within 2 years	206,343
Total foreign borrowings	2,018,639

The foreign borrowings are denominated principally in U.S. dollars, and are principally used to fund the Bank's foreign trade loans, and bear an annual average interest rate of 3.9% and 1.4% at December 31, 2008 and 2009,

respectively.

(f) Other obligations

Other obligations are summarized as follows:

	As of December 31, 2009 (in millions of Ch\$)
Due after 1 year but within 2 years	4,583
Due after 2 years but within 3 years	3,515
Due after 3 years but within 4 years	3,556
Due after 4 years but within 5 years	27,868
Due after 5 years	69,491
Total long term obligations	109,013
Amounts due to credit card operators	31,045
Other obligations, due in less than 1 year	6,853
Total short-term obligations	37,898
Total other obligations	146,911

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## Other Off-Balance Sheet Arrangements and Commitments

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

The following table presents the Bank's outstanding contingent loans as of December 31, 2008 and 2009:

	As of December 31,	
	2009	2008
	(in millions of Ch\$)	
Issued and documented letters of credit	155,956	181,381
Confirmed foreign letters of credit	35,818	122,783
Documented guarantees	655,780	766,727
Other guarantees	169,931	172,568
Subtotals	1,017,485	1,243,459
Lines of credit with immediate availability	4,615,787	4,041,849
Totals	5,633,272	5,285,308

## Asset and Liability Management

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

## Capital Expenditures

The following table reflects capital expenditures in each of the three years ended December 31, 2008 and 2009:

	Year Ended December	
	31,	
	2009	2008
	(in millions of Ch\$)	
Land and Buildings	5,730	10,310
Machinery and Equipment	5,085	5,949
Furniture and Fixtures	202	2,304
Vehicles	678	589
Other	61	410
Total	11,756	19,562

The decrease in capital expenditures in 2009 compared to 2008 was mainly due to the lower investment in branches and ATMs. We expect to invest US\$376 million in branches, ATMs, phone banking, internet banking and other client

relationship systems between 2010 and 2012. We expect to spend US\$6.0 million in costs related to the earthquake.

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## F. Selected Statistical Information

The following information is included for analytical purposes and should be read in conjunction with our Audited Consolidated Financial Statements as well as the discussion in the section entitled “Management’s Discussion and Analysis of our Financial Condition and Results of Operations.” The UF is linked to, and is adjusted daily to, reflect changes in the previous month’s Chilean consumer price index. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Impact of Inflation. The following tables show, by currency of denomination, average balances and, where applicable, interest amounts and real rates for our assets and liabilities for the years ended December 31, 2008 and 2009.

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

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

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

Where:

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

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

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

Nd = nominal average rate for foreign currency-denominated assets and liabilities for the period;

D = devaluation rate of the Chilean peso to the U.S. dollar for the period; and

I = inflation rate in Chile for the period (based on the variation of the Chilean Consumer Price Index).

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

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

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

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

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

The following tables show, by currency of denomination, average balances and, where applicable, interest amounts and real rates for our assets and liabilities for the years ended December 31, 2008 and 2009.

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	Year ended December 31,							
	2009				2008			
	Average	Interest	Average	Average	Average	Interest	Average	Average
	Balance	Earned	Real	Nominal	Balance	Earned	Real	Nominal
			Rate	Rate			Rate	Rate
	(in millions of Ch\$, except for rate data)							
<b>ASSETS</b>								
<b>INTEREST-EARNING</b>								
<b>ASSETS</b>								
Deposits in Central Bank								
Ch\$	207,738	2,652	3.9%	1.3%	114,052	9,515	(0.5%)	8.3%
UF	–	–	–%	–%	–	–	–%	–%
Foreign currencies	–	–	–%	–%	–	–	–%	–%
Subtotal	207,738	2,652	3.9%	1.3%	114,052	9,515	(0.5%)	8.3%
Financial investments								
Ch\$	939,455	32,782	6.2%	3.5%	851,635	80,356	0.5%	9.4%
UF	547,220	4,507	3.5%	0.8%	614,704	51,794	(0.4%)	8.4%
Foreign currencies	486,051	5,840	(17.8%)	1.2%	900,291	5,888	19.1%	0.7%
Subtotal	1,972,726	43,129	(0.5%)	2.2%	2,366,630	138,038	7.3%	5.8%
Commercial Loans								
Ch\$	3,624,473	375,026	13.2%	10.4%	3,232,299	456,590	4.8%	14.1%
UF	2,822,742	111,952	6.7%	4.0%	3,015,409	410,113	4.3%	13.6%
Foreign currencies	1,053,718	53,074	(14.7%)	5.0%	1,076,102	60,080	24.9%	5.6%
Subtotal	7,500,933	540,052	6.9%	7.2%	7,323,810	926,783	7.6%	12.7%
Consumer loans								
Ch\$	2,018,473	501,981	28.1%	24.9%	1,835,824	449,591	14.3%	24.5%
UF	115,640	6,320	8.2%	5.5%	113,148	18,161	6.6%	16.1%
Foreign currencies	8,161	1	(18.8%)	–%	8,161	–	18.3%	–%
Subtotal	2,142,274	508,302	26.9%	23.7%	1,957,133	467,752	13.9%	23.9%
Mortgage loans								
Ch\$	6,028	535	11.7%	8.9%	14,359	1,310	0.2%	9.1%
UF	3,946,434	101,804	5.3%	2.6%	3,637,661	510,362	4.7%	14.0%
Foreign currencies	–	–	–%	–%	–	–	–%	–%
Subtotal	3,952,462	102,339	5.3%	2.6%	3,652,020	511,672	4.7%	14.0%
Interbank Loans								
Ch\$	19,532	262	4.0%	1.3%	16,838	1,077	(2.3%)	6.4%
UF	–	–	–%	–%	56	–	(8.2%)	–%
Foreign currencies	2,521	–	(18.8%)	–%	5,618	196	22.4%	3.5%
Subtotal	22,053	262	1.4%	1.2%	22,512	1,273	3.8%	5.7%
Investments under agreements to resell								
Ch\$	261,288	10,680	6.8%	4.1%	21,148	1,610	(1.2%)	7.6%
UF	852	31	6.4%	3.6%	–	–	–%	–%
Foreign currencies	198	6	(16.4%)	3.0%	–	–	–%	–%
Subtotal	262,338	10,717	6.8%	4.1%	21,148	1,610	(1.2%)	7.6%
Threshold								
Ch\$	–	–	–%	–%	–	–	–%	–%
UF	–	–	–%	–%	–	–	–%	–%

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Foreign currencies	205,068	325	(18.7%)	0.2%	224,449	4,703	20.8%	2.1%
Subtotal	205,068	325	(18.7%)	0.2%	224,449	4,703	20.8%	2.1%
Total interest-earning assets (1)								
Ch\$	7,076,987	923,918	16.0%	13.1%	6,086,155	1,000,049	6.9%	16.4%
UF	7,432,888	224,614	5.7%	3.0%	7,380,978	990,430	4.2%	13.4%
Foreign currencies	1,755,717	59,246	(16.1%)	3.4%	2,214,621	70,867	22.1%	3.2%
Subtotal	16,265,592	1,207,778	7.8%	7.4%	15,681,754	2,061,346	7.8%	13.1%



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	Year ended December 31,							
	2009				2008			
	Average Balance	Interest Earned	Average Real Rate	Average Nominal Rate	Average Balance	Interest Earned	Average Real Rate	Average Nominal Rate
(in millions of Ch\$, except for rate data)								
<b>NON-INTEREST-EARNING ASSETS</b>								
<b>Cash</b>								
Ch\$	398,396	–	–	–	275,180	–	–	–
UF	–	–	–	–	–	–	–	–
Foreign currencies	14,482	–	–	–	19,432	–	–	–
Subtotal	412,878	–	–	–	294,612	–	–	–
<b>Reserves for loan losses</b>								
Ch\$	(315,361)	–	–	–	(248,172)	–	–	–
UF	–	–	–	–	–	–	–	–
Foreign currencies	–	–	–	–	–	–	–	–
Subtotal	(315,361)	–	–	–	(248,172)	–	–	–
<b>Fixed Assets</b>								
Ch\$	215,789	–	–	–	257,548	–	–	–
UF	–	–	–	–	–	–	–	–
Foreign currencies	–	–	–	–	–	–	–	–
Subtotal	215,789	–	–	–	257,548	–	–	–
<b>Derivatives</b>								
Ch\$	1,708,712	–	–	–	1,861,855	–	–	–
UF	(184,072)	–	–	–	(1,507,963)	–	–	–
Foreign currencies	(7,390)	–	–	–	1,064,876	–	–	–
Subtotal	1,517,250	–	–	–	1,418,768	–	–	–
<b>Financial investments trading</b>								
(1)								
Ch\$	233,977	–	–	–	125,073	–	–	–
UF	726,009	–	–	–	308,302	–	–	–
Foreign currencies	45,029	–	–	–	28,367	–	–	–
Subtotal	1,005,015	–	–	–	461,742	–	–	–
<b>Other assets</b>								
Ch\$	688,310	–	–	–	184,142	–	–	–
UF	42,584	–	–	–	66,754	–	–	–
Foreign currencies	159,853	–	–	–	364,946	–	–	–
Subtotal	890,747	–	–	–	615,842	–	–	–
<b>Total non-interest earning assets</b>								
Ch\$	2,929,823	–	–	–	2,455,626	–	–	–
UF	584,521	–	–	–	(1,132,907)	–	–	–
Foreign currencies	211,974	–	–	–	1,477,621	–	–	–
Total	3,726,318	–	–	–	2,800,340	–	–	–
<b>TOTAL ASSETS</b>								
Ch\$	10,006,810	923,918	–	–	8,541,781	1,000,049	–	–
UF	8,017,409	224,614	–	–	6,248,071	990,430	–	–

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Foreign currencies	1,967,691	59,246	-	-	3,692,242	70,867	-	-
Total	19,991,910	1,207,778	-	-	18,482,094	2,061,346	-	-

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	Year ended December 31, 2009				2008			
	Average Balance	Interest Paid	Average Real Rate	Average Nominal Rate	Average Balance	Interest Paid	Average Real Rate	Average Nominal Rate
(in millions of Ch\$, except for rate data)								
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>								
<b>INTEREST-BEARING LIABILITIES</b>								
<b>Savings accounts</b>								
Ch\$	777	11	4.1%	1.5%	739	13	(6.5%)	1.8%
UF	99,517	(1,039)	1.6%	(1.0%)	99,781	8,516	(0.3%)	8.5%
Foreign currencies	-	-	-	-	-	-	-	-
Subtotal	100,294	(1,028)	1.6%	(1.0%)	100,520	8,529	(0.3%)	8.5%
<b>Time deposits</b>								
Ch\$	4,442,195	183,641	6.9%	4.1%	3,879,461	291,134	(1.3%)	7.5%
UF	2,490,859	19,618	3.4%	0.8%	2,958,841	368,973	3.3%	12.5%
Foreign currencies	1,422,392	26,614	(17.3%)	1.9%	1,504,699	55,842	(4.8%)	3.7%
Subtotal	8,355,446	229,873	1.7%	2.8%	8,343,001	715,949	(0.3%)	9.8%
<b>Central Bank borrowings</b>								
Ch\$	295,319	2,561	3.5%	0.9%	55,300	4,570	(0.6%)	8.3%
UF	2,027	(11)	2.1%	(0.5%)	3,246	386	2.8%	11.9%
Foreign currencies	-	-	-	-	-	-	-	-
Subtotal	297,346	2,550	3.5%	0.9%	58,546	4,956	(0.4%)	8.6%
<b>Repurchase agreements</b>								
Ch\$	461,168	13,454	5.6%	2.9%	311,307	34,487	2.0%	11.1%
UF	23,915	429	4.5%	1.8%	9,080	940	1.3%	10.4%
Foreign currencies	917	1	(18.7%)	0.1%	55,978	1,925	(5.0%)	3.4%
Subtotal	486,000	13,884	5.5%	2.9%	376,365	37,352	0.9%	10.6%
<b>Mortgage finance bonds</b>								
Ch\$	-	-	-	-	-	-	-	-
UF	301,501	8,391	5.5%	2.8%	372,493	55,713	5.6%	15.0%
Foreign currencies	-	-	-	-	-	-	-	-
Subtotal	301,501	8,391	5.5%	2.8%	372,493	55,713	5.6%	15.0%
<b>Other interest-bearing liabilities</b>								
Ch\$	141,415	8,173	8.6%	5.8%	99,390	10,697	(1.7%)	10.8%
UF	1,825,455	40,171	4.9%	2.2%	1,497,974	260,230	7.8%	17.4%
Foreign currencies	1,942,923	49,248	(16.6%)	2.5%	1,776,442	75,854	(4.2%)	4.3%
Subtotal	3,909,793	97,592	(5.7%)	2.5%	3,373,806	346,781	1.3%	14.3%
<b>Total interest-bearing liabilities</b>								
Ch\$	5,340,874	207,840	6.6%	3.9%	4,346,197	340,901	(1.0%)	7.8%
UF	4,743,274	67,559	4.1%	1.4%	4,941,415	694,758	4.7%	14.1%
Foreign currencies	3,366,232	75,863	(17.0%)	2.3%	3,337,119	133,621	(4.5%)	4.0%

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Total 13,450,380 351,262 (0.2%) 2.6% 12,624,731 1,169,280 0.3% 11.1%

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	Year ended December 31,							
	2009				2008			
	Average Balance	Interest Paid	Average Real Rate	Average Nominal Rate	Average Balance	Interest Paid	Average Real Rate	Average Nominal Rate
(in millions of Ch\$ except for rate data)								
<b>NON-INTEREST-BEARING LIABILITIES</b>								
Non-interest-bearing demand deposits								
Ch\$	2,458,860	-	-	-	2,455,741	-	-	-
UF	13,039	-	-	-	25	-	-	-
Foreign currencies	3,151	-	-	-	981	-	-	-
Subtotal	2,475,050	-	-	-	2,456,747	-	-	-
Derivatives								
Ch\$	1,059,863	-	-	-	1,027,615	-	-	-
UF	193,392	-	-	-	168,985	-	-	-
Foreign currencies	133,771	-	-	-	135,632	-	-	-
Subtotal	1,387,026	-	-	-	1,332,232	-	-	-
Other non-interest-bearing liabilities								
Ch\$	512,216	-	-	-	423,539	-	-	-
UF	287,124	-	-	-	244,874	-	-	-
Foreign currencies	280,176	-	-	-	100,873	-	-	-
Subtotal	1,079,516	-	-	-	769,286	-	-	-
Shareholders' Equity								
Ch\$	1,599,938	-	-	-	1,299,098	-	-	-
UF	-	-	-	-	-	-	-	-
Foreign currencies	-	-	-	-	-	-	-	-
Subtotal	1,599,938	-	-	-	1,299,098	-	-	-
Total non-interest-bearing liabilities and shareholders' equity								
Ch\$	5,630,877	-	-	-	5,205,993	-	-	-
UF	493,555	-	-	-	413,884	-	-	-
Foreign currencies	417,098	-	-	-	237,486	-	-	-
Total	6,541,530	-	-	-	5,857,363	-	-	-
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>								
Ch\$	10,971,751	207,840	-	-	9,552,190	340,901	-	-
UF	5,236,829	67,559	-	-	5,355,299	694,758	-	-
Foreign currencies	3,783,330	75,863	-	-	3,574,605	133,621	-	-
Total	19,991,910	351,262	-	-	18,482,094	1,169,280	-	-

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

The following table allocates, by currency of denomination, changes in our interest revenue and interest expense between changes in the average volume of interest-earning assets and interest-bearing liabilities and changes in their respective nominal interest rates for 2008 compared to 2007 and 2009 compared to 2008. 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.

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	Increase (Decrease) from 2008 to 2009 Due to Changes in			Net Change from 2008 to 2009
	Volume	Rate	Rate and Volume	
<b>ASSETS</b>				
Interest-earning assets				
Deposits in Central Bank				
Ch \$	7,745	(8,019)	(6,589)	(6,863)
UF	–	–	–	–
Foreign currency	–	–	–	–
Total	7,745	(8,019)	(6,589)	(6,863)
Financial investments				
Ch \$	8,230	(50,596)	(5,208)	(47,574)
UF	(5,673)	(46,741)	5,127	(47,287)
Foreign currency	(2,793)	4,711	(1,966)	(48)
Total	(236)	(92,626)	(2,047)	(94,909)
Commercial loans				
Ch \$	54,608	(121,432)	(14,740)	(81,564)
UF	(26,253)	(290,379)	18,471	(298,161)
Foreign currency	(1,161)	(5,980)	135	(7,006)
Total	27,194	(417,791)	3,866	(386,731)
Consumer loans				
Ch \$	44,382	7,283	725	52,390
UF	401	(11,978)	(264)	(11,841)
Foreign currency	–	1	–	1
Total	44,783	(4,694)	461	40,550
Mortgage loans				
Ch \$	(762)	(30)	17	(775)
UF	43,220	(416,573)	(35,205)	(408,558)
Foreign currency	–	–	–	–
Total	42,458	(416,603)	(35,188)	(409,333)
Interbank loans				
Ch \$	174	(853)	(136)	(815)
UF	–	–	–	–
Foreign currency	(108)	(196)	108	(196)
Total	66	(1,049)	(28)	(1,011)
Investments Under Agreements to Resell				
Ch \$	18,227	(744)	(8,413)	9,070
UF	–	–	31	31
Foreign currency	–	–	6	6
Total	18,227	(744)	(8,376)	9,107
Threshold				
Ch \$	–	–	–	–
UF	–	–	–	–
Foreign currency	(409)	(4,335)	366	(4,378)
Total	(409)	(4,335)	366	(4,378)
Total interest-earning assets				

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Ch \$	132,604	(174,391)	(34,344)	(76,131)
UF	11,695	(765,671)	(11,840)	(765,816)
Foreign currency	(4,471)	(5,799)	(1,351)	(11,621)
Total	139,828	(945,861)	(47,535)	(853,568)



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		Increase (Decrease) from 2008 to 2009			Net Change from 2008 to 2009
		Volume	Rate	Rate and Volume	
<b>LIABILITIES</b>					
Interest-bearing liabilities					
Savings accounts					
	Ch\$	1	(2)	(1)	(2)
	UF	(23)	(9,556)	24	(9,555)
	Foreign currencies	–	–	–	–
	Subtotal	(22)	(9,558)	23	(9,557)
Time deposits					
	Ch\$	42,473	(130,967)	(18,999)	(107,493)
	UF	(58,434)	(345,739)	54,818	(349,355)
	Foreign currencies	(3,100)	(27,585)	1,457	(29,228)
	Subtotal	(19,061)	(504,291)	37,276	(486,076)
Central Bank borrowings					
	Ch\$	19,885	(4,097)	(17,797)	(2,009)
	UF	(145)	(403)	151	(397)
	Foreign currencies	–	–	–	–
	Subtotal	19,740	(4,500)	(17,646)	(2,406)
Repurchase agreements					
	Ch\$	16,680	(25,457)	(12,256)	(21,033)
	UF	1,544	(780)	(1,275)	(511)
	Foreign currencies	(1,880)	(1,855)	1,811	(1,924)
	Subtotal	16,344	(28,092)	(11,720)	(23,468)
Mortgage finance bonds					
	Ch\$	–	–	–	–
	UF	(10,630)	(45,368)	8,676	(47,322)
	Foreign currencies	–	–	–	–
	Subtotal	(10,630)	(45,368)	8,676	(47,322)
Other interest-bearing liabilities					
	Ch\$	4,542	(4,967)	(2,099)	(2,524)
	UF	57,055	(227,400)	(49,714)	(220,059)
	Foreign currencies	7,360	(31,056)	(2,910)	(26,606)
	Subtotal	68,957	(263,423)	(54,723)	(249,189)
Total interest-bearing liabilities					
	Ch\$	83,581	(165,490)	(51,152)	(133,061)
	UF	(10,633)	(629,246)	12,680	(627,199)
	Foreign currencies	2,380	(60,496)	358	(57,758)
	Total	75,328	(855,232)	(38,114)	(818,018)

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## Interest-Earning Assets: Net Interest Margin

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

		2009	2008
		(in millions of Ch\$)	
Total average interest-earning assets			
	Ch\$	7,076,987	6,086,155
	UF	7,432,888	7,380,978
	Foreign currencies	1,755,717	2,214,621
	Total	16,265,592	15,681,754
Net interest earned (1)			
	Ch\$	716,078	659,148
	UF	157,055	295,672
	Foreign currencies	(16,617)	(62,754)
	Total	856,516	892,066
Net interest margin (2)			
	Ch\$	10.1%	10.8%
	UF	2.1%	4.0%
	Foreign currencies	(0.9%)	(2.8%)
	Total	5.3%	5.7%

(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.

Ch\$ million	2009	2008
Net income	436,610	420,967
Average total assets	19,991,910	18,482,094
Average equity	1,599,938	1,299,098
Net income as a percentage of:		
Average total assets	2.2%	2.3%
Average equity	27.3%	32.4%
Average equity as a percentage of:		
Average total assets	8.0%	7.0%

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

Year	Dividend Ch\$ mn (1)	Per share Ch\$/share (2)	Per ADR Ch\$/ADR (3)	% over	% over
------	-------------------------	-----------------------------	-------------------------	--------	--------

				earnings (4)	earnings (5)
2009	213,295	1.13	1,176.00	65	52
2010	258,751	1.37	1,426.63	60	60

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(1) Millions of nominal pesos.

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

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

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

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

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## 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,	
	2009	2008
	(Ch\$ million)	
Commercial Loans:		
Commercial loans	5,489,595	5,475,455
Foreign trade loans(1)	636,328	1,459,184
Loans with mortgage guarantee	92,911	121,400
Factoring operations	130,272	323,136
Leasing contracts	964,698	965,094
Other loans and accounts receivables from customers	10,958	11,591
Subtotal	7,324,762	8,355,860
Mortgage loans:		
Draft loans	175,592	228,722
Mortgage finance bonds	199,139	197,305
Other mortgage mutual loans	3,784,322	3,554,529
Leasing contracts	-	-
Other loans and accounts receivables from customers	-	-
Subtotal	4,159,053	3,980,556
Consumer loans:		
Installment consumer loans	1,378,044	1,347,142
Credit card loans	586,937	582,593
Consumer leasing contracts	3,835	4,865
Other consumer loans	275,233	314,538
Subtotal	2,244,049	2,249,138
Subtotal Loans to customers	13,727,864	14,585,554
Interbank loans	23,412	95,534
Total	13,751,276	14,681,088

(1) The decline in foreign trade loans is due to lower trade volume as a result of the global economic slowdown and a focus on higher yielding loans.

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, US\$ linked or denominated in US\$. The interest on these loans is fixed or variable and is used primarily to finance working capital or investments. General commercial loans also includes factoring operations.

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

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Mortgage loans financed with mortgage bonds 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.

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

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

Other outstanding loans include other loans and accounts payable.

### Residential mortgage loans

Draft 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 loans can be endorsed to a third party. These are financed by our general borrowings.

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

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

### Consumer loans

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

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

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

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

### Non-client loans

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



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## Maturity and Interest Rate Sensitivity of Loans

The following table sets forth an analysis by type and time remaining to maturity of our loans at December 31, 2009.

	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total balance at December 31, 2009
	(in millions of Ch\$)			
General commercial loans	2,414,031	1,954,832	1,120,732	5,489,595
Foreign trade loans	510,427	99,550	26,351	636,328
Leasing contracts	255,535	456,909	252,254	964,698
Other outstanding loans	146,796	87,345	–	234,141
Subtotal commercial loans	3,326,789	2,598,636	1,399,337	7,324,762
Residential loans backed by mortgage bonds	36,904	77,193	61,495	175,592
Other residential mortgage loans	250,723	732,598	3,000,140	3,983,461
Subtotal residential mortgage loans	287,627	809,791	3,061,635	4,159,053
Consumer loans	1,262,996	894,390	86,663	2,244,049
Subtotal	4,877,412	4,302,817	4,547,635	13,727,864
Interbank loans	23,412	–	–	23,412
Total loans	4,900,824	4,302,817	4,547,635	13,751,276

The following tables present the interest rate sensitivity of outstanding loans due after one year at December 31, 2009. (See also Item 5: D. Operating Results—Interest Rates.)

	As of December 31, 2009 (in millions of Ch\$)
Variable Rate	
Ch\$	689,171
UF	1,576,384
Foreign currencies	23,764
Subtotal	2,289,319
Fixed Rate	
Ch\$	3,143,448
UF	2,979,859
Foreign currencies	437,826
Subtotal	6,561,133
Total	8,850,452



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## Loans by Economic Activity

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

	Domestic loans (*) as of December 31,		Foreign loans as of December 31, (in millions of Ch\$)		Total loans as of December 31,		% of total loans as of December 31,	
	2009	2008	2009	2008	2009	2008	2009 %	2008 %
Commercial loans								
Manufacturing	640,395	937,305	–	–	640,395	937,305	4.66	6.39
Mining	67,057	323,269	–	–	67,057	323,269	0.49	2.20
Electricity, gas and water	144,386	207,542	–	–	144,386	207,542	1.05	1.41
Agriculture and livestock	610,909	647,897	–	–	610,909	647,897	4.44	4.41
Forestry	71,085	88,554	–	–	71,085	88,554	0.52	0.60
Fishing	127,025	170,934	–	–	127,025	170,934	0.92	1.16
Transport	362,508	423,856	–	–	362,508	423,856	2.64	2.89
Communications	164,077	192,750	–	–	164,077	192,750	1.19	1.31
Construction	817,293	887,391	–	–	817,293	887,391	5.94	6.04
Commerce	1,650,903	2,219,987	23,409	95,534	1,674,312	2,315,521	12.18	15.78
Services	288,256	395,840	–	–	288,256	395,840	2.10	2.70
Other	2,380,871	1,860,535	–	–	2,380,871	1,860,535	17.31	12.68
Subtotals	7,324,765	8,355,860	23,409	95,534	7,348,174	8,451,394	53.44	57.57
Mortgage loans	4,159,053	3,980,556	–	–	4,159,053	3,980,556	30.24	27.11
Consumer loans	2,244,049	2,249,138	–	–	2,244,049	2,249,138	16.32	15.32
Totals	13,727,867	14,585,554	23,409	95,534	13,751,276	14,681,088	100.00	100.00

(\*) As of March 31, 2010, foreign country loans, including foreign interbank deposits classified as financial investments totaled Ch\$35,763 million, representing 0.18% of our total assets.

## Classification of Loan Portfolio

## Credit Review Process

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

In addition, Banco Santander Spain is involved in the credit approval process of our largest loans and borrowers. If a single borrower or an economic group owes us an aggregate amount in excess of US\$40 million, any additional loan to such borrower or member of such group must be reported to Banco Santander Spain.

#### Credit Approval

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

Approved By	Maximum approval in Thousands of US\$
Executive Credit Committee	>20,000
Loan Credit Committee	20,000
Business Segment Committee	8,000-10,000
Large Companies	10,000
Real estate sector	10,000
Medium-sized companies	8,000
Regional Committee	5,000
Branch committee	300
Companies	300
Mortgage	120
Persons	30

The Executive Credit Committee is comprised of the Chairman of the Board, three additional Board members, the Corporate Legal Counsel, the CEO, the Manager of Global Banking, the Corporate Director of Risk and two senior members of the Credit Risk department who present the loans being reviewed. This committee reviews the loan positions reviewed by the Senior Credit Committee above US\$10 million and approves those loan positions greater than US\$20 million. In addition, any loan position above US\$40 million must also be reviewed by Banco Santander Spain's credit committee.

The Loan Credit Committee is comprised of the CEO, the Manager of the Wholesale segment, the Manager of the Medium-sized companies segment, General Counsel, the Corporate Director of Credit Risk and the Manager of Credit Admissions. The Loan Credit Committee reviews and will either approve or deny transactions in the range of US\$8 million to US\$20 million that have been previously approved by one of the Business Segment Committees: (i) Large Companies, (ii) Medium-sized Companies and (iii) Real Estate. The Regional Committees have a maximum approval of up to US\$5 million. The Regional Committees oversee the branch networks outside of Santiago. At the branch level, the maximum approval is US\$300,000 for companies, US\$30,000 for individuals and US\$120,000 for mortgages. For the lower level committees, credit granting authority varies according to the seniority and experience of the committee members, and the values indicated represent upper limits. All committees include at least two bank officers from the commercial and credit areas.

We also have a department designated to monitor the quality of the loan portfolio on a continuous basis. The purpose of this special supervision is to maintain constant scrutiny of the portions of the portfolio that represent the greatest risk and to anticipate any deterioration. Based on this ongoing review of the loan portfolio, we believe that we are able to detect problem loans and make a decision on a client's status. This includes measures such as reducing or extinguishing a loan, or requiring better collateral from the client. The control systems require that these loans be

reviewed at least three times per year for those clients in the lowest category of credit watch.

Credit Approval: Corporate

In preparing a credit proposal for a corporate client, Santander-Chile's personnel verify such parameters as debt servicing capacity (including, usually, 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.

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## Credit Approval: Retail Banking

Retail loans are evaluated and approved by the Risk for Individuals, Micro businesses and Small Businesses Division. The majority of loans to individuals are approved by the Standardized Risk Area. The credit evaluation process is based on an evaluation system known as Garra for Banco Santander and Syseva for Santander Banefe, both processes are decentralized, automated and are based on a scoring system which incorporates our Credit Risk Policies.

The credit evaluation process is based on the gathering of information to determine a client's financial stability, payment capacity and commercial nature. The following parameters are used to evaluate an applicant's credit risk: (i) income, (ii) length of current employment, (iii) indebtedness, (iv) credit reports and (v) background information, which is accessed by means of internal and external databases. Operations which cannot be approved by Garra or Syseva are sent to the Approval Center, a centralized area that carries out yearly analyses and renewals of credit lines and credit cards and evaluates higher risk credits.

The following table lists our approval limits for loans evaluated using standardized statistical models:

## Bank excluding Banefe

## Non-mortgage loans

	Non-Mortgage Loans Up to Ch\$ million
Approved By	
Corporate Manager of Standardized Risk	300
Manager Approval Center	150
Segment Risk Manager	100
Risk Manager	80
Senior Analyst	40
Junior Analyst	10

## Mortgage loans

	Mortgage Loans Up to UF
Approved by:	
Corporate Manager of Standardized Risk	20,000
Admissions Manager	14,000
Segment Risk Manager	9,000
Risk Manager	9,000
Senior Analyst	5,000
Junior Analyst	3,000

## Santander Banefe

## Non-mortgage loans

Approved By	Non-Mortgage Loans
-------------	-----------------------

	Up to Ch\$ million
Corporate Manager of Standardized Risk	300
Manager Approval Center	150
Segment Risk Manager	20
Risk Manager	15
Risk Analyst	6

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## Mortgage loans

	Mortgage Loans
Approved By	Up to UF
Corporate Manager of Standardized Risk	20,000
Admissions Manager	14,000
Segment Risk Manager	4,000
Risk Manager	2,500
Risk Analyst	1,500

## 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 (includes 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 established by the Superintendency of Banks and approved by our Board of Directors.

## Allowances for large commercial loans

For large commercial loans, leasing and factoring, the Bank assigns a risk category level to each borrower and its respective loans. The Bank considers the following risk factors: industry or sector of the borrower, owners or managers of the borrower, borrower's financial situation, its payment capacity and payment behavior. The Bank assigns one of the following risk categories to each loan and borrower:

- i. Classifications A1, A2 and A3 correspond to borrowers with no apparent credit risk.
- ii. Classification B corresponds to borrowers with some credit risk but no apparent deterioration of payment capacity.
- iii. Classifications C1, C2, C3, C4, D1 and D2 correspond to borrowers whose loans have deteriorated.

For loans classified as A1, A2, A3 and B, the Bank assigns 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. The amount of allowances for the remaining classifications is set by the Superintendency of Banks as described below. All commercial loans for companies, including leasing and factoring, have been individually rated. In determining provisions, we make a distinction between normal debtors and deteriorated debtors.

## Debtor Classes

Two debtor classes have been determined based on debtors' credit behavior in order to calculate loan loss allowance:

- Normal Debtors, which are classified as A1, A2, A3 or B, are current on their payment obligations and show no sign of deterioration in their credit quality.
-

Deteriorated Debtors, which are classified as C1, C2, C3, C3, C4, D1 or D2, includes loans with us have been charged off or administered by our Recovery Unit, or classified as Precontenciosos (PRECO or Deteriorated).



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Expected Loan Loss = Loan Loss Allowance

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

$$EL = PNP \times EXP \times SEV$$

EL = Expected Loss

PNP = Probability of Non-Performing

EXP = Exposure

SEV = Severity

EL = Expected Loss. The expected loss is how much could be lost in the event a debtor does not perform the obligations under the loan.

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

EXP = Exposure. This corresponds to the value of commercial loans without discounting the value of guarantees or collateral.

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

Determination of loan loss allowance according to Borrower Class

Normal Debtors

- The loan loss allowance for each debtor is calculated based on the Expected Loss equation (EL = PNP \* EXP \* SEV).
- A risk category is assigned to each debtor based on the PNP summarized in the following table:

PNP result	Classification	Loan loss allowance
External Classification>		Determined
AA-	A1	by a
$PNP \leq 1\%$	A2	model
$1\% < PNP \leq 4\%$	A3	on an
$PNP > 4\%$	B	individual basis

## Deteriorated Debtors

For loans classified in Categories C1, C2, C3, C4, D1 and D2, the Bank must have the following levels of allowance, which are required by the provisioning model of the Bank:

Classification	Estimated loss	Allowance(1)
C1	Up to 3%	2%
C2	More than 3% up to 19%	10%
C3	More than 19% up to 29%	25%
C4	More than 29% up to 49%	40%
D1	More than 49% up to 79%	65%
D2	More than 79%	90%

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(1) Represents percentages of the aggregate amount of principal and accrued but unpaid interest of the loan.

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## New Guidelines of Provisioning Levels for Contingent Loans in 2010

Commencing in January 2010, all Chilean banks will be required by the SBIF to include in the calculation of expected loss and reserve levels, a percentage of off-balance sheet contingent loans. This includes, among others, lines of credit approved but not disbursed, unused credit card lines, stand-by letters of credit and other operations guaranteed by the Bank. As a result, a greater percentage of these assets will be included in the calculation of risk weighted assets. The impact of this change was Ch\$52,662 million charged against equity as of March 31, 2010. This provision only applies to locally filed financial statements.

Off-balance sheet contingent operations	Percentage of total debt outstanding to be included in new risk weightings
Guarantees	50%-100%
Lines of credit and unused credit card balances	50%
Stand-by letters of credit	20%

## Allowances for consumer loans

Consumers are assigned an allowance level on and based on credit risk profiles, utilizing a more automated statistical model and considering such borrower's credit history, including any defaults on obligations to other creditors, as well as the overdue periods on loans from us. We differentiate between old and new clients when determining a client's risk profile for consumer loans and those that have gone through some type of renegotiation in the past in the financial system. All loans are assigned a provision at the moment a loan is granted depending on the risk profile of the client. We are continuously improving and recalibrating our credit scoring and provisioning models and this may change the minimum provision standards for the various client profiles as depicted in this document. The following table sets forth the required allowances for consumer loans in 2009.

Loan type	Risk Profile	Allowance Level(1)			
		Not renegotiated		Renegotiated	
		New Clients	Old Clients	New Clients	Old Clients
Consumer	Profile 1	30.5%	21.0%	31.4%	38.4%
	Profile 2	21.7%	17.7%	21.2%	26.4%
	Profile 3	14.9%	9.7%	6.1%	22.1%
	Profile 4	12.3%	6.2%		8.90%
	Profile 5	8.9%	2.9%		2.10%
	Profile 6	5.7%	1.4%	-	-
	Profile 7	2.7%	0.6%	-	-

(1) Percentage of total outstanding.

## Allowances for residential mortgage loans

Residential mortgage loans are assigned an allowance level based on credit risk profiles, utilizing a more automated and sophisticated statistical model and considering such borrower's credit history, including any defaults on obligations to other creditors, as well as the overdue periods on the loans borrowed from us. Once the rating of the client is determined, the allowance for mortgage loans is calculated using a risk category and related allowance to loan ratio, which is directly related to the overdue periods. The following table sets forth the allowance to loan ratios on

loans based on overdue time. The ratios represent the percentage of required allowance amount to the aggregate amount of the principal and accrued but unpaid interest on the loan.

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

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## Allowances for group evaluations on small and mid-sized commercial loans

- Allowances based on group evaluations are permitted for a large number of borrowers whose individual loan amounts are relatively insignificant. These models are intended to be used primarily to analyze commercial loans to individuals and small companies.
- Levels of required reserves are to be determined by the Bank, according to the estimated loss that may result from the loans, by classifying the loan portfolio using one or both of the following models:
  - i. A model based on the characteristics of the borrowers and their outstanding loans—borrowers and their loans with similar characteristics will be placed into groups and each group will be assigned a risk level.
  - ii. A model based on the behavior of a group of loans—loans with analogous past payment histories and similar characteristics will be placed into groups and each group will be assigned a risk level.

## Additional reserves

Banks are permitted to establish allowances above the limits described above only to cover specific risks that have been authorized by their Board of Directors. Voluntary reserves that cover no specific risk are no longer permitted.

## Analysis of Santander Chile's Loan Classification

The following tables provide statistical data regarding the classification of our loans at December 31, 2008 and 2009.

Category	As of December 31, 2009				Percentage Evaluated Loans
	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	
A	–	1,895,241	–	1,895,241	13.8%
A1	–	–	–	–	–
A2	3,187,959	–	3,808,195	6,996,154	50.9%
A3	2,998,956	–	223,928	3,222,884	23.5%
B	601,080	165,181	10,481	776,742	5.5%
B-	–	69,150	–	69,150	0.5%
C	–	74,735	3,636	78,371	0.6%
C1	224,732	–	18,101	242,833	1.8%
C2	97,885	–	8,640	106,525	0.8%
C3	60,679	–	2,012	62,691	0.4%
C4	56,985	–	27,294	84,279	0.6%
D	–	39,742	–	39,742	0.3%
D1	80,574	–	42,438	123,012	0.9%
D2	39,324	–	14,328	53,652	0.4%
Totals	7,348,174	2,244,049	4,159,053	13,751,276	100.0%

Category	As of December 31, 2008				Percentage Evaluated
	Commercial Loans	Consumer Loans	Residential Mortgage	Total Loans	

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			Loans		Loans
A	–	1,811,060	3,562,617	5,373,677	36.7%
A1	–	–	–	–	–%
A2	6,463,445	–	–	6,463,445	44.0%
A3	1,351,054	–	–	1,351,054	9.2%
B	208,954	203,375	199,087	611,416	4.2%
B-	–	75,281	79,930	155,211	1.1%
C	–	94,507	64,972	159,479	1.1%
C1	220,434	–	–	220,434	1.5%
C2	26,738	–	–	26,738	0.2%
C3	34,296	–	–	34,296	0.2%
C4	36,100	–	–	36,100	0.2%
D	–	64,915	73,950	138,865	0.9%
D1	48,711	–	–	48,711	0.3%
D2	61,662	–	–	61,662	0.4%
Total loans	8,451,394	2,249,138	3,980,556	14,681,088	100.0%

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

Accrued interest from overdue loans are recognized only when, and to the extent, received. Non-performing loans includes loans as to which either principal or interest is more than 90 days overdue, and which do not accrue interest.

Past due loans include, with respect to any loan, only the portion of principal or interest that is overdue for 90 or more days, and do not include the installments of such loan that are not overdue or that are overdue for less than 90 days, unless legal proceedings have been commenced for the entire outstanding balance according to the terms of the loan, in which case the entire loan is considered past due within 90 days of the beginning of such proceedings.

Substandard loans in 2008 include: (i) all non-performing loans, (ii) all renegotiated consumer loans and (iii) all commercial loans that are at risk of default. As of December 31, 2009 substandard loans include: (i) all loans to a single client that are evaluated on a group basis, including performing loans, that have a loan classified as non-performing, (ii) all renegotiated consumer loans and (iii) all commercial loans at risk of default. See Note 10(a) of the Consolidated Financial Statements. As a result of this change in definition substandard loans as of December 31, 2009 are not comparable to December 31, 2008 figures. Restructured loans, on which payments are not overdue, are not ordinarily classified as non-performing loans, but do not accrue interest. Prior to 2009, only restructured commercial loans did not accrue interest.

The term for charging-off loans must now be calculated from the beginning of arrears (one installment is 90 days overdue) and once this term is reached, the entire loan is charged-off. The following is a table showing the principal types of loans and their respective terms for charge-offs as stipulated by the new accounting standards:

Type of contract	Term
Leasing Operations	
Consumer leasing	6 months
Other leasing operations	12 months
Property leasing (commercial or residential)	36 months
Other Operations	
Consumer credits with or without real guarantees	6 months
Other operations without real guarantees	24 months
Commercial credits with real guarantees	36 months
Mortgage loans for housing	48 months

We may write off any loan (commercial or consumer) before the first installment becomes overdue only in accordance with special procedures established by the Superintendency of Banks. In certain circumstances, we must write off an overdue loan (commercial or consumer) sooner than the terms set forth above. Loans are written off against the loan loss reserve to the extent of any required allowances for such loans; the remainder of such loans is written off against income.

In general, legal collection proceedings are commenced with respect to consumer loans once they are overdue for 90 days and, with respect to mortgage loans, once they are past due for 120 days. Legal collection proceedings are always commenced within one year of such loans becoming past due, unless we determine that the size of the past due amount does not warrant such proceedings. In addition, the majority of our commercial loans are short-





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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 a loan aging schedule at the end of 2008 and 2009. Amounts shown as overdue and past due include only installments that are overdue or past due and not the aggregate principal amount of such loans.

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	As of December 31,	
	2009	2008
	(in millions of Ch\$, except percentages)	
Overdue for 1-29 days(1)	36,264	50,029
Overdue for 30-89 days(1)	22,846	41,022
Overdue for 90 days or more (Past due loans) (2)	193,250	160,824
Non-performing loans(3)	409,067	383,458
Substandard loans(4)	1,485,737	870,259
Total loans	13,751,276	14,681,088
Overdue loans expressed as a percentage of total loans	1.84%	1.72%
Past due loans expressed as a percentage of total loans	1.41%	1.10%
Non-performing loans as a percentage of total loans	2.97%	2.61%
Substandard loans as a percentage of total loans	10.80%	5.93%

- (1) Includes only the overdue portion. Does not include the aggregate principal amount of such loans.
- (2) All installments and lines of credit more than 90 days overdue. Does not include the aggregate principal amount of such loans.
- (3) Non-performing loans are all loans with at least one installment over 90 days overdue and includes the aggregate principal amount of such loans.
- (4) Substandard loans prior to December 2009 include: (i) all non-performing loans, (ii) all renegotiated consumer loans and (iii) all commercial loans that are at risk of default. As of December 31, 2009, substandard 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 with some risk of default. See Note 10(a) of the Consolidated Financial Statements. As a result of this change in definition substandard loans as of December 31, 2009 are not comparable to December 31, 2008 figures.
- (5) Includes reserves for interbank loans.
- (6) Includes interbank loans.

We suspend the accrual of interest and readjustments on all overdue loans. The amount of interest that would have been recorded on overdue loans if they had been accruing interest was Ch\$20,320 million and Ch\$21,899 million for the years ended December 31, 2008 and 2009, respectively. Accrued interest and UF indexation adjustments from overdue loans are recognized only when, and to the extent, received.

Loans included in the previous table which have been restructured and that bear no interest are as follows.

	As of December 31,	
	2009	2008
	(Ch\$ million)	
Ch\$	276,703	17,631
Foreign currency	45,030	2,556
UF	78,973	32,941

Total	400,706	53,128
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The amount of interest that would have been recorded on these loans for the years ended December 31, 2008 and 2009, if these loans had been earning a market interest rate was Ch\$7,461 million and Ch\$47,888 million, respectively. The increase in foregone interest is mainly due to a regulatory change in 2009 which prohibited banks from recognizing interest on restructured consumer loans. We do not accrue interest on restructured loans.

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## Loan Loss Allowances

The following table sets forth our balance of loan loss allowances, the minimum allowances to be established by us in accordance with the regulations of the Superintendency of Banks and our total loan loss allowances expressed as a percentage of total loans as of December 31, 2008 and 2009.

	As of December 31,	
	2009	2008
	In millions of Ch\$	
Individual, global and additional loan loss allowances	349,527	274,240
Minimum reserves required	349,527	274,240
Voluntary reserves	-	-
Total loan loss allowances	349,527	274,240
Total loan allowances as a percentage of total loans (expected loss ratio)	2.5%	1.9%

## Analysis of Substandard Loans and Amounts Past Due

The following table analyzes our substandard loans. Substandard loans in 2008 include: (i) all non-performing loans, (ii) all renegotiated consumer loans and (iii) all commercial loans that are at risk of default. As of December 31, 2009, substandard loans include: (i) all loans to a single client that are evaluated on a group basis, including performing loans, that have a loan classified as non-performing, (ii) all renegotiated consumer loans and (iii) all commercial loans at risk of default. See Note 10(a) of the Consolidated Financial Statements. As a result of this change in definition substandard loans as of December 31, 2009 are not comparable to December 31, 2008 figures.

	As of December 31,	
	2009	2008
	(Ch\$ million)	
Total loans	13,751,276	14,681,088
Substandard loans	1,485,737	870,259
Substandard loans as a percentage of total loans	10.80%	5.93%
Amounts past due	193,250	160,824
To the extent secured	114,282	69,053
To the extent unsecured	78,968	91,771
Amounts past due as a percentage of total loans	1.41%	1.10%
To the extent secured(2)	0.83%	0.47%
To the extent unsecured	0.57%	0.63%
Loans loss allowances as a percentage of:		
Total loans	2.54%	1.87%
Total amounts past due	180.87%	170.52%
Total amounts past due-unsecured	442.62%	298.83%

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

### Analysis of Loan Loss Allowances

The following table analyzes our loan loss allowances and changes in the allowances attributable to write-offs, provisions, allowances released, allowances on loans acquired. Loan loss allowances must be debited the full amount of all charge-offs (irrespective of whether the charged-off loan was fully provisioned) and simultaneously credited the same amount through the taking of a new provision. The net effect of these two entries, which are included in the table below under “charge-offs” and “allowances established,” respectively, is to leave the loan loss allowance unchanged following the charge-off of a loan. Subsequently, at the end of each calendar month, loan loss allowances are released to the extent not needed. Such releases, which are included in the table below under

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“allowances released,” therefore include any amounts relating to provisions originally made in respect of loans that have been charged off.

	Year Ended December 31,	
	2009	2008
	(in millions of Ch\$, except percentages)	
Loan loss allowances at beginning of the year	274,240	230,404
Release of allowances upon charge-offs (1)	(295,831)	(274,372)
Allowances established (2)	398,416	326,121
Allowances released (3)	(27,298)	(7,913)
Loan loss allowances at end of year	349,527	274,240
Ratio of charge-offs to total loans	2.0%	2.0%
Loan loss allowances at end of period as a percentage of total loans	2.5%	1.9%

(1) Reflects release of loan loss allowance equal to the entire amount of loans charged off, including any portion of such loans with respect to which no allowance had been established prior to the charge-off.

(2) Includes, in addition to provisions made in respect of increased risk of loss during the period, provisions made to replace allowances released upon charge-off of loans. See Note (1) to this table.

(3) Represents the 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 the charge-off of loans.

The following table shows charge-offs by Santander-Chile by type of loan.

	Year Ended December 31,	
	2009	2008
	(in millions of Ch\$)	
Commercial loans	48,118	32,935
Consumer loans	239,005	236,405
Residential mortgage loans	8,708	5,032
Total	295,831	274,372

The following table shows recoveries by Santander-Chile by type of loan.

	Year Ended December 31,	
	2009	2008
	(in millions of Ch\$)	
Commercial loans	8,446	9,244
Consumer loans	28,268	26,718
Residential mortgage loans	2,560	1,932
Total	39,274	37,894

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

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## Allocation of the Loan Loss Allowances

The following tables set forth, at December 31 of each of the two years, the proportions of our required minimum loan loss allowances that were attributable to our commercial, consumer and residential mortgage loans, and the amount of voluntary allowances (which are not allocated to any particular category) at each such date.

	As of December 31, 2009				As of December 31, 2008			
	Allowance amount (1)	Allowance as a percentage of loans in category	Allowance amount as a percentage of total loans	Allowance amount as a percentage of total allowances (2)	Allowance amount (1)	Allowance as a percentage of loans in category	Allowance amount as a percentage of total loans	Allowance amount as a percentage of total allowances (2)
Commercial loans	158,600	2.49%	1.15%	46.42%	107,656	1.46%	0.73%	40.22%
Consumer loans	166,503	4.00%	1.21%	48.74%	147,446	3.70%	1.00%	55.07%
Residential mortgage loans	16,534	0.74%	0.12%	4.84%	12,630	0.56%	0.09%	4.71%
Total allocated allowances	341,637	2.68%	2.48%	100.00%	267,732	1.97%	1.82%	100.00%
Leasing	7,848	0.81%	0.06%		6,473	0.67%	0.04%	
Interbank loans	42	0.18%	-%		35	0.04%	-%	
Total allowances	349,527	2.54%	2.54%		274,240	1.87%	1.87%	



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## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

## A. Directors and Senior Management

## Directors

We are managed by our Board of Directors, which, in accordance with our by-laws, consists of 11 directors and two alternates who are elected at annual ordinary shareholders' meetings. Except as noted below, the current members of the Board of Directors were elected by the shareholders in the ordinary shareholders' meeting held on April 22, 2008. Members of the Board of Directors are elected for three-year terms. Except as noted below, the term of each of the current board members expires in April of 2011. 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
Mauricio Larraín Garcés	Chairman and Director	Asset and Liability Committee Executive Credit Committee Market Committee Marketing and Communications Committee University Committee	April 2011
Jesús Zabalza Lotina	First Vice Chairman and Director	—	April 2011
Oscar Von Chrismar Carvajal	Second Vice Chairman and Director	Asset and Liability Committee Executive Credit Committee Market Committee Strategy Committee Technology Committee	April 2011
Carlos Olivos Marchant	Director	Audit Committee Executive Credit Committee	April 2011
Víctor Arbulú Crousillat	Director	Audit Committee	April 2011
Marco Colodro Hadjes	Director	Asset and Liability Committee Executive Credit Committee Market Committee	April 2011
Lucía Santa Cruz Sutil (1)	Director	Audit Committee University Committee	April 2011
Roberto Méndez Torres	Director	Executive Credit Committee	April 2011

		Marketing and Communications Committee University Committee	
Vittorio Corbo Lioi	Director	Asset and Liability Committee Market Committee	April 2011
Roberto Zahler Mayanz (1)	Director	Asset and Liability Committee Market Committee	April 2011
Claudia Bobadilla Ferrer	Director	Technology Committee Analysis and Resolution Committee	April 2011
Juan Manuel Hoyos Martínez de Irujo	Alternate Director	Strategy Committee	April 2011
Raimundo Monge Zegers	Alternate Director	Asset and Liability Committee Strategy Committee	April 2011

(1) In May 2010 Lucía Santa Cruz resigned from the Audit Committee and was replaced by Roberto Zahler, an independent Board member.

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Mauricio Larraín Garcés is our Chairman. He is a member of the Asset and Liability Committee, the Executive Credit Committee, the Market Committee, the Marketing and Communications Committee and the University Committee. He is also President of Santander Chile Holding S.A. and Universia Chile S.A. He is a Director of the Asociación de Bancos e Instituciones Financieras de Chile and the Santiago Stock Exchange. He is also a member of the Council of Paz Ciudadana and was a former President of ICARE. Mr. Larraín began working at Santander-Chile in 1989. Previously, he was Intendente (Director) of the Superintendency of Banks, Manager of External Debt at the Banco Central de Chile and a Senior Finance Specialist at the World Bank in Washington. He holds degrees in Law from Universidad Católica de Chile and from Harvard University.

Jesús María Zabalza Lotina became a Director and Vice-Chairman of the Board on October 28, 2008. He currently is a Director of Grupo Santander's Latin America Division and a Board member of Banco Santander Puerto Rico and President of the Board of Banco Santander Colombia. Mr. Jesús Zabalza is a patron of the Fundación Padre Garralda. Previously, Mr. Zabalza was Director of Retail Banking in Madrid of Banco BBVA. He was also on the Board of e-La Caixa, Telefónica Factoring S.A, Adeslas y Terra. Mr. Zabalza holds a degree in Industrial Engineering from the University of Bilbao.

Oscar von Chrismar Carvajal became Executive Vice-Chairman of the Board on January 1, 2010 after having served as the chief executive officer of Santander-Chile since August 2003. Mr. Von Chrismar is a member of the Asset and Liability Committee, Executive Credit Committee, Market Committee, Strategy Committee and the Technology 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 Alternate Director of Universia Chile S.A. Prior to that, Mr. von Chrismar was the manager of the Finance Division of Santander-Chile, a position that he had held since joining Santander-Chile in 1990. Mr. von Chrismar holds an Engineering degree from the Universidad de Santiago de Chile.

Carlos Olivos Marchant is Director since 2007 and has been a Board member since the merger was consummated in 2002. He is Chairman of the Audit Committee and a member of the Executive Credit Committee. He was Chairman of the Board of Santiago since 1987 until the date of the merger, and he was Chairman of that board between May 1999 until the merger. He is a partner in the law firm Guerrero, Olivos, Novoa y Errazuriz. From 1981 to 1983, Mr. Olivos served as General Counsel of the Central Bank of Chile, and from 1984 to 1986, he served as Chairman of the Board of Directors of Banco Osorno. Mr. Olivos holds a law degree from the Universidad de Chile and a Masters of Jurisprudence from New York University School of Law.

Vittorio Corbo Lioi is one of Chile's leading economists. In 2003, Mr. Corbo was named President of Chile's Central Bank. Following the end of his tenure there, Mr. Corbo has been named to various boards and is currently a Senior Investigator at the Centro de Estudio Públicos (CEP), a local think tank. Previously, Mr. Corbo between 1991 and 1995 was an economic advisor to the Bank and a member of the Board of Santander Chile between 1995 and 2003. Mr. Corbo is a member of the Asset and Liability Committee and the Market Committee. Mr. Corbo has a Business Administration Degree from the Universidad de Chile and a Ph.D. in Economics from MIT.

Víctor Arbulú Crousillat became a Director on May 6, 1999. He is a member of the Audit Committee and has been designated as a Financial Expert. He was a Managing Director of JPMorgan, member of its European management committee and Chief Executive Officer for Spain and Portugal from 1988 until 1998. He has worked for JPMorgan for over 25 years in various positions in Europe, North America and Latin America. Mr. Arbulú also worked for the Inter-American Development Bank. He is also Director of Aurum S.A. Mr. Arbulú holds a degree in Engineering and a Masters of Business Administration.

Marco Colodro Hadjes became a Director on April 19, 2005. Mr. Colodro is a member of the Asset and Liability Committee, Executive Credit Committee and Market Committee. Mr. Colodro was President of the Board of Telefónica Chile and a Director of Codelco. He is a former chairman of TVN (national television network) and former vice chairman of Banco del Estado (state bank). He was also owner of Agencia de Valores Alfa S.A. Prior to that, he was Foreign Trade Director at the Central Bank of Chile. Mr. Colodro holds a degree in Economics from the Universidad de Chile, and has done post-graduate studies at the University of Paris.

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Lucía Santa Cruz Sutil became a Director on August 19, 2003. Ms. Santa Cruz was a member of the Bank's Audit Committee until May 2010 and the University Committee. Ms. Santa Cruz holds a degree in History and a Masters Degree in Philosophy from Oxford University. She is the Dean of the College of Liberal Arts of the Universidad Adolfo Ibañez. Ms. Santa Cruz is also a Director of Universia Chile S.A. She is also on the Board of Compañía de Seguros Generales y de Vida La Chilena Consolidada and Fundación Minera Escondida. She is also on the Advisory Board of Nestle Chile and the Fundación Educacional Santa Teresa de Avila. She is also a member of the Self-Regulation Committee for Insurance Companies in Chile.

Roberto Méndez Torres is a former member of the Board of Old Santander-Chile, to which he was appointed in 1996. He is a member of the Executive Credit Committee, the Marketing and Communication Committee and the University Committee. He is a professor of Economics at Universidad Católica de Chile. He has been Advisor to Grupo Santander-Chile since 1989. Mr. Méndez is President and Director of Adimark Chile Gfk and on the Board of the Chilean and German Chamber of Commerce. He is also Vice-Chairman of Universia S.A. He graduated with a degree in Business from Universidad Católica de Chile, and holds an MBA and a Ph.D. from the Graduate School of Business at Stanford University.

Roberto Zahler Mayanz became a Director on August 31, 1999. He is a member of the Audit Committee since May 2010, the Asset and Liability Committee and the Market Committee. Currently, he is President of Zahler & Co, a consulting firm. He is also Director of Air Liquide-Chile and member of the CLAAF or the Latin American Committee for Financial Affairs. He was formerly President of the Board of Siemens Chile. He was also a visiting professor at the IMF's Research Department. Between 1991 and 1996, he was President of the Central Bank of Chile and Vice-President from 1989 to 1991. He also serves as a consultant for the World Bank, the IDB, the IMF and the International Bank of Settlements. Mr. Zahler has also provided technical assistance to various Central Banks and Finance Ministries in most countries of Latin America, Indonesia and Kosovo. Mr. Zahler holds a degree in Business Administration from the Universidad de Chile and a Masters in Economics from the University of Chicago.

Claudia Bobadilla Ferrer was elected to the Board in April 2006. She is a member of the Technology Committee and the Analysis and Resolution Committee. She is CEO of Fundación País Digital, a member of the Executive Committee of Innovation and Technology of ICARE, council member of Endeavor Chile and Executive Director of the Chile-Japón Siglo XXI Committee. She was also founder and President of Comunidad Mujer, an organization dedicated to increasing women's participation in the workforce. She is a member of the council of Fundación Chilena del Pacífico, Proyecto Astronómico ALMA and Movimiento Educación 2020. She was previously Director of Legal Affairs at Terra Networks Chile S.A. She is a lawyer from the Universidad Diego Portales.

Juan Manuel Hoyos Martínez de Irujo was the Managing Director of McKinsey & Company in Spain from 1997 to 2003 where he was also President of the Client Committee of McKinsey's Board. He began his career at McKinsey where he was named partner in 1984 and Director in 1991. Currently, he is in charge of partner development worldwide and continues to serve on the Board. His consulting career has been focused in the areas of strategy and organization of corporations, especially in the telecommunications, banking and metallurgy sectors. He has worked with companies in Spain, the United States, Latin America, the United Kingdom, Portugal and Africa. He is currently a member of the Strategy Committee of the Bank. He received an economics degree from the Universidad Complutense de Madrid and holds an MBA in Finance and Accounting from Columbia University.

Raimundo Monge Zegers became an Alternate Director on April 29, 2003. He is currently a member of the Strategy Committee of the Bank. He is Corporate Director of Strategic and Financial Planning for Grupo Santander-Chile and is CEO of Santander-Chile Holding S.A. and Santander Inversiones Ltda. He is also President of Santander S.A. Sociedad Securitizadora and Santander Factoring S.A. He is a Director of Aurum S.A., Santander Asset Management Chile 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.



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## Senior Management

Our senior managers are as follows:

Senior Manager	Position	Date Appointed
Claudio Melandri	Chief Executive Officer	January 1, 2010
Gabriel Montoya	Corporate Financial Controller	April 1, 2009
José Manuel Manzano	Corporate Director of Risk	July 1, 2007
Javier Montero	Corporate Director of Internal Audit	May 1, 2010
Alejandra Mehech	Corporate Director Human Resources	May 1, 2010
Joaquín Quirante	Global Banking and Markets	March 11, 2008
Francisco Murillo	Manager Retail Banking	May 1, 2010
Felipe Contreras	Chief Accounting Officer	October 1, 2008
Juan Fernández	Administration and Operations	July 18, 2002
Emiliano Muratore	Manager Financial Management	April 8, 2008
Juan Pedro Santa María	General Counsel	July 30, 2009

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 on the Board of Santander Seguros de Vida S.A., Santander Asset Management S.A. Administradora General de Fondos and Santander Seguros Generales S.A. Mr. Melandri has a Business Degree from the Universidad Tecnológica Metropolitana in Chile.

Gabriel Montoya B. was appointed Financial Controller of Santander Chile in April 2009 and has been working for Santander Spain and its affiliates since 1997. Between 2005-2009, Mr. Montoya was Director of the MIS America Project and was responsible for implementing management information systems in Chile, Mexico, Puerto Rico, Argentina and Brazil. Previous to that Mr. Montoya was Financial Controller of Santander Puerto Rico, Head of Financial Control for the Americas Division of Santander and various other management positions in Santander Colombia. He is a Director of Santander Consumer Chile S.A. Mr. Montoya has a Business Administration Degree from Universidad del Rosario and an Executive Administration Diploma from the Universidad de los Andes, both in Colombia.

José Manuel Manzano became Corporate Director of Risk in July 2007. Prior to that he was Corporate Director of Human Resources for Santander-Chile since October 31, 2002. Previously, he served as Manager of Human Resources for Old Santander-Chile since 1999. He was also General Manager of Santander Fund Management and Managing Director of Bancassurance. He is also a Director of Santander Chile Holding and Santander S.A. Sociedad Securitizadora. Mr. Manzano holds an MBA and a degree in Business from Universidad Católica de Chile.

Javier Montero is the Corporate Director of Internal Auditing, a position he has held since May 1, 2010. Prior to that he was Manager of Internal Auditing in the Financial Risk Department at Banco Santander Chile since 2006. Mr. Montero has worked for Grupo Santander since 2000 in the Internal Auditing Division of Grupo Santander. Mr. Montero has a Business Degree and an Auditing degree from Universidad San Pablo in Madrid.

Francisco Murillo was appointed Manager of Retail Banking of Santander-Chile on May 1, 2010. Prior to that, he held the position of Corporate Director of Human Resources for Santander-Chile since February 21, 2008. Mr. Murillo has

worked in Grupo Santander Chile since 1993. Previously he served as Corporate Director of Santander Asset Management and President of Bansander AFP. He was also the former CEO and Chief Investment Officer of Bansander AFP. Mr. Murillo is President of Santander Asset Management S.A. Administradora de General de Fondos, President of Santander Seguros de Vida S.A., President of Santander Seguros Generales S.A., Director of Santander Chile Holding, Director of Aurum S.A., Director of Santander Asset Management Chile S.A., Director of Santander Consumer Chile S.A., Director of Santander Factoring, CEO of Teatinos Siglo XXI Inversiones Ltda and CEO of Aurum S.A. Mr. Murillo has a Business Degree from the Universidad Adolfo Ibañez.

Alejandra Mehech was appointed Corporate Director of Human Resources for Santander-Chile on May 1, 2010. Prior to that, Mrs. Mehech served as manager of Human Resources for the Global Businesses area and for top executives, position she held since December 2007. She has also served as manager of Human Resources of the



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Asset Management Division of Grupo Santander in Chile. Mrs. Mehech has worked in Grupo Santander since 1994 and holds a Business Degree and a degree in Sociology, both from Universidad Católica de Chile.

Joaquin Quirante was appointed the Manager of Global Banking and Markets, that includes wholesale banking and treasury services, on March 11, 2008. Mr. Quirante began working for Santander in 2004 and was the Global Manager of Debt Capital Markets. Previous to working at Santander, Mr. Quirante worked for 9 years at Bank of America where he also led the Debt Capital Markets Group for Southern Europe. He also was a vice-president of Risk for the Bank of America in the UK and worked in the International Division of Argentaria. He is on the Board of Santander S.A. Corredores de Bolsa. Mr. Quirante is an economist from the Universidad Complutense de Madrid and has a MBA from IESE.

Juan Carlos Chómali became Manager of the Santander Banefe Division of Santander-Chile in Month, 2010. Prior to that he was Manager of Retail Banking of Santander-Chile, position he held since January 2010 and after being our Corporate Director of Customers and Quality. Prior to that he was Commercial Manager of Bansander AFP, Manager of E-Business of Grupo Santander, General Manager of Santander Multimedios, Manager of Remote Banking at Banco Santander. Mr. Chómali is also Director of Universia Chile S.A., Director of Aquanima Chile S.A., Santander Asset Management S.A. Administradora General de Fondos, Santander Seguros de Vida S.A. and Director of Santander Seguros Generales S.A. Mr. Chómali has a degree in business from the Universidad Católica de Chile and a certificate in Marketing from the University of California, Los Angeles.

Felipe Contreras F. was named Chief Accounting Officer of Santander Chile in October 2008. He has worked for 14 years in the Bank's Accounting Department, most recently as Manager of the Consolidation and Reporting Departments, overseeing the Bank's Chilean, U.S. and Spanish GAAP reporting requirements. He recently was in charge of the Bank's recent transition to International Financial Reporting Standards. Mr. Contreras is a Public Accountant from the University of Santiago and is currently a candidate to a Masters in Advanced Finance from the Universidad Adolfo Ibáñez.

Juan Fernández is our manager of Administration and Operations. He is the former Manager of Administration and Cost Control of Old Santander-Chile, a position he held from April 1999 until August 2002, when the merger with Santiago was consummated. Mr. Fernández is also Director of Santander Chile Holding S.A., Aquanima Chile S.A., Santander Factoring S.A., Isban Chile S.A., Bansa Santander S.A., Santander Consumer Chile S.A., Multinegocios S.A. and Santander S.A. Corredores de Bolsa. Previously Mr. Fernández served as Manager for Accounting and Administration of Old Santander-Chile since January 1993. Prior to that, Mr. Fernández held positions at Banchile Agencia de Valores y Subsidiarias, and at JPMorgan in Santiago and Madrid.

Emiliano Muratore was appointed Manager of Financial Management in April 2008. Mr. Muratore entered Santander Group in 1999 in Santander Argentina. From 2002 to 2006 he worked in Financial Management in Santander Spain. He is on the Board of Santander S.A. Agente de Valores. Mr. Muratore has a Business Degree from the Universidad Católica Argentina and a Masters in Finance from the Universidad de San Andrés in Buenos Aires.

Juan Pedro Santa María is our General Counsel, a position he has held since July 30, 2009 after being General Counsel of Grupo Santander Chile. He is also a Director of Santander Chile Holding S.A., Santander Factoring S.A., Bansa Santander S.A., Aquanima Chile S.A., Director of Aurum S.A. and Director of Santander Asset Management Chile S.A. Mr. Santa María, a lawyer, previously worked at Banco O'Higgins and Banco Santiago. He has been Chairman of the Law Committee at the Asociación de Bancos e Instituciones Financieras de Chile for the last twenty years. He has a degree in Law from the Pontificia Universidad Católica de Chile.

B. Compensation

For the year ended December 31, 2009, the aggregate amount of compensation paid by us to all of our directors was Ch\$645 million, including attendance fees and monthly stipends. For the year ended December 31, 2009, the aggregate amount of compensation paid by us to all of our executive officers and our management members was Ch\$28,663 million (US\$56.5 million). At our annual shareholder meeting held on April 27, 2010, shareholders approved a monthly stipend per director of UF 230 (US\$9,496), UF 460 (US\$18,992) for the Chairman of the Board and UF 345 (US\$14,244) for the Vice-Chairman of the Board. This amount will be increased by UF 30 per month (US\$1,239) if a Board member is named to one or more committees of the Board. For the President of a committee the additional amount will be UF 60 (US\$2,477) and UF 45 (US\$1,858) for the Vice-President of a committee.

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Shareholders also approved the Audit Committee 2010 budget and the remuneration for its members. The remuneration is a 33% additional compensation over the monthly stipend received by a regular board member, or UF 77 (US\$3,179), totaling a monthly stipend of UF 307 (US\$12,675). 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 rendered to us in their fields of expertise. For the year ended December 31, 2009, payments to our directors for consulting fees totaled Ch\$526 million (US\$1.0 million).

Santander Spain has set up remuneration systems tied to the performance of the stock market price of the shares of Santander Spain based on the achievement of two targets: appreciation of its share price and growth in earnings per share, in both cases based on a sample of comparable banks.

In this regard, certain high-level executives of Santander Chile participate in this global incentive-retention program implemented by Santander Spain. This consisted of giving to qualifying executives a fixed number of options on shares of Santander, if the following parameters were met: (i) share price growth in the top 10 compared to 30 other global banks, (ii) earnings per share growth in the top 10 compared to 30 other global banks, (iii) that Banco Santander Chile achieved its commercial and financial budget targets in the last two years and (iv) that the executive achieved his personal targets in the last two years, and remained employed with the Bank until the end of the incentive program. This program has no dilutive effect for Santander Chile minority shareholders.

The fair value of each option granted is calculated at the grant date. In order to value the incentive-retention plan, two valuation reports were performed by two multinational investment banks. These valuation specialists used the Black-Scholes equity option pricing model considering the following parameters: the expected life of the options, interest rates, volatility, exercise price, market price and dividends of Santander Spain shares and the shares of comparable banks. The fair value of the options granted was calculated as the average value resulting from the two valuations.

	Number of Shares	Euros Exercise Price	Employee Group	Number of Persons	Date of Commencement of Exercise Period	Date of Expiry of Exercise Period
<b>Plans in force on January 1, 2005</b>						
		9.09				
Rights granted (Plan I06)	4,284,700	(**)	Managers	123	1/15/2008	1/15/2009
Options exercised	-	-	-			
Options cancelled or not exercised	(267,700)	-	-	(6)	1/15/2008	1/15/2009
<b>Plans in force on December 31, 2005</b>						
	4,017,000	9.09				
Options exercised	-	-	-			
Options cancelled, net (Plan I06)	(166,600)	9.09	Managers	(5)	1/15/2008	1/15/2009

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Plans in force on						
December 31, 2006	3,850,400	9.09				
Rights granted (Plan I09)	270,823	-	Managers	159	6/23/2007	7/31/2009
Rights granted (Plan I09)	12,844	-	Other non-managerial positions	23	6/23/2007	7/31/2009
Rights granted (Plan I10)	402,865	-	Managers	159	6/23/2007	7/31/2010
Rights granted (Plan I10)	18,564	-	Other non-managerial positions	23	6/23/2007	7/31/2010
Options cancelled, net (Plan I06)	(184,900)	9.09	Managers			
Plans in force on						
December 31, 2007	4,370,596	-				
Rights granted (Plan I09)	134,985	-	Managers	159	6/23/2007	7/31/2009
Rights granted (Plan I09)	6,401	-	Other non-managerial positions	22	6/23/2007	7/31/2009
Rights granted (Plan I10)	133,874	-	Managers	159	6/23/2007	7/31/2010
Rights granted (Plan I10)	6,169	-	Other non-managerial positions	22	6/23/2007	7/31/2010
Options cancelled, net (Plan I06)	(565,650)	-	-		4/15/2008	1/15/2009
Options exercised, net (Plan I06)	(3,099,850)	-	Managers	90		

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	Number of Shares	Euros Exercise Price	Employee Group	Number of Persons	Date of Commencement of Exercise Period	Date of Expiry of Exercise Period
<b>Plans in force on December 31, 2008</b>						
	986,525					
Rights granted (Plan I09)	269,472	-	Managers	159	6/23/2007	7/31/2009
Rights granted (Plan I09)	12,780	-	Other non-managerial positions	22	6/23/2007	7/31/2009
Rights granted (Plan I10)	400,842	-	Managers	159	6/23/2007	7/31/2010
Rights granted (Plan I10)	18,470	-	Other non-managerial positions	22	6/23/2007	7/31/2010
Rights granted (Plan I11)	443,098	-	Managers	161	7/31/2008	7/31/2011
Rights granted (Plan I11)	32,927	-	Other non-managerial positions	53	7/31/2008	7/31/2011
Rights granted (Plan I12)	458,850	-	Managers	176	7/31/2009	7/31/2012
Rights granted (Plan I12)	63,305	-	Other non-managerial positions	95	7/31/2009	7/31/2012
Rights granted (Plan I09)	(675,280)	-	Managers	159		
Rights granted (Plan I09)	(32,025)	-	Other non-managerial positions	22		
<b>Plans in force on December 31, 2009</b>						
	1,978,964					

Of which:

Plan I10	980,784
Plan I11	476,025
Plan I12	522,155

(\*\*)The exercise price of the options under Plan I06 is €9.09 per share, which is the weighted average of the daily average market price of the Bank shares on the continuous market in the first 15 trading days of January 2005. This was the criterion established in the resolution approving Plan I06 adopted at the Annual General Meeting of Santander Spain held on June 18, 2005.

#### Long-term incentive policy

During 2007, Santander Spain's Board of Directors approved a long-term incentive policy for the period 2008-2010 aimed at Group Santander's executive directors and certain executive personnel in Spain and other Santander Group companies. Certain high-level executives of Santander Chile participate in this global Performance Share Plan implemented by Santander Spain.

As of December 31, 2008 approximately 90 of the Bank's executives enrolled in Plan PI06 exercised 3,099,850 options on Banco Santander S.A. shares (the Parent Company located in Spain) at a price of €9,09.

#### Performance Share Plan

This multi-annual incentive plan is payable in shares of Santander Spain. The beneficiaries of the plan are the executive directors and other members of senior management, together with any other Group executives determined by the Board of Directors of Santander Spain or, when delegated by it, the Executive Committee.

This plan will involve successive three-year cycles of share deliveries to the beneficiaries, so that each year one cycle will begin and, from 2009 onwards, another cycle will also end. The aim is to establish an adequate sequence between the end of the incentive program linked to the previous plan and the successive cycles of this plan. Thus, the first two cycles commenced in July 2007, the first cycle having duration of two years (PI09) and the second cycle having a standard three-year term (PI10). In June 2008 and 2009, the third and fourth three-year cycles were approved by Santander Spain (PI11 and PI12, respectively). These new three-year cycle plans began to impact the Consolidated Income Statement of 2009.

For each cycle, a maximum number of shares of Santander Spain is established for each beneficiary who remains in the Bank's employ for the duration of the plan. The targets, which, if met, will determine the number of shares to be delivered, are defined by comparing the Santander Group's performance with that of a benchmark group of financial institutions and are linked to two parameters, namely Total Shareholder Return (TSR) and growth in Earnings per Share (EPS). These parameters each have a 50% weighting in determining the percentage of shares to be delivered. In addition, the executives of Santander Chile must also meet their local commercial and earnings

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goals in order to receive this benefit, and the Bank must also reach other commercial and earnings targets set by Santander Spain.

The ultimate number of shares to be delivered will be determined in each of the cycles by the degree of achievement of the targets on the third anniversary of commencement of each cycle (with the exception of the first cycle, for which the second anniversary will be considered), and the shares will be delivered within a maximum period of seven months from the end of the cycle. This number will range from the maximum percentage of shares, if Grupo Santander, for each of the measures considered (TSR and EPS growth), ranks within the third quartile of the Benchmark Group, including the 75th percentile, to 30% of the maximum number of shares if it is placed at the median (50th percentile). If Grupo Santander ranks below the median, all assignments of shares will be rendered null and void.

Plan PI09 ended in 2009 and rights over 707,305 shares were exercised by 181 Bank executives. In addition, Plan PI10 commenced during that fiscal year; rights over 419,312 shares were granted to 181 executives, yielding a cumulative total of 980,784 shares to be distributed to 181 executives. Plan PI11 allocated 476,025 rights over shares, and Plan PI12 allocated 522,155 rights over shares, to 214 and 271 executives, respectively. At December 31, 2009, the Bank recorded a cost for the period of Ch\$2,371 million (US\$4.677 million) corresponding to the fair value of plan PI09 (which ended on July 31, 2009), Plan I10, Plan I11 and Plan I12 for the equity instruments distributed. This amount is charged to income on the specific period in which the beneficiaries provide their services to the Bank.

At December 31, 2009 the fair value of the Share Plans based on the achievement of the stated objectives was calculated as follows:

- It was assumed that the beneficiaries will not leave the Group's employ during the term of each plan.
- The fair value of 50% relating to the Bank's relative TSR (Total Shareholder Return) position was determined by an independent expert based on the use of the Monte Carlo valuation model which carried out 10,000 simulations to determine the TSR of each of the companies in the Benchmark Group, taking into account the aforementioned variables. The results (each of which represents the delivery of a number of shares) are classified in descending order by calculating the weighted average and discounting this amount at the risk-free interest rate.

	PI09	PI10	PI11	PI12
Expected volatility(*)	16.25%	15.67%	19.31%	42.36%
Annual dividend yield based on historical	3.23%	3.24%	3.47%	4.88%
Risk-free interest rate [return on Treasury Bonds (zero coupon)] over the life of the plan	4.473%	4.497%	4.83%	2.04%

(\*) Determined on the basis of historical volatility over the period (two or three years)

The application of the simulation model resulted in percentage values of 42.7% for PI09, 42.3% for PI10 (second cycle), 44.9% for PI11 (third cycle) and 55.4% for PI12 (fourth cycle), which are applied to 50% of the value of the shares granted, in order to determine the book value of the TSR-based portion of the incentive. Since this valuation relates to a market condition, it cannot be adjusted after the grant date.

In view of the high correlation between TSR and EPS (Earning per Share), it was considered reasonable to conclude that, in a high percentage of cases, the TSR value is also valid for EPS. Therefore, it was determined that the fair value of the portion of the plans linked to the Bank's relative EPS position, i.e. of the remaining 50% of the shares granted, was the same as that of the 50% corresponding to the TSR. Since this valuation refers to a non-market condition, the number of shares expected to vest shall be reviewed and adjusted on a yearly basis.



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## Post employment benefits

During the second half of 2009, the Bank granted an additional benefit to its principal executives, consisting of a pension plan whose purpose is to endow them with funds for a better supplementary pension upon their retirement. In practical terms, 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 linked conditions: i) retire from the Bank (or from any other Santander Group company) and be 60 years of age or older and; ii) the reason for termination of their employment may not be any of the legal grounds for dismissal attributable to the executive in question. During the period, the Bank made a contribution of \$4,726 million, and a current contribution of \$267 million. For more information, see “Note 37—g Post employment benefits” on our Audited Consolidated Financial Statements.

## C. Board Practices

## Audit Committee

Board member	Position in Committee
Carlos Olivos	Chairman
Víctor Arbulú	Vice Chairman and Financial Expert
Roberto Zahler*	Member

\*Replaced Lucia Santa Cruz who resigned in May 2010

The Audit Committee (Comité de Directores y Auditoría) is comprised of three members of the Board of Directors. The General Secretary is the Committee Secretary. The Chief Executive Officer, General Auditor and other persons from the Bank can be invited to the meetings if necessary and are present on specific matters. This Committee’s primary responsibility is to support the Board of Directors in the continuous improvement of our system of internal controls, which includes reviewing the work of both the external auditors and the Internal Audit Department. The committee is also responsible for analyzing observations made by regulatory entities of the Chilean financial system about us and for recommending measures to be taken by our management in response. This committee also performs functions of a remuneration committee as established in Chilean Law, and reviews annually the salary and bonus programs for the executive officers of the Bank. The external auditors are recommended by this committee to our Board of Directors and appointed by our shareholders at the annual shareholders’ meeting.

This committee is also responsible for:

- Presenting to the Board of Directors a list of candidates for the selection of an external auditor.
- Presenting to the board or 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.
- 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.

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- 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.
- Obtaining information and resolving conflict of interest matters and investigating suspicious and fraudulent activities.
- Analyzing the reports of the inspection visits, instructions and presentations of the Superintendency of Banks.
- Obtaining information, analyzing and verifying the company’s compliance with the annual audit program prepared by the internal audit department.
  - Informing the Board of Directors of accounting changes and their effects.
  - Examining on an annual basis the compensation plans of high level executives and managers.

Asset and Liability Committee

Board member	Position in Committee
Mauricio Larraín	Chairman
Oscar von Chrismar	Member
Marco Colodro	Member
Vittorio Corbo	Member
Roberto Zahler	Member

The Comité de Activos y Pasivos or the Asset and Liability Committee (the “ALCO”), following guidelines set by the Board of Directors and Santander Spains’s Global Risk Department, is responsible for establishing Santander-Chile’s policies, procedures and limits with respect to market risks and monitoring the overall performance in light of the risks assumed. The ALCO constantly monitors whether these policies are adhered to. Santander-Chile’s Market Risk and Control Department and the Financial Management Division perform the day-to-day risk management functions required for the trading and non-trading activities of Santander-Chile.

The Asset and Liabilities Management Committee includes the Chairman of the Board and four additional members of the Board, the Chief Executive Officer, the Manager of the Financial Management Division, the Manager of Market Risk, the Manager of the Treasury Division, the Financial Controller and other senior members of management. Senior members of Santander-Chile’s Finance Division have a formal meeting each month with the Asset and Liabilities Management Committee and outside consultants.

Market Committee

Board member	Position in Committee
	Chairman

Mauricio Larraín	
Oscar von Chrismar	Member
Roberto Zahler	Member
Marco Colodro	Member
Vittorio Corbo	Member

The Comité de Mercados or the Market Committee is responsible for establishing Santander-Chile's policies, procedures and limits with respect to its trading portfolio, market risks and monitoring the overall performance in light of the risks assumed. The ALCO constantly monitors whether these policies are fulfilled. Santander-Chile's Market Risk and Control Department carry out the day-to-day risk management functions required for the trading and non-trading activities of Santander-Chile.

The Market Committee includes the Chairman of the Board, four additional members of the Board, the Chief Executive Officer, the Manager of Global Banking and Markets, the Manager of the Treasury Division, the Manager

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of Proprietary Trading, the Manager of the Financial Management Division, the Manager of Market Risk, the Financial Controller and other senior members of management.

## Executive Credit Committee

Board member	Position in Committee
Mauricio Larraín	Chairman
Oscar von Chrismar	Member
Carlos Olivos	Member
Roberto Méndez	Member
Marco Colodro	Member

The Executive Credit Committee is comprised of the Chairman of the Board, three additional Board members, the Corporate Legal Counsel, the CEO, the Manager of Global Banking, the Corporate Director of Risk, the Manager of Corporate Banking, the Manager of Middle Market and two senior members of the Credit Risk department that present the loans being reviewed for approval. This committee confirms the loan positions reviewed by the Senior Loan Committee, with approval rights up to the maximum exposure permitted by the General Banking Law.

## Marketing and Communications Committee

Board member	Position in Committee
Mauricio Larraín	Chairman
Roberto Méndez	Member

The Marketing and Communications Committee is comprised of the Chairman of the Board and an additional Board member, the CEO, the Manager of Retail Banking, the Manager of Santander Banefe, the Manager of Human Resources, the Manager of Corporate Communications, the Manager of Marketing and other senior managers of the Bank. This committee reviews and confirms all matters related to products, corporate image and communications.

## Technology Committee

Board member	Position in Committee
Claudia Bobadilla	Member
Oscar von Chrismar	Member
Carvajal	

The Technology Committee reviews all matters related to analyzing technological developments that improve efficiency and client service. This committee oversees the Annual Technology Plan, which includes the automation of key processes, telecommunication innovations, information security, market intelligence and new technological trends.

University Committee

Board member	Position in Committee
Mauricio Larraín	Member
Lucía Santa Cruz	Member
Roberto Méndez	Member

The University Committee reviews the Bank's support for higher education and integrates this with the growth of the Institutional business segment and retail banking for college graduates.

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## Strategy Committee

Board member	Position in Committee
Oscar von Chrismar Carvajal	Member
Raimundo Monge	Member
Juan Hoyos	Member

The Strategy Committee is in charge of the Bank's strategic planning process and follow-up.

## D. Employees

As of December 31, 2009, on a consolidated basis we had 11,118 employees, 8,411 of whom were bank employees, 350 of whom were employees of our subsidiaries and 2,357 were employees of Special Purpose Entities. Prior to December 31, 2009, we did not consolidate these Special Purpose Entities or include these employees in our headcount disclosures. We have traditionally enjoyed good relations with our employees and their unions. Of the total headcount of the Bank and his subsidiaries, 4,822 or 54.7% were unionized. In May 2010, a new collective bargaining agreement was signed, which will become effective on January 1, 2011 and that will expire on December 31, 2014, but this may be negotiated 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	2009
Executives	636
Professionals	4,414
Administrative	6,068
Total	11,118

## E. Share Ownership

No director or executive officer owns more than 1% of the shares of Santander-Chile. As of December 31, 2009, the following directors and executives held shares in Santander-Chile:

Directors	Shares
Mauricio Larraín Garcés	568
Carlos Olivos Marchant	1,960,822

Senior  
Managers

Juan	35,536
Fernández	

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 Banco Santander-Chile to them. However, our parent company gave each employee 100 shares in Banco Santander Spain stock in 2007. This program had no costs for Santander-Chile.



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## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

## A. Major Shareholders

As of December 31, 2009, Santander-Chile's largest shareholders were the following:

Shareholder	Number of Shares	Percentage	
Teatinos Siglo XXI Inversiones Ltda.*	78,108,391,607	41.45	%
Santander Chile Holding S.A.	66,822,519,695	35.46	%

\* Formerly known as Teatinos Siglo XXI S.A.

Banco Santander Spain controls Santander-Chile through its holdings in Teatinos Siglo XXI Inversiones Ltda. and Santander-Chile Holding, which are controlled subsidiaries of Banco Santander Spain. As of December 31, 2009, Banco Santander Spain directly or indirectly owned or controlled 99.5% of Santander-Chile Holding and directly or indirectly owned or controlled 100% of Teatinos Siglo XXI Inversiones Ltda. This gives Banco Santander Spain control over 76.91% of the shares of the Bank, and actual participation, when excluding minority shareholders, of 76.74% at December 31, 2009.

Banco 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. Banco Santander Spain holds ordinary shares to which no special voting rights are attached. Each share represents one vote and there are no shareholders with different voting rights.

The number of outstanding shares of Santander-Chile (of which there is only one class, being ordinary shares) at December 31, 2009, 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 the same date was Ch\$5,792,834 million (US\$11,749 million), representing 188,446,126,794 shares of common stock. At December 31, 2009, Santander-Chile had 12,797 holders registered in Chile, including JP Morgan as Depositary (the "Depositary") of Santander-Chile's American Depositary Share Program. As of December 31, 2009, there were a total of 33 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.

Other than the information disclosed in this section, there are no arrangements to the knowledge of Santander-Chile, which can result in a change of control of Santander-Chile.

## B. Related Party Transactions

The Chilean Companies Law requires that our transactions with related parties be on a market basis, that is, on similar terms to those customarily prevailing in the market. We are required to compare the terms of any such transaction to those prevailing in the market at the date the transaction is to be entered into. Directors of companies that violate this provision are liable for losses resulting from such violations.

In addition, under the Chilean Companies Law, a company may not enter into a transaction with related parties unless (i) such transaction has received the prior approval of the company's Board of Directors and (ii) the terms of such transaction are consistent with the terms of transactions of a similar type prevailing in the market. If it is not possible to make this determination, the board may appoint two independent evaluators. The evaluators' final conclusions must

be made available to shareholders and directors for a period of 20 business days, during which shareholders representing 5% or more of the issued voting shares may request the board to call a shareholders' meeting to resolve the matter, with the agreement of two thirds of the issued voting shares required for approval. For purposes of this regulation, the law considers the amount of a proposed transaction to be material if (1) it exceeds 1% of the company's net worth (provided that it also exceeds 20,000UF) or (2) it exceeds 20,000 UF.

All resolutions approving such transactions must be reported to the company's shareholders at the next annual shareholders' meeting. Violations of this provision may result in administrative or civil liability to the corporation, the shareholders and/or third parties who suffer losses as a result of such violation.

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## 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 and the Managers of Banco 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.

The Bank also considers the companies that are part of the Santander Group worldwide as related parties, given that all of them have a common parent, i.e., Banco Santander S.A. (located in Spain).

The table below shows loans and receivables and contingent loans with related parties. For more information, see "Note 37—Transactions with Related Parties" in our Audited Consolidated Financial Statements appearing elsewhere in this Annual Report:

	As of December 31, 2009				As of December 31, 2008			
	Companies of the Group (in millions of Ch\$)	Associated companies	Key personnel	Other	Companies of the Group (in millions of Ch\$)	Associated companies	Key personnel	Other
<b>LOANS AND RECEIVABLES</b>								
Commercial loans	11,331	914	2,840	108,372	54,996	51	2,417	110,074
Mortgage loans	-	-	12,754	-	-	-	11,517	-
Consumer loans	-	-	1,744	-	-	-	911	-
Loans and receivables	11,331	914	17,338	108,372	54,996	51	14,845	110,074
Provision for loan losses	(13 )	(1 )	(11 )	(298 )	(114 )	-	(8 )	(34 )
Net loans	11,318	913	17,327	108,074	54,882	51	14,837	110,040
Guarantees	4,552	-	45,550	596	62,040	-	13,867	602
<b>Contingent loans</b>								
Personal guarantees	-	-	15,900	-	-	-	-	-
Letters of credit	1,868	-	-	-	1,582	-	-	-
Performance bonds	134,644	-	-	259	51,237	-	-	25
Contingent loans	136,512	-	-	259	52,819	-	-	25
Provision for contingent loans	(21 )	-	-	-	(4 )	-	-	-
Net contingent loans	136,491	-	-	259	52,815	-	-	25

The largest related party loan was rendered by the Bank to Santander Asset Management S.A. Administradora General de Fondos for Ch\$25,890 million (US\$40 million). The loan is in Chilean nominal pesos at a rate of 0.15% per month and will be due in May 2011.

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;

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- 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 table below shows assets and liabilities with related parties:

	As of December 31, 2009				As of December 31, 2008			
	Companies of the Group	Associated companies (in millions of Ch\$)	Key personnel	Other	Companies of the Group	Associated companies (in millions of Ch\$)	Key personnel	Other
<b>Assets</b>								
Trading investments	-	-	-	-	-	-	-	-
Investments under resale agreements	-	-	-	-	-	-	-	-
Financial derivatives contracts	405,411	-	-	-	293,649	-	-	-
Available for sale investments	-	-	-	-	-	-	-	-
Other assets	117,060	-	-	-	15,422	-	-	-
<b>Liabilities</b>								
Demand deposits and other demand obligations	1,503	6,238	502	925	6,827	4,963	1,442	5,761
Investments under repurchase agreements	-	-	-	-	40,345	-	-	-
Deposits and other time liabilities	411,295	-	1,126	21,652	387,477	-	2,918	3,057
Financial derivatives contracts	245,574	-	-	-	358,747	-	-	-
Issued debt instruments	89,258	-	-	-	186,098	-	-	-
Other financial liabilities	55,156	-	-	-	8,967	-	-	-
Other liabilities	310	-	-	-	2,710	-	-	-



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## Other transactions with related parties

During the years ended December 31, 2008 and 2009, the Bank had the following significant income (expenses) from services provided to (by) related parties:

	As of December 31, 2009				As of December 31, 2008			
	Companies of the Group	Associated companies (in millions of Ch\$)	Key personnel	Other	Companies of the Group	Associated companies (in millions of Ch\$)	Key personnel	Other
Income (expense) recorded								
Income and expenses from interest and adjustments	(23,344 )	42	308	(769 )	1,070	-	67	(11 )
Income and expenses from fees and services	56,822	71	79	50	47,984	-	11	5
Net income from financial and foreign exchange transactions (*)	129,046	-	2	(13,634 )	(210,308 )	-	-	97
Other operating revenues and expenses	(4,294 )	-	-	-	(3,995 )	-	-	-
Key personnel compensation and expenses	-	-	(28,663 )	-	-	-	(29,820 )	-
Administrative and other expenses	(13,107 )	(16,666 )	-	-	(12,656 )	(28,016 )	-	-
Totals	145,123	(16,553 )	(28,274 )	(14,353 )	(177,905 )	(28,016 )	(29,742 )	91

\* Reflects derivative contracts that hedge Group positions in Chile.

Only transactions with related parties equal to or greater than UF 5,000 are included individually in the table above. Transactions with related parties between UF 1,000 and up to UF 5,000 are included in other transactions with related parties. All transactions were conducted at arms length.

## C. Interests of Experts and Counsel

Not applicable.

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ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Financial Information

See Item 18.

Legal Proceedings

Upon the recommendation of our legal advisors, we estimate that our aggregate liability, if all legal proceedings were determined adversely to us, could result in significant losses not estimated by us. As of December 31, 2009, we have set aside Ch\$830 million (US\$1.6 million) as provisions for these legal actions. These provisions are presented under the Contingency allowances item in our financial statements.

Dividends and dividend policy

See “Item 3: A. Selected Financial Data—Dividends.”

B. Significant Changes

None.



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## 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 Common Stock		NYSE ADS(2)	
	High (Ch\$ per share(1))	Low	High (US\$ per ADS)	Low
<b>Annual Price History</b>				
2005	22.75	17.11	22.75	30.40
2006	26.20	19.60	51.46	37.40
2007	27.10	21.25	55.30	41.76
2008	24.86	16.51	54.60	28.16
2008	31.00	18.23	64.78	31.22
<b>Quarterly Price History</b>				
<b>2008</b>				
1st Quarter	24.86	20.00	53.37	45.58
2nd Quarter	24.46	21.05	54.60	41.78
3rd Quarter	23.33	19.30	46.41	37.10
4th Quarter	22.96	16.51	42.99	28.16
<b>2009</b>				
1st Quarter	23.00	18.23	38.84	31.22
2nd Quarter	23.90	19.44	46.69	34.01
3rd Quarter	30.41	23.34	57.94	44.97
4th Quarter	31.00	26.96	64.78	52.64
<b>2010</b>				
1st Quarter 2010	34.99	30.74	70.63	60.59
<b>Monthly Price History</b>				
December 2009	31.00	28.35	64.78	58.40
January 2010	34.56	30.74	70.63	61.83
February 2010	33.60	31.43	65.82	60.59
March 2010	34.99	32.12	70.05	64.16
April 2010	35.55	32.68	71.88	64.80
May 2010	33.10	31.03	66.20	59.40

## 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 1,039 shares of common stock. ADRs have been issued pursuant to the Deposit Agreement, dated as of August 4, 2008, among Santander-Chile, the Depositary and all holders from time to time of ADRs. As of December 31, 2009, 30,583,111 ADSs were outstanding (equivalent to 31,775,852,329 shares of common stock or 16.9% of the total number of issued shares of common stock).

D. Selling Shareholders

Not applicable.

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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 Superintendency of Banks on October 27, 1977. The Bank's by-laws were approved by Resolution No. 103 of the Superintendency of Banks on September 22, 1977. In January 1997, Santiago merged with Banco O'Higgins' with Santiago as the surviving entity. In 1999, Santiago became a controlled subsidiary of Banco Santander Spain.

On May 24, 2007, we have changed our by-laws insofar as our official name shall be Banco Santander-Chile (formerly: Banco Santander Chile) and that the Bank may also use the following names: Banco Santander Santiago, Santander Santiago, Banco Santander, or Santander (formerly only: Banco Santander Santiago and Santander Santiago.)

Shareholder rights in a Chilean bank that is also an open stock (public) corporation are governed by (1) the corporation's estatutos, which effectively serve the purpose of both the articles or certificate of incorporation and the by-laws of a company incorporated in the United States, (2) the General Banking Law and (3) to the extent not inconsistent with the General Banking Law, by the provisions of Chilean Companies Law applicable to open stock corporations, except for certain provisions that are expressly excluded. Article 137 of the Chilean Companies Law provides that all provisions of the Chilean Companies Law take precedence over any contrary provision in a corporation's estatutos. Both the Chilean Companies Law and our estatutos provide that legal actions by shareholders against us (or our officers or directors) to enforce their rights as shareholders or by one shareholder against another in their capacity as such are to be brought in Chile in arbitration proceedings, notwithstanding the plaintiff's right to submit the action to the ordinary courts of Chile.

The Chilean securities markets are principally regulated by the Superintendency of Securities and Insurance under the Chilean Securities Market Law and the Chilean Companies Law. In the case of banks, compliance with these laws is supervised by the Superintendency of Banks. These two laws provide for disclosure requirements, restrictions on insider trading and price manipulation and protection of minority investors. The Chilean Securities Market Law sets forth requirements relating to public offerings, stock exchanges and brokers, and outlines disclosure requirements for companies that issue publicly offered securities. The Chilean Companies Law sets forth the rules and requirements for establishing open stock corporations while eliminating government supervision of closed (closely-held) corporations. Open stock (public) corporations are those with 500 or more shareholders, or companies in which 100 or more shareholders own at least 10.0% of the subscribed capital (excluding those whose individual holdings exceed 10.0%), and all other companies that are registered in the Securities Registry of the Superintendency of Securities and

Insurance.

Santander-Chile is a bank providing a broad range of commercial and retail banking services, as well as a variety of financial services. Our objects and purposes can be found in Article 4 of our estatutos.

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### Board of Directors

The Board of Directors has 11 regular members and 2 alternate members, elected by shareholder vote at General Shareholders' Meetings. The directors may be either shareholders or non-shareholders of the Company. There is no age limit for directors.

A director remains in office for three years and may be reelected indefinitely. If for any reason, the General Shareholders' Meeting where the newly appointments of directors are to be made is not held, the duties of those serving as such shall be extended until their replacements are designated, in which case, the Board of Director shall convene a Meeting at the earliest possible time in order to effect the appointments.

The directors are entitled to compensation for the performance of their duties. The amount of their compensation is determined annually by the General Shareholders' Meeting. In addition, payments in the form of wages, fees, travel accounts, expense accounts, dues as representatives of the Board of Directors and other cash payments, payments in kind or royalties of any sort whatsoever, may be paid to certain directors for the performance of specific duties or tasks in addition to their functions as directors imposed upon them specifically by the General Shareholders' Meeting. Any special compensation is authorized or approved at the General Shareholders' Meeting, and for that purpose, a detailed and separate entry shall be made in the Annual Report, which shall expressly indicate the complete name of each of the directors receiving special compensation.

Without prejudice to any other incapacity or incompatibility established by law, the following may not be directors: (a) those persons who have been sentenced or are being tried, either as principals or accessories, for crimes punishable with a penalty of temporary or permanent suspension from or incapacity to hold public office; (b) those persons who have been declared bankrupt and have not been rehabilitated; (c) members of the House of Representatives and the Senate; (d) directors or employees of any other financial institution; employees appointed by the President of the Republic and employees or officers of (i) the State, (ii) any public service, public institution, semi-public institution, autonomous entity or state-controlled company (any such entity a "Public Entity") or (iii) any enterprise, corporation or public or private entity in which the State or a Public Entity has a majority interest, has made capital contributions, or is represented or participating, provided that persons holding positions in teaching activities in any of the above entities may be directors; and (f) the Bank's employees, which shall not prevent a director from holding on a temporary basis and for a term not to exceed ninety days the position of General Manager. Chief Executive Officers may not be elected as directors.

For purposes of the appointment of directors, each shareholder shall have the right to one vote per share for purposes of appointing a single person, or to distribute his votes in between candidates as he may deem convenient, and the persons obtaining the largest number of votes in the same and single process shall be awarded positions, until all positions have been filled. The election of the regular and alternate board members shall be carried out separately. For purposes of the casting of the vote, the Chairman and the Secretary, together with any other persons that may have been previously designated by the Meeting to sign the minutes thereof, shall issue a certificate giving evidence of the oral votes of shareholders attending, following the order of the list of attendance being taken.

Each shareholder shall be entitled, however, to cast his vote by means of a ballot signed by him, stating whether he signs for his own account or as a representative. This entitlement notwithstanding, in order to expedite the voting process, the Chairman of the Bank or the Superintendency, as the case may be, is entitled to order that the vote be taken alternatively or by oral vote or by means of ballots. At the time of polling, the Chairman may instruct that the votes be read aloud, in order for those in attendance to count for themselves the number of votes issued and verify the outcome of the voting process.

The Secretary tabulates the votes and the Chairman announces those who have obtained the largest majorities until all the director positions have been filled. The Secretary places the documents evidencing the outcome of the count, duly signed by the persons charged with the duty of verifying the number of votes issued, together with the ballots delivered by the shareholders who did not vote orally, in an envelope which shall be closed and sealed with the corporate seal and shall remain deposited with the Bank for a least two years.

Every appointment of directors, or any changes in the appointment of directors, shall be transcribed into a public deed before a notary public, published in a newspaper of Santiago and notified to the Superintendency of Banks and Financial Institutions, by means of the filing of a copy of the respective public deed. Likewise, the

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appointments of General Manager, Manager and Deputy Managers shall be communicated and transcribed into a public deed.

If a director ceases to be able to perform his or her duties, whether by reason of conflict of interest, limitation, legal incapacity or bankruptcy, impossibility, resignation or any other legal cause, the vacancy shall be filled as follows: (a) the positions of regular directors shall be filled by an alternate director; and (b) the positions of alternate directors vacated upon the application of (a) above, and the positions of regular directors if a regular director's position can not be filled pursuant to clause (a) because both alternate members have already become regular members, shall be filled by the Board of Directors on its first meeting after the vacancy occurs. Board members appointed pursuant to clause (b) will remain in the position until the next General Shareholders' Meeting, where the appointment may be ratified, in which case, the replacement director will remain in his or her position until the expiration of the term of the director he or she replaced.

The alternate directors may temporarily replace regular directors in case of their absence or temporary inability to attend a board meeting, or in a definitive manner in case of vacancy. The alternate board members are always entitled to attend and speak at board meetings. They will be entitled to vote at such meetings only when a regular member is absent and such alternate member acts as the absent member's replacement.

During the first meeting following the General Shareholders' Meeting, the Board of Directors shall elect in separate votes from among its members, a Chairman, a First Vice Chairman and a Second Vice Chairman. In the event of a tie, the appointment shall be decided by lottery.

The Board of Directors meet in ordinary sessions at least once a month, held on pre-set dates and times determined by the Board. Extraordinary meetings are held whenever called by the Chairman, whether at his own will or upon the request of three or more directors, so long as the Chairman determines in advance that the meeting is justified, except if the request is made by the absolute majority of the directors in office, in which case the meeting shall be held without such prior determination. The extraordinary meetings may only address those matters specifically included in the agenda for the extraordinary meeting, except that, if the meeting is attended by all the directors in office, they may agree otherwise by a unanimous vote. Extraordinary meetings shall be called by means of a written instrument signed by the Chairman or the Secretary or his alternate and delivered to each of the directors at least three days prior to the date set for the meeting.

The quorum for the Board of Directors' Meeting is six of its members. Resolutions shall be adopted by the affirmative vote of the absolute majority of the attending directors. In the event of a tie, the person acting as the Chairman of the meeting shall cast a deciding vote.

Directors having a vested interest in a negotiation, act, contract or transaction that is not related to the bank business, either as principal or as representative of another person, shall communicate such fact to the other directors. If the respective resolutions are approved by the Board, it shall be in accordance to the prevailing fair market conditions and director's interest must be disclosed at the next General Shareholders' Meeting.

The discussions and resolutions of the Board of Directors shall be recorded in a special book of minutes maintained by the Secretary. The relevant minutes shall be signed by the directors attending the meeting and by the Secretary, or his alternate. If a director determines that the minutes for a meeting are inaccurate or incomplete, he is entitled to record an objection before actually signing the minutes. The resolutions adopted may be carried out prior to the approval of the minutes at a subsequent meeting. In the event of death, refusal or incapacity for any reason of any of the directors attending to sign the minutes, such circumstance shall be recorded at the end of the minutes stating the reason for the impediment.

The directors are personally liable for all of the acts they effect in the performance of their duties. Any director who wishes to disclaim responsibility for any act or resolution of the Board of Directors must to record his opposition in the minutes, and the Chairman must report the opposition at the following General Shareholders' Meeting.

The Board will represent the Bank in and out of court and, for the performance of the Bank's business, a circumstance that will not be necessary to prove before third parties, it will be empowered with all the authorities and powers of administration that the law or the by-laws do not set as exclusive to the General Shareholders' Meeting, without being necessary to grant any special power of attorney, even for those acts that the law requires to



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do so. This provision is notwithstanding the judicial representation of the Bank that is part of the General Manager's authorities. The Board may delegate part of its authority to the General Manager, to the Managers, Deputy Managers or Attorneys of the Bank, a Director, a Commission of Directors, and for specifically determined purposes, in other persons.

### Meetings and Voting Rights

An ordinary annual meeting of shareholders is held within the first four months of each year. The ordinary annual meeting of shareholders is the corporate body that approves the annual financial statements, approves all dividends in accordance with the dividend policy determined by our Board of Directors, elects the Board of Directors and approves any other matter that does not require an extraordinary shareholders' meeting. The last ordinary annual meeting of our shareholders was held on April 27, 2010. Extraordinary meetings may be called by our Board of Directors when deemed appropriate, and ordinary or extraordinary meetings must be called by our Board of Directors when requested by shareholders representing at least 10.0% of the issued voting shares or by the Superintendency of Banks. Notice to convene the ordinary annual meeting or an extraordinary meeting is given by means of three notices which must be published in a newspaper of our corporate domicile (currently Santiago) or in the Official Gazette in a prescribed manner, and the first notice must be published not less than 15 days nor more than 20 days in advance of the scheduled meeting. Notice must also be mailed 15 days in advance to each shareholder and given to the Superintendency of Banks and the Chilean Stock Exchanges. Currently, we publish our official notices in the El Mercurio newspaper of Santiago.

The quorum for a shareholders' meeting is established by the presence, in person or by proxy, of shareholders representing at least an absolute majority of the issued shares. If a quorum is not present at the first meeting, the meeting can be reconvened (in accordance with the procedures described in the previous paragraph) and, upon the meeting being reconvened, shareholders present at the reconvened meeting are deemed to constitute a quorum regardless of the percentage of the shares represented. The shareholders' meetings pass resolutions by the affirmative vote of an absolute majority of those voting shares present or represented at the meeting. The vote required at any shareholders' meeting to approve any of the following actions, however, is a two-thirds majority of the issued shares:

- a change in corporate form, spin-off or merger;
- an amendment of the term of existence, if any, and the early dissolution of the bank;
- a change in corporate domicile;
- a decrease of corporate capital previously approved by the Superintendency of Banks, provided it is not reduced below the legal minimum capital;
  - a decrease in the number of directors previously approved by the Superintendency of Banks;
- the approval of contributions and appraisal of properties other than cash, in those cases where it is permitted by the General Banking Act;
- the amendment of authority of the general shareholders' meeting or the restriction of the authority of the Board of Directors;
- the transfer of 50.0% or more of the corporate assets, regardless of whether it includes liabilities, or the implementation or amendment of any business plan that contemplates the transfer of 50.0% or more of the corporate assets;

- a change in the manner of distribution of profits established in the by-laws;
  - any non-cash distribution in respect of the shares;

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- the repurchase of shares of stock in the Bank; or
- the approval of material related-party transactions when requested by shareholders representing at least 5.0% of the issued and outstanding shares with right to vote if they determine that the terms and conditions of those transactions are not favorable to the interests of the bank or if two independent assessments of those transactions requested by the Board materially differ from each other.

Shareholders may accumulate their votes for the election of directors and cast all of their votes in favor of one person.

In general, Chilean law does not require a Chilean open stock corporation to provide the level and type of information that U.S. securities laws require a reporting company to provide to its shareholders in connection with a solicitation of proxies. However, shareholders are entitled to examine the books of the bank within the 15-day period before the ordinary annual meeting. Under Chilean law, a notice of a shareholders' meeting listing matters to be addressed at the meeting must be mailed not fewer than 15 days prior to the date of such meeting, and, in cases of an ordinary annual meeting, shareholders holding a prescribed minimum investment must be sent an Annual Report of the bank's activities which includes audited financial statements. Shareholders who do not fall into this category but who request it must also be sent a copy of the bank's Annual Report. In addition to these requirements, we regularly provide, and management currently intends to continue to provide, together with the notice of shareholders' meeting, a proposal for the final annual dividend.

The Chilean Corporations Law provides that whenever shareholders representing 10.0% or more of the issued voting shares so request, a Chilean company's Annual Report must include, in addition to the materials provided by the Board of Directors to shareholders, such shareholders' comments and proposals in relation to the company's affairs. Similarly, the Chilean Corporations Law provides that whenever the Board of Directors of an open stock corporation convenes an ordinary shareholders' meeting and solicits proxies for that meeting, or distributes information supporting its decisions, or other similar material, it is obligated to include as an annex to its Annual Report any pertinent comments and proposals that may have been made by shareholders owning 10.0% or more of the company's voting shares who have requested that such comments and proposals be so included.

Only shareholders registered as such with us on the fifth business day prior to the date of a meeting are entitled to attend and vote their shares. A shareholder may appoint another individual (who need not be a shareholder) as his proxy to attend and vote on his behalf. Every shareholder entitled to attend and vote at a shareholders' meeting has one vote for every share subscribed. Each share represents one vote and there are no special classes of shares with different rights. Our by-laws do not include any condition that is more significant than required by law to change the right of shareholders.

## Capitalization

Under Chilean law, the shareholders of a company, acting at an extraordinary shareholders' meeting, have the power to authorize an increase in such company's capital. When an investor subscribes for issued shares, the shares are registered in such investor's name, even if not paid for, and the investor is treated as a shareholder for all purposes except with regard to receipt of dividends and the return of capital, provided that the shareholders may, by amending the by-laws, also grant the right to receive dividends or distributions of capital. The investor becomes eligible to receive dividends and returns of capital once it has paid for the shares (if it has paid for only a portion of such shares, it is entitled to reserve a corresponding pro-rata portion of the dividends declared and/or returns of capital with respect to such shares unless the company's by-laws provide otherwise). If an investor does not pay for shares for which it has subscribed on or prior to the date agreed upon for payment, the company is entitled under Chilean law to auction the shares on the stock exchange and collect the difference, if any, between the subscription price and the auction proceeds. However, until such shares are sold at auction, the subscriber continues to exercise all the rights of a

shareholder (except the right to receive dividends and return of capital).

Article 22 of the Chilean Corporations Law states that the purchaser of shares of a company implicitly accepts its by-laws and any agreements adopted at shareholders' meetings.

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### Approval of Financial Statements

Our Board of Directors is required to submit our audited financial statements to the shareholders annually for their approval. The approval or rejection of such financial statements is entirely within our shareholders' discretion. If our shareholders reject our financial statements, our Board of Directors must submit new financial statements not later than 60 days from the date of such rejection. If our shareholders reject our new financial statements, our entire Board of Directors is deemed removed from office and a new Board of Directors is elected at the same meeting. Directors who individually approved such rejected financial statements are disqualified for re-election for the ensuing period.

### Registrations and Transfers

We act as our own registrar and transfer agent, as is customary among Chilean companies. In the case of jointly owned shares, an attorney-in-fact must be appointed to represent the joint owners in dealings with us.

### Dividend, Liquidation and Appraisal Rights

Under the Chilean Corporations Law, Chilean companies are generally required to distribute at least 30.0% of their earnings as dividends.

In the event of any loss of capital, no dividends can be distributed so long as such loss is not recovered. Also, no dividends of a bank above the legal minimum can be distributed if doing so would result in the bank exceeding its ratio of risk-weighted assets to regulatory capital or total assets.

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 Incorporation—Preemptive Rights and Increases of Share Capital." A dividend entitlement lapses after 5 years and the funds go to the Chilean Treasury.

In the event of our liquidation, the holders of fully paid shares would participate equally and pro rata, in proportion to the number of paid-in shares held by them, in the assets available after payment of all creditors. The holders of fully paid shares would not be required to contribute additional capital to the Bank in the event of our liquidation.

In accordance with the General Banking Law, our shareholders do not have appraisal rights.

### Ownership Restrictions

Under Article 12 of the Chilean Securities Market Law and the regulations of the Superintendency of Banks, 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.

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Under Article 54 of the Chilean Securities Market Law and the regulations of the Superintendency of Securities and Insurance, persons or entities intending to acquire control, directly or indirectly, of an open stock corporation, regardless of the acquisition vehicle or procedure, and including acquisitions made through direct subscriptions or private transactions, are also required to inform the public of such acquisition at least 10 business days before the date on which the transaction is to be completed, but in any case, as soon as negotiations regarding the change of control begin (i.e., when information and documents concerning the target are delivered to the potential acquiror) through a filing with the Superintendency of Securities and Insurance, the stock exchanges and the companies controlled by and that control the target and through a notice published in two Chilean newspapers, which notice must disclose, among other information, the person or entity purchasing or selling and the price and conditions of any negotiations.

Prior to such publication, a written communication to such effect must be sent to the target corporation, to the controlling corporation, to the corporations controlled by the target corporation, to the Superintendency of Securities and Insurance, and to the Chilean stock exchanges on which the securities are listed.

In addition to the foregoing, Article 54A of the Chilean Securities Market Law requires that within two business days of the completion of the transactions pursuant to which a person has acquired control of a publicly traded company, a notice shall be published in the same newspapers in which the notice referred to above was published and notices shall be sent to the same persons mentioned in the preceding paragraphs.

The provisions of the aforementioned articles do not apply whenever the acquisition is being made through a tender or exchange offer.

Title XXV of the Chilean Securities Market Law on tender offers and the regulations of the Superintendency of Securities and Insurance provide that the following transactions must be carried out through a tender offer:

- 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 69bis 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 minority 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;



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- the person or group does not control, directly or indirectly, more than 40.0% of the voting share capital and the percentage controlled is lower than the sum of the shares held by other shareholders holding more than 5.0% of the share capital (either directly or pursuant to a joint action agreement); or
- in cases where the Superintendency of Securities and Insurance has ruled otherwise, based on the distribution or atomization of the overall shareholding.

According to the Chilean Securities Market Law, a joint action agreement is an agreement among two or more parties which, directly or indirectly, own shares in a corporation at the same time and whereby they agree to participate with the same interest in the management of the corporation or in taking control of the same. The law presumes that such an agreement exists between:

- a principal and its agents;
  - spouses and relatives within certain degrees of kinship;
  - entities within the same business group; and
- an entity and its controller or any of the members of the controller.

Likewise, the Superintendency of Securities and Insurance may determine that a joint action agreement exists between two or more entities considering, among other things, the number of companies in which they participate and the frequency with which they vote identically in the election of directors, appointment of managers and other resolutions passed at extraordinary shareholders' meetings.

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 Superintendency of Banks, 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 Superintendency of Banks considers a number of factors enumerated in the General Banking Law, including the financial stability of the purchasing party.

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

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

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

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

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

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 Superintendency of Banks 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 Superintendency of Banks, Chilean banks that issue ADSs are required to inform the Superintendency of Banks if any person, directly or indirectly, acquires ADSs representing 5.0% or more of the total amount of shares of capital stock issued by such bank.

Article 16bis of the General Banking Law provides that the individuals or legal entities that, individually or with other people, directly control a bank and who individually own more than 10.0% of its shares must send to the Superintendency of Banks reliable information on their financial situation in the form and in the opportunity set forth in Resolution No. 3,156 of the Superintendency of Banks.

There are no limitations for non-resident or foreign shareholders to hold or exercise voting rights on the securities.

Preemptive Rights and Increases of Share Capital

The Chilean Corporations Law provides that whenever a Chilean company issues new shares for cash, it must offer its existing shareholders the right to purchase a number of shares sufficient to maintain their existing ownership percentages in the company. Pursuant to this requirement, preemptive rights in connection with any future issue of shares will be offered by us to the Depositary as the registered owner of the shares underlying the ADSs. 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.

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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

On December 3, 2007, we entered into a long-term contract with Produban for the operation of certain of our systems, providing us with information data processing, technology services and hardware infrastructure to run our core transactional systems. On April 4, 2008, the Superintendency of Bank authorized the transfer of the Bank's data processing center from IBM Chile to Produban, a subsidiary of Banco Santander, S.A. located in Madrid, Spain. This contract also includes an improvement in transactional capacities, services and back-up requirement compared to previous services. We agreed to pay Produban approximately €55 million (US\$77 million) in the next five years. In 2009, we paid Produban Ch\$8,924 million (US\$18 million).

On December 30, 2009, Banco Santander Chile sold the building located at calle Bandera N°201 to "IM Trust Administradora General de Fondos para el Fondo de Inversión Privado Inmobiliario Bandera" a private real estate investment fund. The total payment for this transaction amounted to \$11,102 million. The building's book value at the time of the sale was Ch\$4,030 million, yielding an income of Ch\$7,072 million from the sale, included in Other operating income in the Consolidated Income Statement.

#### 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: 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. It is important to point out that this does not

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affect the current Foreign Investment Contract, which was signed prior to April 19, 2001, and 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 material Chilean tax and United States federal income tax consequences to beneficial owners arising from the ownership and disposition of our common stock and ADSs. The summary does not purport to be a comprehensive description of all potential Chilean tax and United States federal income tax considerations that may be relevant to a decision to own or dispose of our common stock and 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 2010 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. 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 of shares of our common stock or ADSs and does not purport to deal with 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 own tax advisers concerning the Chilean and other tax consequences of the ownership and disposition of shares of our common stock or of ADSs evidenced by ADRs.

The description of Chilean tax laws set forth below is based on Chilean laws in force as of the date of this Annual Report and is subject to any changes in such laws occurring after the date of this Annual Report. These changes can be made on a retroactive basis.

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 domiciled in 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 resided 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.

##### Taxation of Dividends

Cash dividends paid by us with respect to shares of our common stock held by a Foreign Holder, including shares represented by ADSs, will be subject to a 35% Chilean withholding tax, which is withheld and paid over by us (the “Withholding Tax”). If we have paid corporate income tax (the “First Category Tax”) on the income from which the dividend is paid, a credit for the First Category Tax effectively reduces the rate of Withholding Tax. When a credit is

available, the Withholding Tax is computed by applying the 35% rate to the pre-tax amount needed to fund the dividend and then subtracting from the tentative withholding tax so determined the amount of First Category Tax actually paid on the pre-tax income. For purposes of determining the rate at which First Category Tax was paid, dividends are treated as paid from our oldest retained earnings.

The effective rate of Withholding Tax to be imposed on dividends paid by us will vary depending upon the amount of First Category Tax paid by us on the earnings underlying the dividends. The effective rate for the First Category Tax attributed to earnings generated during the fiscal year 2004 and onwards is 17.0%. Full applicability of the First Category Tax credit at the 17.0% rate results in an effective Withholding Tax rate of 21.7 %.



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Consequently, the Withholding Tax rate with respect to dividends fluctuates between 21.7% and 35.0%, depending on whether or not we are subject to the First Category Tax.

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%, an effective First Category Tax rate of 17% and a distribution of all of the net proceeds available after payment of the First Category Tax.

Taxable income	US\$ 100
First Category Tax (17% of US\$100)	(17 )
Net proceeds available	83
Dividend payment	83
Withholding Tax (35% of the sum of the dividend (US\$83) and the available First Category Tax credit (US\$17))	(35 )
First Category Tax credit	17
Payable Withholding Tax	(18 )
Net dividend received	65(83-18)
	21.7%
Effective dividend withholding tax rate	(18/83 )

Dividend distributions made in kind would be subject to the same Chilean tax rules as cash dividends. Stock dividends 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, it would among other things reduce the current rate of withholding on dividends paid to U.S. investors who are eligible for the benefits of such treaty. If the Proposed U.S.-Chile Treaty becomes effective, U.S. investors should consult their tax advisers as to the applicability of the treaty in their particular circumstances.

#### Taxation of Capital Gains

Gain realized on the sale, exchange or other disposition by a Foreign Holder of ADSs will not be subject to Chilean taxation, provided that such 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 to both an income tax on capital gains, which is assessed at the same rate as the First Category Tax (currently imposed at a rate of 17%) and the Chilean withholding tax (the former being creditable against the latter) 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, gain on the disposition of shares of common stock will be subject only to the tax on capital gains (currently imposed at a rate of 17%). The sale of shares of common stock by a Foreign Holder to an individual or entity resident or domiciled in Chile is subject to a provisional withholding. Such a provisional withholding will be equal to (i) 5% of the amount, without any deduction, paid to, credited to, put at the disposal of, or corresponding to, the Foreign Holder if the transaction is subject to the First Category Tax as sole tax, unless the gain subject to taxation can be determined, in

which case the withholding is equal to 17% on the gain, or (ii) 20% of the amount, without any deduction, paid to, credited to, put at the disposal of, or corresponding to, the Foreign Holder if the transaction is subject to the First Category Tax and the Chilean withholding tax, with a credit of the First Category Tax already paid. 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.

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In the case where the sale of the shares is made on a day that is different than the date on which the exchange is recorded, capital gains subject to taxation in Chile may be generated. On October 1, 1999, the Chilean Internal Revenue Service issued Ruling No. 3708 whereby it allowed Chilean issuers of ADSs to amend the deposit agreements to 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 in 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, because 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 Chilean 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 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.

### Other Chilean Taxes

No Chilean inheritance, gift 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 gift 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 Chilean withholding taxes. For further information, the investor should contact: Robert Moreno, [rmorenoh@santander.cl](mailto:rmorenoh@santander.cl).

Dividends payable to holders of ADSs are net of foreign currency conversion expenses of the Depositary and will be subject to the Chilean withholding tax currently at the rate of 35% (subject to credits in certain cases as described above).

### 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 securities. The discussion applies only if you hold shares of our common stock or ADSs as capital assets for tax purposes and it does

not address special classes of holders, 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, or integrated transaction;

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- 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;
- persons liable for the alternative minimum tax;
- 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; and
- persons who acquired shares of our common stock or ADSs pursuant to the exercise of any employee stock option plan or otherwise as compensation.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds 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 holding 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 holding and disposing of the shares of our common stock or ADSs.

As used herein, a “U.S. holder” is a beneficial owner of shares of our common stock or ADSs that is for U.S. federal tax purposes:

- a citizen or 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 or any political subdivision thereof; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

This discussion is based on the Internal Revenue Code of 1986, as amended (the “Code”), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis. It is also based in part on representations by the Depository and assumes that each obligation under the Deposit Agreement and any related agreement will be performed in accordance with its terms. Please consult your own tax advisers concerning the U.S. federal, state, local and foreign tax consequences of owning and disposing of shares or ADSs in your particular circumstances.

In general, if you own ADSs, you will be treated as the owner of the underlying shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if you exchange ADSs for the underlying shares represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom American depositary shares are released prior to delivery of shares to the Depository (“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 reduced rates of tax, described below, applicable to

dividends received by certain non-corporate holders. Accordingly, the creditability of Chilean taxes and the availability of the reduced rates for dividends received by certain non-corporate holders, each described below, could be affected by future 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.

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## 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, under current law, certain dividends paid by “qualified foreign corporations” to certain non-corporate U.S. holders in taxable years beginning before January 1, 2011, will be taxable at reduced rates, up to a maximum rate of 15%. 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 own 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 as described above under “—Chilean Taxation.” 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 its 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 in respect of any First Category Tax, as described above under “—Chilean Taxation,” generally will be creditable against your U.S. federal income tax liability. If, however, the Proposed U.S.-Chile Treaty becomes effective, any Chilean income taxes withheld from dividends on shares or ADSs in excess of the rate provided by the treaty will not be creditable by a U.S. holder who is eligible for the benefits of the treaty. The rules governing foreign tax credits are complex and you should consult your own 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.

## 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. If the Proposed U.S.-Chile Treaty becomes effective, however, a U.S. holder who is eligible for the benefits of the 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.

#### Passive Foreign Investment Company Rules

Based on proposed Treasury regulations (“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” (“PFIC”) for U.S. federal income tax purposes for the year ended December 31, 2009. However, since



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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, 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 amount allocated to that taxable year. Similar rules would apply to any distribution in respect of shares of our common stock or ADSs that exceeds 125% of the average of the annual distributions on shares of our common stock or ADSs received by you during the preceding three years or your holding period, whichever is shorter. Certain elections (including a mark-to-market election) may be available that would result in alternative treatments of the shares of our common stock or ADSs. In addition, if we were a PFIC in a taxable year in which we pay a dividend or the prior taxable year, the 15% dividend rate discussed above with respect to dividends paid to non-corporate shareholders would not apply.

### 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 (i) you are a corporation or other exempt recipient or (ii), 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.

#### F. Dividends and Paying Agents

Not applicable.

#### G. Statement by Experts

Not applicable.

#### H. Documents on Display

The documents concerning Santander-Chile which are referred to in this Annual Report may be inspected at our offices at Bandera 140 Santiago, Chile. We are, and Santiago and Old Santander-Chile were, 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 and at the SEC's Regional Office at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60611-2511. 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.

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### I. Subsidiary Information

Not applicable.

## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Introduction

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.

The principal types of risk inherent in Santander-Chile's business are market, liquidity, operational and credit risks. The effectiveness with which we are able to manage the balance between risk and reward is a significant factor in our ability to generate long term, stable earnings growth. Toward that end, our senior management places great emphasis on risk management.

### Market Risk

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.

### Market Risk Exposure Categories

Our policy with respect to asset and liability management is to capitalize on our competitive advantages in treasury operations, maximizing our net interest income and return on assets and equity with a view to interest rate, liquidity and foreign exchange risks, while remaining within the limits provided by Chilean banking regulations. Subject to these constraints, we constantly have mismatched positions with respect to interest rates, inflation-linked assets and liabilities and foreign currencies.

Our asset and liability management policies are developed by the Asset and Liability Committee (the "ALCO") following guidelines and limits established by our Board of Directors, Banco Santander Spain's Global Risk Department and our Market Risk and Control Department. The ALCO is composed of the Chairman of the Board, four additional members of the Board, the Chief Executive Officer, the Manager of the Financial Management

Division, the Manager of Market Risk, the Manager of the Treasury Division, the Financial Controller and other senior members of management. Senior members of Santander Chile's Finance Division meet monthly on a formal basis with the ALCO and outside consultants. Following guidelines set by Santander Spain, the ALCO is responsible for developing financial strategies and policies regarding our asset and liability structure together with our Financial Management Division. The aim of the Financial Management Division is to inject stability and recurrence into the net interest income of commercial activities and to ensure that we comply with internal and regulatory limits regarding liquidity, regulatory capital, reserve requirements and market risk. Our Market Risk and Control Department carries out the day-to-day measurements of the risks taken by the ALCO.

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The Market Committee is responsible for establishing our policies, strategies, procedures and limits with respect to our trading portfolio in line with the policies of Santander Spain. The composition of the Market Committee includes the 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 Proprietary Trading, the Manager of the Financial Management Division, the Manager of Market Risk, the Financial Controller and other senior members of management.

## Impact of Inflation

Our assets and liabilities are denominated in Chilean pesos, Unidades de Fomento (UF) and foreign currencies. The Bank no longer performs 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\$21,452.57 at December 31, 2008 and Ch\$20,942.88 at December 31, 2009. 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. Negative inflation rates also negatively impact our results. In 2009, CPI deflation reached 1.6% compared to a rise of 7.1% and 7.8% in 2008 and 2007, respectively. There can be no assurance that Chilean inflation will not change significantly from the current level. Although we currently benefit from moderate levels of inflation, due to the current structure of our assets and liabilities (i.e., a significant portion of our loans are indexed to the inflation rate, but there are no corresponding features in deposits or other funding sources that would increase the size of our funding base), there can be no assurance that our business, financial condition and result of operations in the future will not be adversely affected by changing levels of inflation. In summary:

- UF-denominated assets and liabilities. In 2009, UF inflation was -2.4% compared to +9.3% in 2008. The effect of any changes in the nominal peso value of our UF-denominated interest earning assets and interest bearing liabilities is reflected in our results of operations as an increase (or decrease, in the event of deflation) in interest income and expense, respectively. Our net interest income will be positively affected by an inflationary environment to the extent that our average UF-denominated interest earning assets exceed our average UF-denominated interest bearing liabilities. Our net interest income will be negatively affected in a deflationary environment if our average UF-denominated interest earning assets exceed our average UF-denominated interest bearing liabilities. Our net interest income will be negatively affected by inflation in any period in which our average UF-denominated interest bearing liabilities exceed our average UF-denominated interest earning assets. Our average UF-denominated interest earning assets exceeded our average UF-denominated interest bearing liabilities by Ch\$2,689,614 million in 2009 compared to Ch\$2,439,563 million in 2008. See “Selected Statistical Information at and for the Years Ended December 31, 2009 and 2008 Average Balance Sheets, Income Earned from Interest-Earning Assets And Interest Paid on Interest Bearing Liabilities.” In general, the Bank has more UF-denominated financial assets than UF-denominated financial liabilities. In the year ended December 31, 2009, the interest gained on interest earning assets denominated in UF decreased 77.3% compared to 2008 as a result of the deflation rates in 2009 compared to 2008. The interest paid on these liabilities decreased by 90.3% during this period.
- 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 2009, the gain from the swaps taken in order to hedge mainly for inflation and interest rate risk totaled Ch\$24,988 million compared to a financial cost of Ch\$53,956 million in 2008. The gain in 2009 compared to a negative result in 2008 was a direct result of the deflation rate in 2009.

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Inflation sensitive income	As of December 31,		% Change	
	2009	2008	2009/2008	
	(In million of Chilean pesos)			
Interest gained on UF assets(1)	224,614	990,430	(77.3	%)
Interest paid on UF liabilities(1)	(67,559 )	(694,758 )	(90.3	%)
Hedging results	24,988	(53,956 )	(146.3	%)
Net gain	182,043	241,716	(24.7	%)

(1) Excludes results from hedging

- Peso-denominated assets and liabilities. Interest rates prevailing in Chile during any period primarily reflect the inflation rate during the period and the expectations of future inflation. The sensitivity of our peso-denominated interest earning assets and interest bearing liabilities to changes to such prevailing rates varies. (See “Item 5: C. Operating Results—Interest Rates”). We maintain a substantial amount of non interest bearing peso-denominated demand deposits. Because such deposits are not sensitive to inflation, any decline in the rate of inflation would adversely affect our net interest margin on inflation indexed assets funded with such deposits, and any increase in the rate of inflation would increase the net interest margin on such assets. The ratio of the average of such demand deposits to average interest-earning assets was 15.66% and 15.12% for the years ended December 31, 2008 and 2009, 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 generally reprice 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. Our net interest margin also 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. 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 repricing 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.

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As of December 31, 2009, the breakdown of maturities of assets and liabilities is as follows:

	As of December 31,
Up to	
30	
days	