

BANCO SANTANDER CHILE
Form 20-F
March 24, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2016

OR

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

Commission file number: 1-14554

BANCO SANTANDER-CHILE
(d/b/a Santander and Banco Santander)
(Exact name of Registrant as specified in its charter)

SANTANDER-CHILE BANK

(d/b/a Santander and Banco Santander)

(Translation of Registrant's name into English)

Chile

(Jurisdiction of incorporation or organization)

Bandera 140, 20th floor

Santiago, Chile

Telephone: 011-562-320-2000

(Address of principal executive offices)

Robert Moreno Heimlich

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

Bandera 140, 20th Floor, Santiago, Chile

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

Title of each class	Name of each exchange on which registered
American Depositary Shares ("ADS"), each representing the right to receive 400 Shares of Common Stock without par value	New York Stock Exchange
Shares of Common Stock, without par value*	New York Stock Exchange

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

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

None

(Title of Class)

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

None

(Title of Class)

The number of outstanding shares of each class of common stock of Banco Santander-Chile at December 31, 2016, was:

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

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

Yes No

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

Yes No

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

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

Yes No

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

Yes No

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

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

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

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

Item 17 Item 18

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

Yes

No

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

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

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

our results of operation

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

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

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

changes in economic conditions;

the monetary and interest rate policies of Central Bank (as defined below);

inflation;

deflation;

unemployment;

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- increases in defaults by our customers and in impairment losses;
- decreases in deposits;
- customer loss or revenue loss;
- unanticipated turbulence in interest rates;
- movements in foreign exchange rates;
- movements in equity prices or other rates or prices;
- the effects of non-linear market behavior that cannot be captured by linear statistical models, such as the VaR model we use;
- changes in Chilean and foreign laws and regulations;
- changes in taxes;
- competition, changes in competition and pricing environments;
- our inability to hedge certain risks economically;
- the adequacy of loss allowances;
- technological changes;
- changes in consumer spending and saving habits;
- changes in demographics, consumer spending, investment or saving habits;
- increased costs;

unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms;

· changes in, or failure to comply with, banking regulations;

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

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

· disruptions in client service;

· damage to our reputation;

· natural disasters;

· implementation of new technologies;

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

· an inaccurate or ineffective client segmentation model.

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

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CERTAIN TERMS AND CONVENTIONS

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

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

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

In this Annual Report, references to “\$”, “U.S.\$”, “U.S. dollars” and “dollars” are to United States dollars; references to “Chilean pesos,” “pesos” or “Ch\$” are to Chilean pesos; references to “CHF” or “CHF\$” are to Swiss francs; references to “CNY\$” or “CNY\$” are to Chinese yuan renminbi; and references to “UF” are to *Unidades de Fomento*. The UF is an inflation-indexed Chilean monetary unit with a value in Chilean pesos that changes daily to reflect changes in the official Consumer Price Index (“CPI”) of the *Instituto Nacional de Estadísticas* (the Chilean National Institute of Statistics) for the previous month. See “Item 3. Key Information—A. Selected Financial Data—Exchange Rates” for information regarding exchange rates.

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

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

In this Annual Report, references to “BIS” are to the Bank for International Settlement, and references to “BIS ratio” are to the capital adequacy ratio as calculated in accordance with the Basel Capital Accord. References to the “Central Bank” are to the *Banco Central de Chile*. References to the SBIF are to the Superintendency of Banks and Financial Institutions.

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

PRESENTATION OF FINANCIAL INFORMATION

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

As required by local regulations, our locally filed consolidated financial statements have been prepared in accordance with the Compendium of Accounting Standards issued by the SBIF the Chilean regulatory agency (“Chilean Bank GAAP”). Therefore, our locally filed consolidated financial statements have been adjusted to IFRS in order to comply with the requirements of the Securities and Exchange Commission (the “SEC”). Chilean Bank GAAP principles are substantially similar to IFRS but there are some exceptions. For further details and a discussion of the main differences between Chilean Bank GAAP and IFRS, see to “Item 5. Operating and Financial Review and Prospects—Accounting Standards Applied in 2016.”

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

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

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

Functional and Presentation Currency

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

For presentational purposes, we have translated Chilean pesos (Ch\$) into U.S. dollars (U.S.\$) using the rate as indicated below under “Exchange Rates,” for the financial information included in this Annual Report. See “Note 1—Summary of Significant Accounting Principles—e) Functional and presentation currency.”

Loans

Unless otherwise specified, all references herein (except in the Audited Consolidated Financial Statements) to loans are to loans and financial leases before deduction for loan loss allowance, and, except as otherwise specified, all market share data presented herein is based on information published periodically by the SBIF. Non-performing loans include the entire principal amount and accrued but unpaid interest on loans for which either principal or interest is past-due for 90 days or more. Restructured loans for which no payments are past-due are not ordinarily classified as non-performing loans. See “Item 5. Operating and Financial Review and Prospects—C. Selected Statistical Information—Classification of Loan Portfolio Based on the Borrower’s Payment Performance.”

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

event that was the individual cause of the impairment.

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

Those loans individually assessed for impairment and found not to be individually impaired are included in the loans collectively assessed for impairment (so that the collective assessment includes both the remainder of the loans not individually assessed and those not found to be individually impaired) where grouping of such loans on a collective basis is performed using similar credit characteristics.

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

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

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Effect of Rounding

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

Economic and Market Data

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

Exchange Rates

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

Unless otherwise indicated, all U.S. dollar amounts at any year end, for any period have been translated from Chilean pesos based on the interbank market rate published by Reuters at 1:30 pm on the last business day of the period. On December 31, 2016 and 2015, the exchange rate in the Informal Exchange Market as published by Reuters at 1:30 pm on these days was Ch\$666.00 and Ch\$707.80 respectively, or 0.19% less and 0.06% more, respectively, than the observed exchange rate published by the Central Bank for such date of Ch\$667.29 and Ch\$707.34 respectively, per U.S.\$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for the Chilean peso. For more information on the observed exchange rate, see “Item 3. Key Information—A. Selected Financial Data—Exchange Rates” of the Annual Report.

As of December 31, 2016 and 2015, one UF was equivalent to Ch\$26,347.98 and Ch\$25,629.09, respectively. The U.S. dollar equivalent of one UF was U.S.\$39.49 as of December 31, 2016, using the observed exchange rate reported by the Central Bank as of December 30, 2015 of Ch\$36.23 per U.S.\$1.00.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following table presents selected historical financial information for Santander-Chile as of the dates and for each of the periods indicated. Financial information for Santander-Chile as of and for the years ended December 31, 2016, 2015, 2014, 2013, and 2012 has been derived from our audited consolidated financial statements prepared in accordance with IFRS. In the F-pages of this Annual Report on Form 20-F, our audited financial statements as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014 are presented. The audited financial statements for 2013 and 2012 are not included in this document, but they can be found in our previous Annual Reports on Form 20-F. These consolidated financial statements differ in some respects from our locally filed financial statements as of and for the years ended December 31, 2016, 2015, 2014, 2013 and 2012 prepared in accordance with Chilean Bank GAAP. See “Item 4. Information on the Company—Differences between IFRS and Chilean Bank GAAP.”

The following table should be read in conjunction with, and is qualified in its entirety by reference to, our Audited Consolidated Financial Statements appearing elsewhere in this Annual Report.

	As of and for the years ended December 31,				
	2016	2016	2015	2014	2013
	2012				
	In U.S.\$	In Ch\$ millions (2)			
	thousands(1)				

CONSOLIDATED STATEMENT OF
INCOME DATA (IFRS)

Net interest income	1,923,973	1,281,366	1,255,206	1,317,104	1,076,762	1,042,734
Net fee and commission income	382,018	254,424	237,627	227,283	229,836	270,572
Financial transactions, net (3)	210,748	140,358	145,499	112,565	124,437	82,299
Other operating income	9,650	6,427	6,439	6,545	88,155	13,105
Net operating profit before provision for loan losses	2,526,389	1,682,575	1,644,771	1,663,497	1,519,190	1,408,710
Provision for loan losses	(513,638)	(342,083)	(399,277)	(354,903)	(371,462)	(403,692)
Net operating profit	2,012,751	1,340,492	1,245,494	1,308,594	1,147,728	1,005,018
Total operating expenses	(1,135,197)	(756,041)	(719,958)	(683,819)	(610,191)	(599,379)
Operating income	877,554	584,451	525,536	624,775	537,537	405,639
Income from investments in associates and other companies	4,523	3,012	2,588	2,165	1,422	267
Income before tax	882,077	587,463	528,124	626,940	538,959	405,906
Income tax expense	(163,710)	(109,031)	(76,395)	(51,050)	(94,530)	(44,473)
Net income for the year	718,366	478,432	451,729	575,890	444,429	361,433
Net income for the period attributable to:						
Equity holders of the Bank	714,815	476,067	448,466	569,910	442,294	356,808
Non-controlling interests	3,551	2,365	3,263	5,980	2,135	4,625
Net income attributable to Equity holders of the Bank per share	3.79	2.53	2.38	3.02	2.35	1.89
Net income attributable to Equity holders of the Bank per ADS	1,517.28	1,010.51	951.92	1,208.00	938.83	757.37
Weighted-average shares outstanding (in millions)	188,446.1	188,446.1	188,446.1	188,446.1	188,446.1	188,446.1
Weighted-average ADS outstanding (in millions)	471.1	471.1	471.1	471.1	471.1	471.1

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

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

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

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Amounts stated in U.S. dollars at and for the year ended December 31, 2016 have been translated from Chilean (1) pesos at the interbank market exchange rate of Ch\$666.00 = U.S.\$1.00 as of December 31, 2016 based on the interbank market rate published by Reuters at 1:30 pm on the last business day of the period.

- (2) Except per share data, percentages and ratios, share numbers, employee numbers and branch numbers.
- (3) Net income (expense) from financial operations and net foreign exchange gain.
- (4) Total equity includes equity attributable to Equity holders of the Bank plus non-controlling interests.
- (5) Net interest income divided by average interest earning assets (as presented in “Item 5. Operating and Financial Review and Prospects— C. Selected Statistical Information”).
- (6) Net income for the year divided by average total assets (as presented in “Item 5. Operating and Financial Review and Prospects— C. Selected Statistical Information”).
- (7) Net income for the year divided by average equity (as presented in “Item 5. Operating and Financial Review and Prospects—C. Selected Statistical Information”).
- (8) This ratio is calculated using total average equity (as presented in “Item 5. Operating and Financial Review and Prospects— C. Selected Statistical Information”) including non-controlling interest.
- (9) Total liabilities divided by equity.
- (10) Non-performing loans include the aggregate unpaid principal and accrued but unpaid interest on all loans with at least one installment over 90 days past-due.
- (11) The efficiency ratio is equal to operating expenses over operating income. Operating expenses includes personnel salaries and expenses, administrative expenses, depreciation and amortization, impairment and other operating expenses. Operating income includes net interest income, net fee and commission income, net income from financial operations (net trading income), foreign exchange profit (loss), net and other operating income.
- (12) Based on information published by the Central Bank.

Exchange Rates

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

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

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

Purchases and sales of foreign currencies may be legally carried out in the Informal Exchange Market. The Informal Exchange Market reflects transactions carried out at informal exchange rates by entities not expressly authorized to operate in the Formal Exchange Market. There are no limits imposed on the extent to which the rate of exchange in the Informal Exchange Market can fluctuate above or below the Observed Exchange Rate. In recent years, the variation between the Observed Exchange Rate and the Informal Exchange Rate has not been significant. On December 31, 2015 and 2016 the exchange rate in the Informal Exchange Market as published by Reuters at 1:30 pm on these days was Ch\$707.80 and Ch\$666.00 respectively, or 0.06% more and 0.19% less, respectively, than the Central Bank's published observed exchange rate for such date of Ch\$707.34 and Ch\$667.29, respectively, per U.S.\$1.00.

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

Year	Daily Observed Exchange Rate Ch\$ Per U.S.\$(1)			
	Low(2)	High(2)	Average(3)	Period End
2012	469.65	519.69	494.99	478.60
2013	466.50	533.95	495.09	523.76
2014	524.61	621.41	570.01	607.38
2015	597.10	715.66	654.25	707.34
2016	645.22	730.31	676.83	667.29

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

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

Source: Central Bank.

(1) Nominal figures.

(2) Exchange rates are the actual low and high, on a day-by-day basis for each period.

(3) The average of monthly average rates during the year.

Dividends

Under the current General Banking Law, a Chilean bank may only pay a single dividend per year (i.e., interim dividends are not permitted). Santander-Chile's annual dividend is proposed by its Board of Directors and is approved by the shareholders at the annual ordinary shareholders' meeting held the year following that in which the dividend is generated. For example, the 2016 dividend must be proposed and approved during the first four months of 2017. Following shareholder approval, the proposed dividend is declared and paid. Historically, the dividend for a particular year has been declared and paid no later than one month following the shareholders' meeting. Dividends are paid to shareholders of record on the fifth day preceding the date set for payment of the dividend. The applicable record dates for the payment of dividends to holders of ADSs will, to the extent practicable, be the same.

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

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

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

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

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

(1)

Millions of nominal pesos.

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

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

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

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

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

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

B. Capitalization and Indebtedness

Not applicable.

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C.Reasons for the Offer and Use of Proceeds

Not applicable.

D.Risk Factors

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

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

Risks Associated with Our Business

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

In the recent past, financial systems worldwide have experienced difficult credit and liquidity conditions and disruptions leading to less liquidity and greater volatility (such as volatility in spreads). Global economic conditions deteriorated significantly between 2007 and 2009, and many countries fell into recession. Although most countries have begun to recover, this recovery may not be sustainable. Many major financial institutions, including some of the world’s largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies experienced, and some continue to experience, significant difficulties. Around the world, there have also been runs on deposits at several financial institutions, numerous institutions have sought additional capital or have been assisted by governments, and many lenders and institutional investors have reduced or ceased providing funding to borrowers (including to other financial institutions).

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

Reduced demand for our products and services.

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

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

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

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

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

Despite recent improvements in certain segments of the global economy, uncertainty remains concerning the future economic environment. Such economic uncertainty could have a negative impact on our business and results of operations. A slowing or failing of the economic recovery would likely aggravate the adverse effects of these difficult economic and market conditions on us and on others in the financial services industry.

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

If all or some of the foregoing risks were to materialize, this could have a material adverse effect on our financing availability and terms and, more generally, on our results, financial condition and prospects.

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

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

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

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

In addition, our ratings may be adversely affected by any downgrade in the ratings of our parent company, Santander Spain. The long-term debt of Santander Spain is currently rated investment grade by the major rating agencies: A3

(stable) by Moody's, A- (positive) by S&P and A- (stable) by Fitch Ratings Ltd. ("Fitch").

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

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

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

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

Increased competition, including from non-traditional providers of banking services such as financial technology providers, and industry consolidation may adversely affect our results of operations.

The Chilean market for financial services is highly competitive. We compete with other private sector Chilean and non-Chilean banks, with Banco del Estado de Chile, the principal government-owned sector bank, with department stores and with larger supermarket chains that make consumer loans and sell other financial products to a large portion of the Chilean population. The lower to middle-income segments of the Chilean population and the small- and mid-sized corporate segments have become the target markets of several banks and competition in these segments may increase. In addition, there has been a trend towards consolidation in the Chilean banking industry in recent years, which has created larger and stronger banks with which we must now compete. There can be no assurance that this increased competition will not adversely affect our growth prospects, and therefore our operations. We also face competition from non-bank (such as department stores, insurance companies, *cajas de compensación* and *cooperativas*) and non-finance competitors (principally department stores and larger supermarket chains) with respect to some of our credit products, such as credit cards, consumer loans and insurance brokerage. In addition, we face competition from non-bank finance competitors, such as leasing, factoring and automobile finance companies, with respect to credit products, and from mutual funds, pension funds and insurance companies with respect to savings products.

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

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

Increasing competition could also require that we increase our rates offered on deposits or lower the rates we charge on loans, which could also have a material adverse effect on us, including our profitability. It may also negatively affect our business results and prospects by, among other things, limiting our ability to increase our customer base and expand our operations and increasing competition for investment opportunities.

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

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

The success of our operations and our profitability depends, in part, on the success of new products and services we offer our clients and our ability to continue offering products and services from third parties. However, we cannot guarantee that our new products and services will be responsive to client demands, or that they will be successful. In addition, our clients' needs or desires may change over time, and such changes may render our products and services obsolete, outdated or unattractive and we may not be able to develop new products that meet our clients' changing needs. Our success is also dependent on our ability to anticipate and leverage new and existing technologies that may have an impact on products and services in the banking industry. Technological changes may further intensify and complicate the competitive landscape and influence client behavior. If we cannot respond in a timely fashion to the changing needs of our clients, we may lose clients, which could in turn materially and adversely affect us.

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

Our strong position in the credit card market is in part due to our credit card co-branding agreement with Chile's largest airline. This agreement expires in August 2020 and no assurance can be given that it will be renewed, which may materially and adversely affect our results of operations and financial condition in the credit card business.

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

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

Market turmoil and economic recession could materially and adversely affect the liquidity, credit ratings, businesses and/or financial conditions of our borrowers, which could in turn increase our non-performing loan ratios, impair our loan and other financial assets and result in decreased demand for borrowings in general. In addition, our customers may further significantly decrease their risk tolerance to non-deposit investments such as stocks, bonds and mutual funds, which would adversely affect our fee and commission income. We may also be adversely affected by the negative effects of the heightened regulatory environment on our customers due to the high costs associated with regulatory compliance and proceedings. Any of the conditions described above could have a material adverse effect on our business, financial condition and results of operations.

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

The fees and commissions that we earn from the different banking and other financial services that we provide represent a significant source of our revenues. Our customers may significantly decrease their risk tolerance to non-deposit investments such as stocks, bonds and mutual funds for a number of reasons, including a market downturn, which would adversely affect us, including our fee and commission income.

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

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

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

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

The credit quality of our loan portfolio may deteriorate and our loan loss reserves could be insufficient to cover our actual loan losses, which could have a material adverse effect on us.

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of our businesses. Non-performing or low credit quality loans have in the past negatively impacted our results of operations and could do so in the future. In particular, the amount of our reported non-performing loans may increase in the future as a result of growth in our total loan portfolio, including as a result of loan portfolios that we may acquire in the future (the credit quality of which may turn out to be worse than we had anticipated), or factors beyond our control, such as adverse changes in the credit quality of our borrowers and counterparties or a general deterioration in economic conditions in Chile or in global economic and political conditions. If we were unable to control the level of our non-performing or poor credit quality loans, this could have a

material adverse effect on us.

As of December 31, 2016, our non-performing loans were Ch\$564,131 million, and the ratio of our non-performing loans to total loans was 2.1%. As of December 31, 2016, our allowance for loan losses was Ch\$790,605 million, and the ratio of our allowance for loan losses to total loans was 2.9%. For additional information on our asset quality, see “Item 5. Operating and Financial Review and Prospects—C. Selected Statistical Information—Classification of Loan Portfolio Based on the Borrower’s Payment Performance.”

Our current allowance for loan losses may not be adequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of our total loan portfolio. Our allowance for loan losses is based on our current assessment of and expectations concerning various factors affecting us, including the quality of our loan portfolio. These factors include, among other things, our borrowers’ financial condition, repayment abilities and repayment intentions, the realizable value of any collateral, the prospects for support from any guarantor, Chile’s economy, government macroeconomic policies, interest rates and the legal and regulatory environment. As the recent global financial crisis has demonstrated, many of these factors are beyond our control. In addition, as these factors evolve, the models we use to determine the appropriate level of allowance for loan losses and other assets require recalibration, which can lead to increased provision expense. See “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Results of Operations for the Years ended December 31, 2016, 2015 and 2014—Provision for loan losses, net of recoveries.”

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

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

The value of the collateral securing our loan portfolio may fluctuate or decline due to factors beyond our control, including macroeconomic factors affecting Chile's economy. The value of the collateral securing our loan portfolio may be adversely affected by force majeure events, such as natural disasters, particularly in locations where a significant portion of our loan portfolio is composed of real estate loans. Natural disasters such as earthquakes and floods may cause widespread damage, which could impair the asset quality of our loan portfolio and could have an adverse impact on Chile's economy. The real estate market is particularly vulnerable in the current economic climate and this may affect us, as real estate represents a significant portion of the collateral securing our residential mortgage loan portfolio. We may also not have sufficiently recent information on the value of collateral, which may result in an inaccurate assessment for impairment losses of our loans secured by such collateral. If any of the above were to occur, we may need to make additional provisions to cover actual impairment losses of our loans, which may materially and adversely affect our results of operations and financial condition.

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

The further expansion of our loan portfolio (particularly in the consumer, small- and mid-sized companies and real estate segments) can be expected to expose us to a higher level of loan losses and require us to establish higher levels of provisions for loan losses. See "Note 8—Interbank Loans" and "Note 9—Loans and Accounts Receivables from Customers" in our Audited Consolidated Financial Statements for a description and presentation of our loan portfolio as well as "Item 5-Selected Statistical Information—Loan Portfolio."

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

our residential mortgage loan portfolio. If the economy and real estate market in Chile experience a significant downturn, this could materially adversely affect the liquidity, businesses and financial conditions of our customers, which may in turn cause us to experience higher levels of past-due loans, thereby resulting in higher provisions for loan losses and subsequent charge-offs. This may materially and adversely affect our asset quality, results of operations and financial condition.

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

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

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

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

net interest income;

the volume of loans originated;

credit spreads;

the market value of our securities holdings;

the value of our loans and deposits; and

the value of our derivatives transactions.

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

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

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

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

We are also exposed to foreign exchange rate risk as a result of mismatches between assets and liabilities denominated in different currencies. Fluctuations in the exchange rate between currencies may negatively affect our earnings and value of our assets and securities. Therefore, while the Bank seeks to avoid significant mismatches between assets and liabilities due to foreign currency exposure, from time to time, we may have mismatches. “See Item 11. Quantitative and Qualitative Disclosure About Market Risks— E. Market Risks—Foreign exchange fluctuations.”

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

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

Some of our qualitative tools and metrics for managing risk are based upon our use of observed historical market behavior. We apply statistical and other tools to these observations to arrive at quantifications of our risk exposures. These qualitative tools and metrics may fail to predict future risk exposures. These risk exposures could, for example, arise from factors we did not anticipate or correctly evaluate in our statistical models. This would limit our ability to manage our risks. Our losses thus could be significantly greater than the historical measures indicate. In addition, our quantified modeling does not take all risks into account. Our more qualitative approach to managing those risks could prove insufficient, exposing us to material unanticipated losses. We could face adverse consequences as a result of decisions, which may lead to actions by management, based on models that are poorly developed, implemented or used, or as a result of the modelled outcome being misunderstood or the use of such information for purposes for which it was not designed. In addition, if existing or potential customers or counterparties believe our risk management is inadequate, they could take their business elsewhere or seek to limit their transactions with us. This could have a material adverse effect on our reputation, operating results, financial condition and prospects.

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

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

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

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

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

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

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

Increases in prevailing market interest rates and in our credit spreads can significantly increase the cost of our funding. Changes in our credit spreads may be influenced by market perceptions of our creditworthiness. Changes to interest rates and our credit spreads occur continuously and may be unpredictable and highly volatile.

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

We anticipate that our customers will continue, in the near future, to make short-term deposits (particularly demand deposits and short-term time deposits), and we intend to maintain our emphasis on the use of banking deposits as a source of funds. As of December 31, 2016, 99.1% of our customer deposits had remaining maturities of one year or less, or were payable on demand. A significant portion of our assets have longer maturities, resulting in a mismatch between the maturities of liabilities and the maturities of assets. Historically, one of our principal sources of funds has been time deposits. Time deposits represented 35.5% and 35.2% of our total liabilities and equity as of December 31, 2016 and 2015, respectively. The Chilean time deposit market is concentrated given the importance in size of various large institutional investors such as pension funds and corporations relative to the total size of the economy. As of December 31, 2016, the Bank's top 20 time deposits represented 29.5% of total time deposits, or 10.5% of total liabilities and equity, and totaled U.S.\$5.8 billion. No assurance can be given that future economic stability in the Chilean market will not negatively affect our ability to continue funding our business or to maintain our current levels of funding without incurring increased funding costs, a reduction in the term of funding instruments or the liquidation of certain assets. If this were to happen, we could be materially adversely affected.

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

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

We cannot assure that in the event of a sudden or unexpected shortage of funds in the banking system, we will be able to maintain levels of funding without incurring high funding costs, a reduction in the term of funding instruments or the liquidation of certain assets. If this were to happen, we could be materially adversely affected.

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

Chilean banks are required by the General Banking Law to maintain regulatory capital of at least 8% of risk-weighted assets, net of required loan loss allowance and deductions, and paid-in capital and reserves (“core capital”) of at least 3% of total assets, net of required loan loss allowances. As we are the result of the merger between two predecessors with a relevant market share in the Chilean market, we are currently required to maintain a minimum regulatory capital to risk-weighted assets ratio of 11%. As of December 31, 2016, the ratio of our regulatory capital to risk-weighted assets, net of loan loss allowance and deductions, was 13.4% and our core capital ratio was 10.5%. Certain developments could affect our ability to continue to satisfy the current capital adequacy requirements applicable to us, including:

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

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

Chilean banks are gradually being required to adopt the guidelines set forth under the Basel III Capital Accord with adjustments incorporated by the SBIF once these changes are approved by the Chilean Congress in 2017 or 2018. Following this approval, Chilean banks will most likely have to fully comply with Basel III requirements by 2018 or 2019. This could result in a different level of minimum capital required to be maintained by us. According to initial estimates of the impact of market risk on regulatory capital, published by the SBIF for informational purposes only, our ratio of regulatory capital to risk-weighted assets, net of loan loss allowance and deductions, including an initial estimate of the adjustments for market risk was 12.2% as of December 31, 2016. Additionally, for the purposes of reporting to our parent company, we calculate this ratio using a model approved by the European Central Bank standards. In this scenario our core capital ratio is 12.1% and our regulatory capital ratio is 15.5 % as of December 31, 2016. No assurance can be given that the adoption of the Basel III capital requirements will not have a material impact on our capitalization ratio.

We may also be required to raise additional capital in the future in order to maintain our capital adequacy ratios above the minimum required levels. Our ability to raise additional capital may be limited by numerous factors, including: our future financial condition, results of operations and cash flows; any necessary government regulatory approvals; our credit ratings; general market conditions for capital raising activities by commercial banks and other financial institutions; and domestic and international economic, political and other conditions. If we require additional capital in the future, we cannot assure you that we will be able to obtain such capital on favorable terms, in a timely manner or at all. Furthermore, the SBIF may increase the minimum capital adequacy requirements applicable to us. Accordingly, although we currently meet the applicable capital adequacy requirements, we may face difficulties in meeting these requirements in the future. If we fail to meet the capital adequacy requirements, we may be required to take corrective actions. These measures could materially and adversely affect our business reputation, financial condition and results of operations. In addition, if we are unable to raise sufficient capital in a timely manner, the growth of our loan portfolio and other risk-weighted assets may be restricted, and we may face significant challenges in implementing our business strategy. As a result, our prospects, results of operations and financial condition could be materially and adversely affected.

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

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

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

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

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

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

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

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

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

Modifications to reserve requirements may affect our business.

Deposits are subject to a reserve requirement of 9.0% for demand deposits and 3.6% for time deposits (with terms of less than one year). The Central Bank has statutory authority to require banks to maintain reserves of up to an average of 40.0% for demand deposits and up to 20.0% for time deposits (irrespective, in each case, of the currency in which these deposits are denominated) to implement monetary policy. In addition, to the extent that the aggregate amount of the following types of liabilities exceeds 2.5 times the amount of a bank's regulatory capital, a bank must maintain a 100% reserve against them: demand deposits, deposits in checking accounts, obligations payable on sight incurred in the ordinary course of business and, in general, all deposits unconditionally payable immediately. If the Central Bank were to increase reserve requirements, this could lead to lower loan growth and have a negative effect on our business.

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

Effective management of our capital position is important to our ability to operate our business, to continue to grow organically and to pursue our business strategy. However, in response to the global financial crisis, a number of changes to the regulatory capital framework have been adopted or continue to be considered. As these and other

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

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

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

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

Chilean regulations impose a series of restrictions on how Chilean pension fund management companies (*Administradora de Fondos de Pensión*, or “AFPs”) may allocate their assets. In the particular case of financial issuers’ there are three restrictions, each involving different assets and different limits determined by the amount of assets in each fund and the market and book value of the issuer’s equity. As a consequence, limits vary within funds of AFPs and issuers. According to our estimates in December 2016, the AFPs still had the possibility of being able to invest another US\$9,338 million in the Bank via equity, deposits and fixed income. If the exposure of any AFP to Santander-Chile exceeds the regulatory limits, we would need to seek alternative sources of funding, which could be more expensive and, as a consequence, may have a material adverse effect on our financial condition and results of operations.

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

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

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

Changes in accounting standards could impact reported earnings.

The accounting standard setters and other regulatory bodies periodically change the financial accounting and reporting standards that govern the preparation of our consolidated financial statements. For example IFRS 9 will be adopted as of January 1, 2018 and will establish a new model of expected loss and make changes to the classification and

measurement requirements for financial assets. In addition, IFRS 16 will be adopted as of January 1, 2019 and will specify new standards for recognition, measurement, presentation and disclosure of leases. Changes made to accounting standards can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements. For further information about developments in financial accounting and reporting standards, see Note 1 to our Audited Consolidated Financial Statements.

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

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

We are subject to the income tax laws of Chile and certain foreign countries. These tax laws are complex and subject to different interpretations by the taxpayer and relevant governmental taxing authorities, which are sometimes subject to prolonged evaluation periods until a final resolution is reached. In establishing a provision for income tax expense and filing returns, we must make judgments and interpretations about the application of these inherently complex tax laws.

If the judgment, estimates and assumptions we use in preparing our tax returns are subsequently found to be incorrect, there could be a material adverse effect on our results of operations. In some jurisdictions, the interpretations of the taxing authorities are unpredictable and frequently involve litigation, which introduces further uncertainty and risk as to tax expense.

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

Disclosure controls and procedures over financial reporting are designed to provide reasonable assurance that information required to be disclosed by the company in reports filed or submitted under the Securities Exchange Act is accumulated and communicated to management, and recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

These disclosure controls and procedures have inherent limitations, which include the possibility that judgments in decision-making can be faulty and that breakdowns can occur because of errors or mistakes. Additionally, controls can be circumvented by any unauthorized override of the controls. Consequently, our businesses are exposed to risk from potential non-compliance with policies, employee misconduct or negligence and fraud, which could result in regulatory sanctions, civil claims and serious reputational or financial harm. In recent years, a number of multinational financial institutions have suffered material losses due to the actions of 'rogue traders' or other employees. It is not always possible to deter employee misconduct and the precautions we take to prevent and detect this activity may not always be effective. Accordingly, because of the inherent limitations in the control system, misstatements due to error or fraud may occur and not be detected.

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

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

Chilean law applicable to public companies and financial groups and institutions and our bylaws provide for several procedures designed to ensure that the transactions entered into with or among our financial subsidiaries and/or affiliates do not deviate from prevailing market conditions for those types of transactions, including the requirement that our board of directors approve such transactions. Furthermore, all significant related party transactions must be approved by the Audit Committee and the Board. These significant transactions are also reported in our annual shareholders meeting. Please see Note 34 of our Audited Consolidated Financial Statements and "Item 7. Major Shareholders and Related Party Transactions."

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

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

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

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

Like other financial institutions, we manage and hold confidential personal information of customers in the conduct of our banking operations, as well as a large number of assets. Accordingly, our business depends on the ability to process a large number of transactions efficiently and accurately, and on our ability to rely on our digital technologies, computer and email services, software and networks, as well as on the secure processing, storage and transmission of confidential sensitive personal data and other information using our computer systems and networks. The proper functioning of financial control, accounting or other data collection and processing systems is critical to our businesses and to our ability to compete effectively. Losses can result from inadequate personnel, inadequate or failed internal control processes and systems, or from external events that interrupt normal business operations. We also face the risk that the design of our controls and procedures prove to be inadequate or are circumvented such that our data and/or client records are incomplete, not recoverable or not securely stored. Although we work with our clients, vendors, service providers, counterparties and other third parties to develop secure data and information processing, storage and transmission capabilities to prevent against information security risk, we routinely manage

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personal, confidential and proprietary information by electronic means, and we may be the target of attempted cyber-attack. If we cannot maintain an effective and secure electronic data and information, management and processing system or we fail to maintain complete physical and electronic records, this could result in regulatory sanctions and serious reputational or financial harm to us.

We take protective measures and continuously monitor and develop our systems to protect our technology infrastructure, data and information from misappropriation or corruption, but our systems, software and networks nevertheless may be vulnerable to unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. An interception, misuse or mishandling of personal, confidential or proprietary information sent to or received from a client, vendor, service provider, counterparty or third party could result in legal liability, regulatory action, reputational harm and financial loss. There can be no absolute assurance that we will not suffer material losses from operational risk in the future, including those relating to any security breaches.

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

Although we have procedures and controls to safeguard personal information in our possession, unauthorized disclosures could subject us to legal actions and administrative sanctions as well as damages and reputational harm that could materially and adversely affect our operating results, financial condition and prospects. Further, our business is exposed to risk from potential non-compliance with policies, employee misconduct or negligence and fraud, which could result in regulatory sanctions and serious reputational or financial harm. It is not always possible to deter or prevent employee misconduct, and the precautions we take to detect and prevent this activity may not always be effective. In addition, we may be required to report events related to information security issues (including any cyber security issues), events where customer information may be compromised, unauthorized access and other security breaches, to the relevant regulatory authorities. Any material disruption or slowdown of our systems could cause information, including data related to customer requests, to be lost or to be delivered to our clients with delays or errors, which could reduce demand for our services and products, could produce customer claims and could

materially and adversely affect us.

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

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

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

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

Maintaining a positive reputation is critical to protect our brand, attract and retain customers, investors and employees and conduct business transactions with counterparties. Damage to our reputation can therefore cause significant harm to our business and prospects. Harm to our reputation can arise from numerous sources, including, among others, employee misconduct, including the possibility of fraud perpetrated by our employees, litigation or regulatory enforcement, failure to deliver minimum standards of service and quality, compliance failures, unethical behavior, and the activities of customers and counterparties. Further, negative publicity regarding us may result in harm to our prospects.

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

We could suffer significant reputational harm if we fail to identify and manage potential conflicts of interest properly. The failure, or perceived failure, to adequately address conflicts of interest could affect the willingness of clients to deal with us, or give rise to litigation or enforcement actions against us. Therefore, there can be no assurance that conflicts of interest will not arise in the future that could cause material harm to us.

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

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

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

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

We are required to comply with applicable anti-money laundering (“AML”), anti-terrorism, anti-bribery and corruption, sanctions and other laws and regulations applicable to us. These laws and regulations require us, among other things, to conduct full customer due diligence (including sanctions and politically-exposed person screening), keep our customer, account and transaction information up to date and have implemented effective financial crime policies and procedures detailing what is required from those responsible. We are also required to conduct AML training for our employees and to report suspicious transactions and activity to appropriate law enforcement following full investigation by our AML team.

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

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

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

The reputational damage to our business and global brand would be severe if we were found to have breached AML, anti-bribery and corruption or sanctions requirements. Our reputation could also suffer if we are unable to protect our customers' bank products and services from being used by criminals for illegal or improper purposes.

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

Any such risks could have a material adverse effect on our operating results, financial condition and prospects.

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

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

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

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

We enter into derivative transactions for trading purposes as well as for hedging purposes. We are subject to market, credit and operational risks associated with these transactions, including basis risk (the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedge cost) and credit or default risk (the risk of insolvency or other inability of the counterparty to a particular transaction to perform its obligations thereunder, including providing sufficient collateral).

Market practices and documentation for derivative transactions in Chile may differ from those in other countries. For example, documentation may not incorporate terms and conditions of derivatives transactions as commonly understood in other countries. In addition, the execution and performance of these transactions depend on our ability to maintain adequate control and administration systems. Moreover, our ability to adequately monitor, analyze and report derivative transactions continues to depend, largely, on our information technology systems. These factors further increase the risks associated with these transactions and could have a material adverse effect on us.

We are subject to counterparty risk in our banking business.

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

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

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

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

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

Large denominations of funding from time deposits from institutional investors may, under some circumstances, be a less stable source of funding than savings and bonds, such as during periods of significant changes in market interest rates for these types of deposit products and any resulting increased competition for such funds. As of December 31, 2016 short-term funding from institutional investors totaled US\$ 3.7 billion or 6.7% of total liabilities and equity. Although our results of operations and financial position have not suffered a significant impact as a consequence of the credit market instability in the U.S., future market instability in the U.S. or in European markets, specifically the Spanish market, may negatively affect our ability to continue funding our business or maintain our current levels of funding without incurring higher funding costs or having to liquidate certain assets.

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

We allocate management and planning resources to develop strategic plans for organic growth, and to identify possible acquisitions and disposals and areas for restructuring our businesses. From time to time, we evaluate acquisition and partnership opportunities that we believe offer additional value to our shareholders and are consistent with our business strategy. However, we may not be able to identify suitable acquisition or partnership candidates, and our ability to benefit from any such acquisitions and partnerships will depend in part on our successful integration of those businesses. Any such integration entails significant risks such as unforeseen difficulties in integrating operations and systems and unexpected liabilities or contingencies relating to the acquired businesses, including legal claims. We can give no assurances that our expectations with regard to integration and synergies will materialize. We also cannot provide assurance that we will, in all cases, be able to manage our growth effectively or deliver our strategic growth objectives. Challenges that may result from our strategic growth decisions include our ability to:

- manage efficiently the operations and employees of expanding businesses;
- maintain or grow our existing customer base;
- assess the value, strengths and weaknesses of investment or acquisition candidates, including local regulation that can reduce or eliminate expected synergies;
- finance strategic investments or acquisitions;
- align our current information technology systems adequately with those of an enlarged group;
- apply our risk management policy effectively to an enlarged group; and
- manage a growing number of entities without over-committing management or losing key personnel.

Any failure to manage growth effectively could have a material adverse effect on our operating results, financial condition and prospects.

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

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

Risks Relating to Chile

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

A substantial number of our loans are to borrowers doing business in Chile. Chile's economy has experienced significant volatility in recent decades, characterized, in some cases, by slow or regressive growth, declining investment and hyperinflation. This volatility resulted in fluctuations in the levels of deposits and in the relative economic strength of various segments of the economies to which we lend. The Chilean economy may not continue to grow at similar rates as in the past or future developments may negatively affect Chile's overall levels of economic activity.

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

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

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

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

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

Chile lies on the Nazca tectonic plate, making it one of the world's most seismically active regions. Our financial and operating performance may be adversely affected by force majeure events, such as natural disasters, particularly in locations where a significant portion of our loan portfolio is composed of real estate loans. Natural disasters such as earthquakes and floods may cause widespread damage which could impair the asset quality of our loan portfolio and could have an adverse impact on the economy of the affected region.

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

The Chilean Government enacted in 2014 and again in 2015 a reform to the tax and other assessment regimes to which we are subject in order to finance greater expenditure in education. The most important changes approved were:

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

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

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

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

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

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

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

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

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

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

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

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

We are exposed to risks related to the weakness and volatility of the economic and political situation in Asia, the United States, Europe (including Spain, where Santander Spain, our controlling shareholder, is based), Brazil, Argentina and other nations. Although economic conditions in Europe and the United States may differ significantly from economic conditions in Chile, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Chilean issuers. In particular, investor perceptions of the risks associated with our securities may be affected by perception of risk conditions in Spain.

If these nations' economic conditions deteriorate, the economy in Chile, as both a neighboring country and a trading partner, could also be affected and could experience slower growth than in recent years, with possible adverse impact on our borrowers and counterparties. If this were to occur, we would potentially need to increase our allowances for loan losses, thus affecting our financial results, our results of operations and the price of our securities. As of December 31, 2016, approximately 5.9% of our assets were held abroad. There can be no assurance that the ongoing effects of the global financial crisis will not negatively impact growth, consumption, unemployment, investment and the price of exports in Chile. Crises and political uncertainties in other Latin American countries could also have an adverse effect on Chile, the price of our securities or our business.

Chile has considerable economic ties with China, the United States and Europe. In 2016, approximately 24.1% of Chile's exports went to China, mainly copper. China's economy has grown at a strong pace in recent times, but a slowdown in economic activity in China may affect Chile's GDP and export growth as well as the price of copper, which is Chile's main export. Chile exported approximately 17.8% of total exports to the United States and 18.7 % to Europe in 2016.

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

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

High levels of inflation in Chile could adversely affect the Chilean economy and have an adverse effect on our business, financial condition and results of operations. Extended periods of deflation could also have an adverse effect on our business, financial condition and results of operations. In 2009, Chile experienced deflation of 1.4% as the global economy contracted. In 2016, CPI inflation was 2.7% compared to 4.4% in 2015.

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

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

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

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

Year	Exchange rate (Ch\$) at year end	Devaluation (Appreciation) (%)
2012	478.60	(8.2)
2013	523.76	9.4
2014	607.38	16.0
2015	707.34	16.5
2016	667.29	(5.7)
2017 (through March 22, 2017)	657.83	(1.4)

Source: Central Bank.

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

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

As a financial institution, we are subject to extensive regulation, which materially affects our businesses. The statutes, regulations and policies to which we are subject may be changed at any time. In addition, the interpretation and the application by regulators of the laws and regulations to which we are subject may also change from time to time. In the wake of the global financial crisis, the financial services industry continues to experience significant financial regulatory reform in jurisdictions outside of Chile that directly or indirectly affect our business, including Spain, the European Union, the United States, Latin America and other jurisdictions. Changes to current legislation and their

implementation through regulation (including additional capital, leverage, funding, liquidity and tax requirements), policies (including fiscal and monetary policies established by central banks and financial regulators, and changes to global trade policies), and other legal and regulatory actions may impose additional regulatory burden on Santander Group, including Santander-Chile, in these jurisdictions. The manner in which these laws and related regulations are applied to the operations of financial institutions is still evolving. Moreover, to the extent these recently adopted regulations are implemented inconsistently in the various jurisdictions in which we operate we may face higher compliance costs.

Any legislative or regulatory actions and any required changes to our business operations resulting from such legislation and regulations, as well as any deficiencies in our compliance with such legislation and regulation, could result in significant loss of revenue, limit our ability to pursue business opportunities in which we might otherwise consider engaging and provide certain products and services, affect the value of assets that we hold, require us to increase our prices and therefore reduce demand for our products, impose additional compliance and other costs on us or otherwise adversely affect our businesses. In particular, legislative or regulatory actions resulting in enhanced prudential standards, in particular with respect to capital and liquidity, could impose a significant regulatory burden on the Bank or on its bank subsidiaries and could limit the bank subsidiaries' ability to distribute capital and liquidity to the Bank, thereby negatively impacting the Bank. Future liquidity standards could require the Bank to maintain a greater proportion of its assets in highly-liquid but lower-yielding financial instruments, which would

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negatively affect its net interest margin. Moreover, the Bank's regulatory authorities, as part of their supervisory function, periodically review the Bank's allowance for loan losses. Such regulators may require the Bank to increase its allowance for loan losses or to recognize further losses. Any such additional provisions for loan losses, as required by these regulatory agencies, whose views may differ from those of the Bank's management, could have an adverse effect on the Bank's earnings and financial condition. Accordingly, there can be no assurance that future changes in regulations or in their interpretation or application will not adversely affect us.

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

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

We are subject to regulation by the SBIF and by the Central Bank with regard to certain matters, including reserve requirements, interest rates, foreign exchange mismatches and market risks. Chilean laws, regulations, policies and interpretations of laws relating to the banking sector and financial institutions are continually evolving and changing. Any new reforms could result in increased competition in the industry and thus may have a material adverse effect on our financial condition and results of operations.

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

Historically, Chilean banks have not paid interest on amounts deposited in checking accounts. We have begun to pay interest on some checking accounts under certain conditions. If competition or other factors lead us to pay higher interest rates on checking accounts, to relax the conditions under which we pay interest or to increase the number of checking accounts on which we pay interest, any such change could have a material adverse effect on our financial condition or results of operations.

On November 20, 2013, the Chilean Congress approved new legislation to reduce the maximum rates that can be charged on loans. This new legislation is aimed at loans of less than UF 200 (U.S.\$7,241) and with a term of more than 90 days, and thus includes consumer loans in installments, lines of credit and credit card lines. Previously, the maximum interest rate for loans of less than UF 200 and with a term of more than 90 days was calculated as the average rate of all transactions undertaken within the banking industry over the previous month of loans of less than UF 200 and with a term of more than 90 days, multiplied by a factor of 1.5. The average and maximum rates are published daily by the SBIF. By year-end 2016 the maximum rate was 36.64%, close to the level the authorities are seeking for loans of this size.

On December 13, 2013, the SBIF published the new maximum rates for loans between UF 50 (US\$1,810) and UF 200 (US\$7,241). The objective was to lower the maximum rate to a level closer to the average interest rate for loans between UF 200 (US\$7,241) to UF 5,000 (US\$181,047) plus 14%, unless the flow of new loans in the

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industry decreases by 10%-20%, in which case the reduction will be partially or completely suspended until the next period. By year-end 2016 the maximum rate was 29.64%, close to the level the authorities are seeking for loans of this size.

In March 2012, a bill aimed at giving additional enforcement powers to the SERNAC (Chile's Consumer Protection Agency) regarding financial services became effective and created the SERNAC Financiero, a specific consumer protection agency for the financial industry. The SERNAC Financiero has powers to supervise and regulate Bank products and services. The creation of the SERNAC Financiero has also resulted in additional scrutiny regarding prices and contracts for financial products and services, making it more difficult to raise prices and increasing competition among bank and non-bank competitors. The government is currently discussing with the Chilean Congress a bill to again reform the SERNAC Financiero and its powers. No assurance can be given that these changes will not have a material impact on our fee income.

The SBIF and the Ministry of Finance have drafted a new General Banking Law that is expected to be submitted to the Chilean Congress in 2017. Among other things, the new banking law is expected to include clearer guidelines for the adoption of Basel III regulations in Chile and new regulations regarding the SBIF's corporate governance. Although we currently have a regulatory capital ratio of 13.4% as of December 31, 2016 and a core capital ratio of 10.5%, this change could require us to inject additional capital to our business in the future. According to initial estimates of the impact of market risk on regulatory capital, published for informational purposes only by the SBIF, our ratio of regulatory capital to risk-weighted assets, net of loan loss allowance and deductions, including an initial estimate of the adjustments for market risk was 12.2% as of December 31, 2016. Additionally, for the purposes of reporting to our parent company, we calculate this ratio using a model approved by the European Central Bank standards. In this scenario our core capital ratio is 12.1% and our regulatory capital ratio is 15.5% as of December 31, 2016. No assurance can be given that these changes will not have a material impact on our capitalization ratio.

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

As of December 31, 2016 on a consolidated basis, we had 11,354 employees, of which 72.2% were unionized. In March 2014, a new collective bargaining agreement was signed with the main unions, which became effective on January 1, 2014, and which will expire on December 31, 2018. We generally apply the terms of our collective bargaining agreement to unionized and non-unionized employees. We have traditionally had good relations with our employees and their unions, but we cannot assure you that in the future, a strengthening of cross-industry labor movements will not materially and adversely affect our business, financial condition or results of operations.

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

Expands the scope of collective bargaining. Currently some groups of workers are excluded from the collective bargaining process.

Expands workers ability to switch unions and gives workers the same rights under a collective bargaining agreement if they affiliate themselves post-negotiations.

Expand the right to greater information of unions including the wages of each worker included in a collective bargaining agreement.

Simplifies the standard collective bargaining process.

Collective bargaining agreements must last maximum three years instead of four.

Eliminate the ability of the employer to replace workers on strike and establishes minimum service guidelines that workers must respect.

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

Amplifies the matters that can be negotiated in collective bargaining.

Greater hours for training of union representatives.

Strengthen the participation of women in unions.

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

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

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

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

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

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

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received in the manner described above, are not entitled to the benefits of the Foreign Investment Contract, may not have access to the Formal Exchange Market, and may have restrictions on their ability to repatriate investments in shares of our common stock and earnings therefrom.

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

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

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

We are a Chilean corporation. None of our directors are residents of the United States and most of our executive officers reside outside of the United States. In addition, a substantial portion of our assets and the assets of our directors and executive officers are located outside the United States. Although we have appointed an agent for service of process in any action against us in the United States with respect to our ADSs, none of our directors, officers or controlling persons has consented to service of process in the United States or to the jurisdiction of any United States court. As a result, it may be difficult for investors to effect service of process within the United States on such persons.

It may also be difficult for ADS holders to enforce in the United States or in Chilean courts money judgments obtained in United States courts against us or our directors and executive officers based on civil liability provisions of the U.S. federal securities laws. If a U.S. court grants a final money judgment in an action based on the civil liability provisions of the federal securities laws of the United States, enforceability of this money judgment in Chile will be subject to the obtaining of the relevant “*exequatur*” (*i.e.*, recognition and enforcement of the foreign judgment) according to Chilean civil procedure law currently in force, and consequently, subject to the satisfaction of certain factors. The most important of these factors are the existence of reciprocity, the absence of a conflicting judgment by a Chilean court relating to the same parties and arising from the same facts and circumstances and the Chilean courts’ determination that the U.S. courts had jurisdiction, that process was appropriately served on the defendant and that enforcement would not violate Chilean public policy. Failure to satisfy any of such requirements may result in non-enforcement of your rights.

Risks Relating to Our Controlling Shareholder and our ADSs

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

Santander Spain, our controlling shareholder, controls Santander-Chile through its holdings in Teatinos Siglo XXI Inversiones S.A. and Santander Chile Holding S.A., which are controlled subsidiaries. Santander Spain has control over 67.18% of our shares and actual participation, excluding non-controlling shareholders that participate in Santander Chile Holding, S.A. of 67.06%.

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

- elect the majority of the directors and exercise control over our company and subsidiaries;

- cause the appointment of our principal officers;

- declare the payment of any dividends;

- agree to sell or otherwise transfer its controlling stake in us; and

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

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

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

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

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

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

Our ADSs are listed and traded on the NYSE. Our common stock is listed and traded on the Santiago Stock Exchange, the Chile Electronic Stock Exchange and the Valparaiso Stock Exchange, which we refer to collectively as the Chilean Stock Exchanges, although the trading market for the common stock is small by international standards. At December 31, 2016, we had 188,446,126,794 shares of common stock outstanding. The Chilean securities markets are

substantially smaller, less liquid and more volatile than major securities markets in the United States. According to Article 14 of the Ley de Mercado de Valores, Ley No. 18,045, or the Chilean Securities Market Law, the Superintendencia de Valores y Seguros, or the Superintendency of Securities and Insurance, may suspend the offer, quotation or trading of shares of any company listed on one or more Chilean Stock Exchanges for up to 30 days if, in its opinion, such suspension is necessary to protect investors or is justified for reasons of public interest. Such suspension may be extended for up to 120 days. If, at the expiration of the extension, the circumstances giving rise to the original suspension have not changed, the Superintendency of Securities and Insurance will then cancel the relevant listing in the registry of securities. In addition, the Santiago Stock Exchange may inquire as to any movement in the price of any securities in excess of 10% and suspend trading in such securities for a day if it deems necessary.

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

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You may be unable to exercise preemptive rights.

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

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

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

Our corporate affairs are governed by our estatutos, or by-laws, and the laws of Chile, which may differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States or in certain other jurisdictions outside Chile. Under Chilean corporate law, you may have fewer and less well-defined rights to protect your interests than under the laws of other jurisdictions outside Chile. For example, under legislation applicable to Chilean banks, our shareholders would not be entitled to appraisal rights in the event of a merger or other business combination undertaken by us.

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

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

Holders of ADSs will not be our direct shareholders and will be unable to enforce directly the rights of shareholders under our by-laws and the laws of Chile. Holders of ADSs may exercise voting rights with respect to the common

stock represented by ADSs only in accordance with the deposit agreement governing the ADSs. Holders of ADSs will face practical limitations in exercising their voting rights because of the additional steps involved in our communications with ADS holders. Holders of our common stock will be able to exercise their voting rights by attending a shareholders' meeting in person or voting by proxy. By contrast, holders of ADSs will receive notice of a shareholders' meeting by mail from the Depositary following our notice to the Depositary requesting the Depositary to do so. To exercise their voting rights, holders of ADSs must instruct the Depositary on a timely basis on how they wish to vote. This voting process necessarily will take longer for holders of ADSs than for holders of our common stock. If the Depositary fails to receive timely voting instructions for all or part of the ADSs, the Depositary will assume that the holders of those ADSs are instructing it to give a discretionary proxy to a person designated by us to vote their ADSs, except in limited circumstances.

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

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

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

· as an ADS holder, you may not be able to exercise the same shareholder rights as a direct holder of ordinary shares;

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

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

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Overview

We are the largest bank in Chile in terms of total assets and loans. As of December 31, 2016, we had total assets of Ch\$37,030,025 million (U.S.\$55,601 million), outstanding loans, net of allowances for loan losses of Ch\$26,147,154 million (U.S.\$39,260 million), total deposits of Ch\$20,691,024 million (U.S.\$31,068 million) and equity of Ch\$2,938,199 million (U.S.\$4,412 million). As of December 31, 2016, we employed 11,354 people. We have a leading presence in all the major business segments in Chile, and the largest distribution network with national coverage spanning across all the country, including the only privately owned bank with a branch in Easter Island. We offer unique transaction capabilities to clients through our 423 branches and 1,295 ATMs. Our headquarters are located in Santiago and we operate in every major region of Chile.

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

The legal predecessor of Santander-Chile was Banco Santiago (“Santiago”). Old Santander-Chile was established as a subsidiary of Santander Spain in 1978. On August 1, 2002, Santiago and Old Santander Chile merged, whereby the latter ceased to exist and Santander-Chile (formerly known as Santiago) being the surviving entity.

Our principal executive offices are located at Bandera 140, 20th floor, Santiago, Chile. Our telephone number is +562-320-2000 and our website is www.santander.cl. None of the information contained on our website is incorporated by reference into, or forms part of, this Annual Report. Our agent for service of process in the United States is CT Corporation, located at 111 Eighth Avenue, 13th Floor, New York, New York 10011.

Relationship with Santander Spain

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

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

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

B. Business Overview

We have 423 total branches, 274 of which are operated under the Santander brand name, with the remaining branches under certain specialty brand names, including 39 under the *Santander Banefe* brand name, 53 under the Select brand name, 8 specialized branches for the Middle Market and 49 as auxiliary and payment centers. We provide a full range of financial services to corporate and individual customers. We divide our clients into the following groups: (i) Retail banking, (ii) Middle-market, (iii) Global Corporate Banking and (iv) Corporate Activities ("Other").

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

Retail Banking

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

Middle-market

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

Global Corporate Banking

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

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

Table of ContentsCorporate Activities (“Other”)

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

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

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

	As of December 31, 2016					
	Loans and accounts receivable from customers	Net fee and commission income	Financial transactions, net	Provision for loan losses	Support for expenses	Segment’s net contribution
	(1)		(2)		(3)	
	Ch\$mn					
Retail Banking	18,604,936	931,655	21,141	(323,888)	(529,909)	295,294
Middle-market	6,396,376	240,851	19,577	(26,748)	(83,412)	185,228
Global Corporate Banking	2,121,513	923,077	55,927	7,579	(53,935)	129,753
Other	83,606	10,656	43,713	974	(19,649)	36,885
Total	27,206,431	1,284,326	140,358	(342,083)	(686,905)	647,160
Other operating income						6,427
Other operating expenses and impairment						(69,136)
Income from investments in associates and other companies						3,012
Income tax expense						(109,031)
Net income for the year						478,432

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

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

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

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Operations through Subsidiaries

Today, the General Banking Law permits us to directly provide the leasing and financial advisory services that we could formerly offer only through our subsidiaries, to offer investment advisory services outside of Chile and to undertake activities that we could not formerly offer directly or through subsidiaries, such as factoring, securitization, foreign investment funds, custody and transport of securities and insurance brokerage services. For the twelve-month period ended December 31, 2016, our subsidiaries collectively accounted for 0.6% of our total consolidated assets.

Name of the Subsidiary	Main activity	Percent ownership share As of December 31,								
		2016			2015			2014		
		Direct	Indirect	Total	Direct	Indirect	Total	Direct	Indirect	Total
		%	%	%	%	%	%	%	%	%
Santander Corredora de Seguros Limitada	Insurance brokerage	99.75	0.01	99.76	99.75	0.01	99.76	99.75	0.01	99.76
Santander Corredores de Bolsa Limitada(*)	Financial instruments brokerage	50.59	0.41	51.00	50.59	0.41	51.00	50.59	0.41	51.00
Santander Agente de Valores Limitada	Securities brokerage	99.03	—	99.03	99.03	—	99.03	99.03	—	99.03
Santander S.A. Sociedad Securitizadora	Purchase of credits and issuance of debt instruments	99.64	—	99.64	99.64	—	99.64	99.64	—	99.64
Santander Servicios de Recaudación y Pagos Limitada(**)	Support business, making and receiving payments	—	—	—	—	—	—	99.90	0.1	100.00

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

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

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

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

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

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

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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 de Chile (which operates within the same legal and regulatory framework as the private sector banks). The private-sector banks include local banks and a number of foreign-owned banks operating in Chile. The Chilean banking system is comprised of 22 banks, including one public-sector bank. The four largest banks accounted for 69.1% of all outstanding loans by Chilean financial institutions as of December 31, 2016 (excluding assets held abroad by Chilean banks).

The Chilean banking system has experienced increased competition in recent years, largely due to consolidation in the industry and new legislation. We also face competition from non-bank and non-finance competitors, principally department stores, credit unions and *cajas de compensación* (private, non-profitable corporations whose aim is to administer social welfare benefits, including payroll loans, to their members) with respect to some of our credit products, such as credit cards, consumer loans and insurance brokerage. In addition, we face competition from non-bank finance competitors, such as leasing, factoring and automobile finance companies, with respect to credit products, and mutual funds, pension funds and insurance companies, with respect to savings products. Currently, banks continue to be the main suppliers of leasing, factoring and mutual funds, and the insurance sales business has grown rapidly.

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

The following tables set out certain statistics comparing our market position to that of our peer group, defined as the five largest banks in Chile in terms of total loans as of December 31, 2016 (excluding assets held by Chilean banks abroad).

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

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

Source: SBIF

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

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Loans

As of December 31, 2016, our loan portfolio was the largest among Chilean banks. Our loan portfolio, including interbank loans, represented 19.4% of the market for loans in the Chilean financial system as of such date. The following table sets forth our and our peer group's market shares in terms of loans (excluding assets held by Chilean banks abroad).

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

Source: SBIF

Deposits

We had a 18.8% market share in deposits, ranking first among banks in Chile as of December 31, 2016. Deposit market share is based on total time and demand deposits as of the respective dates. The following table sets forth our and our peer group's market shares in terms of deposits (excluding assets held by Chilean banks abroad).

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

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

Source: SBIF.

Total equity

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

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

Source: SBIF.

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Efficiency

As of December 31, 2016, we were the most efficient bank in our peer group. The following table sets forth our and our peer group's efficiency ratio (defined as operating expenses as a percentage of operating revenue, which is the aggregate of net interest income, fees and income from services (net), net gains from mark-to-market and trading, exchange differences (net) and other operating income (net)) in each case under Chilean Bank GAAP.

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

Source: SBIF.

Net income for the period attributable to equity holders

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

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

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

Source: SBIF.

Return on equity

As of December 31, 2016, we were the second most profitable bank in our peer group (as measured by return on period-end equity under Chilean Bank GAAP) and the most capitalized bank as measured by the Chilean BIS ratio. The following table sets forth our and our peer group's return on average equity and BIS ratio.

	Return on period-end equity as of December 31, 2016 (Chilean Bank GAAP)		BIS Ratio as of December 31, 2016 (Chilean Bank GAAP)	
Santander-Chile	16.4 %		13.4 %	
Banco de Chile	19.1 %		13.9 %	
Banco de Crédito e Inversiones	13.5 %		13.4 %	
Banco del Estado de Chile	10.2 %		11.3 %	
BBVA, Chile	9.7 %		12.3 %	
Itaú Corpbanca	(0.1)%		14.0 %	
Chilean Financial System	11.0 %		13.8 %	

Source: SBIF.

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Asset Quality

As of December 31, 2016, we had the second-highest non-performing loan to loan ratio in our peer group. The following table sets forth our and our peer group's non-performing loan ratio as defined by the SBIF as of December 31, 2016.

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

Source: SBIF.

(1) Excluding interbank loans.

Regulation and Supervision

General

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

The modern Chilean banking system dates from 1925 and has been characterized by periods of substantial regulation and state intervention, as well as periods of deregulation. The most recent period of deregulation commenced in 1975

and culminated in the adoption of a series of amendments to General Banking Law. That law, amended most recently in 2001, granted additional powers to banks, including general underwriting powers for new issues of certain debt and equity securities and the power to create subsidiaries to engage in activities related to banking, such as brokerage, investment advisory and mutual fund services, administration of investment funds, factoring, securitization products and financial leasing services.

The Central Bank

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

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

The SBIF

Banks are supervised and controlled by the SBIF, an independent Chilean governmental agency. The SBIF authorizes the creation of new banks and has broad powers to interpret and enforce legal and regulatory requirements applicable to banks and financial companies. Furthermore, in cases of noncompliance with such legal and regulatory requirements, the SBIF has the ability to impose sanctions. In extreme cases, it can appoint, with the

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prior approval of the Board of Directors of the Central Bank, a provisional administrator to manage a bank. It must also approve any amendment to a bank's by-laws or any increase in its capital.

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

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

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

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

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

· that the bank or banks maintain regulatory capital higher than 8.0% and up to 14.0% of their risk-weighted assets;

· that the technical reserve established in Article 65 of the General Banking Law be applicable when deposits exceed one and a half times the resulting bank's paid-in capital and reserves; or

that the margin for interbank loans be reduced to 20.0% of the resulting bank's regulatory capital.

If the acquiring bank or resulting group would own a market share in loans determined by the SBIF to be more than 15.0% but less than 20.0%, the authorization will be conditioned on the bank or banks maintaining a regulatory capital not lower than 10.0% of their risks-weighted assets for the period specified by the SBIF, which may not be less than one year. The calculation of the risk-weighted assets is based on a five-category risk classification system applied to a bank's assets that is based on the Basel Committee recommendations.

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

a bank is required to inform the SBIF of the identity of any person owning, directly or indirectly, 5.0% or more of such banks' shares;

holders of ADSs must disclose to the Depository the identity of beneficial owners of ADSs registered under such holders' names;

the Depository is required to notify the bank as to the identity of beneficial owners of ADSs which such Depository has registered and the bank, in turn, is required to notify the SBIF as to the identity of the beneficial owners of the ADSs representing 5.0% or more of such banks' shares; and

bank shareholders who individually hold 10.0% or more of a bank's capital stock and who are controlling shareholders must periodically inform the SBIF of their financial condition.

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Limitations on Types of Activities

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

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

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

Deposit Insurance

The Chilean government guarantees up to 90.0% of the principal amount of certain time and demand deposits and savings accounts held by natural persons with a maximum value of UF120 per person (Ch\$3,161,758 or U.S.\$4,747 as of December 31, 2016) per calendar year in the entire financial system.

Reserve Requirements

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

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

The Central Bank has statutory authority to require banks to maintain reserves of up to an average of 40.0% for demand deposits and up to 20.0% for time deposits (irrespective, in each case, of the currency in which they are denominated) to implement monetary policy. In addition, to the extent that the aggregate amount of the following types of liabilities exceeds 2.5 times the amount of a bank’s regulatory capital, a bank must maintain a 100.0% “technical reserve” against them: demand deposits, deposits in checking accounts, or obligations payable on sight incurred in the ordinary course of business, and in general all deposits unconditionally payable immediately but excluding interbank demand deposits.

Minimum Capital

Under the General Banking Law, a bank is required to have a minimum of UF800,000 (approximately Ch\$21,078 million or U.S.\$31.6 million as of December 31, 2016) of paid-in capital and reserves, calculated in accordance with Chilean Bank GAAP, regulatory capital of at least 8.0% of its risk weighted assets, net of required allowances, and paid in capital and reserves of at least 3.0% of its total assets, net of required allowances, as calculated in accordance with Chilean Bank GAAP.

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Regulatory capital is defined as the aggregate of:

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

its subordinated bonds, valued at their placement price (but decreasing by 20.0% for each year during the period commencing six years prior to maturity), for an amount up to 50.0% of its core capital; and

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

Capital Adequacy Requirements

According to the General Banking Law, each bank should have regulatory capital of at least 8.0% of its risk-weighted assets, net of required allowances. The calculation of risk weighted assets is based on a five-category risk classification system for bank assets that is based on the Basel Committee recommendations. The SBIF is expected to implement in 2017 the Basel III capital standards in Chile, which will include the implementation of capital limits with market risk and operational risk-weighted assets. These changes must be approved by the Chilean Congress, as it involves a modification to the General Banking Law.

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

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

Lending Limits

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

A bank may not extend to any entity or individual (or any one group of related entities), except for another financial institution, directly or indirectly, unsecured credit in an amount that exceeds 10.0% of the bank's regulatory capital, or in an amount that exceeds 30.0% of its regulatory capital if the excess over 10.0% is secured by certain assets with a value equal to or higher than such excess. These limits were raised from 5.0% and 25.0%, respectively, in 2007 by the *Reformas al Mercado de Capitales II* (also known as MK2). In the case of financing infrastructure projects built by government concession, the 10.0% ceiling for unsecured credits is raised to 15.0% if secured by a pledge over the concession, or if granted by two or more banks or finance companies which have executed a credit agreement with the builder or holder of the concession;

a bank may not extend loans to another financial institution subject to the General Banking Law in an aggregate amount exceeding 30.0% of its regulatory capital;

a bank may not directly or indirectly grant a loan whose purpose is to allow an individual or entity to acquire shares of the lender bank;

a bank may not lend, directly or indirectly, to a director or any other person who has the power to act on behalf of the bank; and

a bank may not grant loans to related parties (including holders of more than 1.0% of its shares) on more favorable terms than those generally offered to non-related parties. Loans granted to related parties are subject to the limitations described in the first bullet point above. In addition, the aggregate amount of loans to related parties may not exceed a bank's regulatory capital.

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

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Allowance for Loan Losses

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

Differences between IFRS and Chilean Bank GAAP

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

Suspension of Income Recognition on Accrual Basis

In accordance with the Compendium, financial institutions must suspend recognition of income on an accrual basis in their statements of income for certain loans included in the impaired portfolio. IFRS does not allow the suspension of accrual of interest on financial assets for which an impairment loss has been determined. This difference does not materially impact our Audited Consolidated Financial Statements.

Charge-offs and Accounts Receivable

The Compendium requires companies to establish deadlines for the charge-off of loans and accounts receivable. IFRS does not require any such deadline for charge-offs. A charge-off due to impairment would be recorded, if and only if, all efforts at collection of the loan or account receivable had been exhausted. Accordingly, this difference does not materially impact our Audited Consolidated Financial Statements.

Assets Received in Lieu of Payment

The Compendium requires that the initial value of assets received in lieu of payment be the value agreed upon with a debtor as a result of the loan settlement or the value awarded in an auction, as applicable. These assets are required to be written off one year after their acquisition, if the assets have not been previously disposed of. IFRS requires that assets received in lieu of payment be initially accounted for at fair value. Subsequently, asset valuation depends on the classification provided by the entity for that type of asset. No deadline is established for charging-off an asset. The Bank has adjusted the Audited Consolidated Financial Statements accordingly.

Loan loss allowances

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

Provisions for country risk and for contingent loan risk

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

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

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These differences do not materially impact our financial statements.

Deferred taxes

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

Provision for mandatory dividends

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

Capital Markets

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

Legal Provisions Regarding Banking Institutions with Economic Difficulties

The General Banking Law provides that if specified adverse circumstances exist at any bank, its Board of Directors must correct the situation within 30 days from the date of receipt of the relevant financial statements. If the Board of Directors is unable to do so, it must call a special shareholders' meeting to increase the capital of the bank by the amount necessary to return the bank to financial stability. If the shareholders reject the capital increase, or if it is not effected within the term and in the manner agreed to at the meeting, or if the SBIF does not approve the Board of

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

Dissolution and Liquidation of Banks

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

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

Obligations Denominated in Foreign Currencies

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

Loans and Investments in Foreign Securities

Under current Chilean banking regulations, banks in Chile may grant loans to foreign individuals and entities and invest in certain securities of foreign issuers. Banks may grant commercial loans and foreign trade loans, and can buy loans granted by banks abroad. Banks in Chile may also invest in debt securities traded in formal secondary markets. Such debt securities must be (1) securities issued or guaranteed by foreign sovereign states or their central banks or other foreign or international financial entities, and (2) bonds issued by foreign companies. If the sum of investment in foreign securities and loans granted outside of Chile surpasses 70.0% of regulatory capital, the amount that exceeds 70.0% is subject to a mandatory reserve of 100.0%.

Table 1

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

In the event that the sum of: (a) loans granted abroad that are not to subsidiaries of Chilean companies, and that have a rating of BB- or less and do not trade on a foreign stock exchange, and (b) the investments in foreign securities which have a rating that is below that indicated in Table 1 above, but is equal to or exceeds the ratings mentioned in the Table 2 below and exceeds 20.0% (and 30.0% for banks with a BIS ratio equal or exceeding 10% of the regulatory capital of such bank), the excess is subject to a mandatory reserve of 100.0%.

Table 2

Rating Agency	Short Term	Long Term
Moody's	P2	Ba3
Standard and Poor's	A-2	BB-
Fitch	F2	BB-
Dominion Bond Rating (DBRS)	R-2	BB (low)

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

Additionally, a Chilean bank may invest in foreign securities whose rating is equal to or exceeds those mentioned in Table 3 below in: (i) demand deposits with foreign banks, including overnight deposits in a single entity; and (ii) securities issued or guaranteed by sovereign states or their central banks or securities issued or guaranteed by foreign entities within the Chilean State, though investment will be subject to the limits by issuer up to 30.0% and 50.0%, respectively, of the regulatory capital of the Chilean bank that makes the investment. If these foreign securities do not have a rating, the individual limit will be 10.0% of regulatory capital.

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Table 3

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

Moreover, the sum of all demand deposits with foreign banks, including overnight deposits to related parties, as defined by the Central Bank and the SBIF, cannot surpass 25.0% of a bank's regulatory capital. This limit excludes foreign branches of Chilean banks or their subsidiaries, but must include amounts deposited by these entities in related parties abroad.

Chilean banks may only invest in equity securities of foreign banks and certain other foreign companies which may be affiliates of the bank or which would be complementary to the bank's business if such companies were incorporated in Chile.

“Mortgage Bonds”

In 2012, the mortgage-covered bond legislation was approved by the Chilean Congress. These bonds, known as “mortgage bonds,” are debt backed by the company that sells them, as well as by a pool of mortgages that in the event of insolvency the pool of mortgages are auctioned with the corresponding mortgage bond. Unlike covered bonds, they are not be limited to banks. These bonds, if bought by banks, are available for immediate liquidity in the Central Bank liquidity window and have other restrictions as to the type of mortgage they will be funding, *i.e.* mortgage loans with loan-to-values of maximum 80.0%.

U.S. Banking Regulation—Volcker Rule

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

U.S. government and agency obligations as well as certain foreign government obligations, and trading solely outside the United States, and also permit certain ownership interests in certain types of funds to be retained. Banking entities such as Santander Spain must bring their activities and investments worldwide into compliance with the requirements of the Volcker Rule by the end of the conformance period applicable to each requirement.

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

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

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

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

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

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

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

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

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

negligible relative to the overall revenues and profits of Banco Santander S.A.

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

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

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

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

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

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

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

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

The Group also has certain legacy performance guarantees for the benefit of Bank Sepah and Bank Mellat (stand-by letters of credit to guarantee the obligations – either under tender documents or under contracting agreements – of contractors who participated in public bids in Iran) that were in place prior to April 27, 2007.

In the aggregate, all of the transactions described above resulted in gross revenues and net profits in the year ended December 31, 2016, which were negligible relative to the overall revenues and profits of Banco Santander, S.A. The Group has undertaken significant steps to withdraw from the Iranian market such as closing its representative office in Iran and ceasing all banking activities therein, including correspondent relationships, deposit taking from Iranian entities and issuing export letters of credit, except for the legacy transactions described above. The Group is not contractually permitted to cancel these arrangements without either (i) paying the guaranteed amount (in the case of the performance guarantees), or (ii) forfeiting the outstanding amounts due to it (in the case of the export credits). As

such, the Group intends to continue to provide the guarantees and hold these assets in accordance with company policy and applicable laws.

C. Organizational Structure

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

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

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

D. Property, Plant and Equipment

We are domiciled in Chile and own our principal executive offices located at Bandera 140, 20th floor, Santiago, Chile. At December 31, 2016, we owned the locations at which 23.5% of our branches were located. The remaining branches operate at rented locations. We believe that our existing physical facilities are adequate for our needs.

Main properties as of December 31, 2016 Number**Central Offices**

Owned	4
Rented	5
Total	9

Branches(1)

Owned	98
Rented	319
Total	417

Other property(2)

Owned	49
Rented	5
Total	54

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

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

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

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ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Accounting Standards Applied in 2016

Santander-Chile is a Chilean bank and maintains its financial books and records in Chilean pesos and prepares its consolidated financial statements in accordance with IFRS-IASB in order to comply with requirements of the SEC. As required by the General Banking Law, which subjects Chilean banks to the regulatory supervision of the SBIF, and which mandates that Chilean banks abide by the accounting standards stipulated by the SBIF, our locally-filed consolidated financial statements have been prepared in accordance with Chilean Bank GAAP as issued by the SBIF. The accounting principles issued by the SBIF are substantially similar to IFRS but there are some exceptions, as described in Item 4. Therefore, our locally-filed consolidated financial statements have been adjusted according to IFRS as issued by the IASB.

Critical Accounting Policies

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

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

Allowance for loan losses

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

- Individual assessment of debtors: when debtors are recorded as individually significant, *i.e.*, when they have significant debt levels or, even for those that do not have these levels, could be classified

in a group of financial assets with similar credit risk features and who, due to the size, complexity or level of exposure, require detailed information. See “Item 5. Operating and Financial Review and Prospects—C. Selected Statistical Information—Classification of Loan Portfolio—Classification of Loan Portfolio—Credit Approval: Loans approved on an individual basis” and “Note 1—Summary of Significant Accounting Policies—(p) Provisions for loan losses” of our Audited Consolidated Financial Statements.

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

Valuation of financial instruments

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

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

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

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

Derivative activities

Derivatives are measured at fair value on the statement of financial position and the net unrealized gain (loss) on derivatives is classified as a separate line item within the income statement. Under IFRS, banks must mark-to-market derivatives. A derivative financial instrument held for trading purposes must be marked to market and the unrealized gain or loss must be recognized in the income statement. Within the fair value of derivatives are included Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA), all with the objective that the fair value of each instrument includes the credit risk of its counterparty and Bank’s own risk. The CVA is a valuation adjustment to OTC derivatives as a result of the risk associated with the credit exposure assumed by each counterparty in each future period. The DVA is a valuation adjustment similar to the CVA but, in this case, it arises as a result of the Bank’s own risk assumed by its counterparties. The following inputs are used to calculate the CVA and DVA:

Expected exposure: Including for each transaction the mark-to-market (MtM) value plus an add-on for the potential future exposure for each period. Mitigating factors such as collateral and netting agreements are taken into account, as well as a temporary impairment factor for derivatives with interim payments.

LGD: percentage of final loss assumed in a counterparty credit event/default.

Probability of default: for cases where there is no market information, proxies based on comparable companies in the same industry and with the same external rating as the counterparty, are used.

Discount factor curve.

Impairment of available-for-sale financial assets,

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

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

Deferred tax assets and liabilities

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

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

Provision for liabilities

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

A. Operating Results

Chilean Economy

All of our operations and substantially all of our customers are located in Chile. Accordingly, our financial condition and results of operations are substantially dependent upon economic conditions prevailing in Chile. In 2016, the Chilean economy grew approximately 1.6% compared to 2.1% in 2015 and 1.9% in 2014. In the same period, the Central Bank of Chile reported that internal demand increased 1.1% compared to an increase of 1.8% in 2015 and a decrease of 0.3% in 2014. The growth of internal demand was led by growth of total consumption, which was up 2.8% while growth in the mining sector contracted due to concerns regarding global economic growth, especially growth in China.

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

The growth of the Chilean banking sector evolved in line with overall economic developments, with an increase in the volume of loans and deposits. Total loans as of December 31, 2016 in the Chilean financial system were Ch\$140,258,239 million (U.S.\$211 billion), excluding loans held by subsidiaries of Chilean banks abroad, grew 5.7% in 2016. Total customer deposits (defined as time deposits plus checking accounts), excluding loans held by

subsidiaries of Chilean banks abroad grew 3.4% in 2016 and totaled Ch\$109,901,300 million (U.S.\$165 billion) as of December 31, 2016. The non-performing loan (defined as loans with an installment that is at least 90 days past-due) to total loans ratio remained stable at year end for both 2016 and 2015.

Impact of inflation

Our assets and liabilities are denominated in Chilean pesos, Unidades de Fomento (UF) and foreign currencies. The Bank no longer recognizes inflation accounting and has eliminated price-level restatement in line with IFRS, but inflation impacts our results of operations as some loan and deposit products are contracted in UF. The UF is revalued in monthly cycles. Each day in the period beginning on the tenth day of the current month through the ninth day of the succeeding month, the nominal peso value of the UF is indexed up (or down in the event of deflation) in order to reflect a proportionate amount of the change in the Chilean Consumer Price Index during the prior calendar month. One UF equaled Ch\$26,347.98 at December 31, 2016, Ch\$25,629.09 at December 31, 2015 and Ch\$24,627.10 at December 31, 2014. High levels of inflation in Chile could adversely affect the Chilean economy and could have an adverse effect on our business, financial condition and results of operations. Negative inflation rates also negatively impact our results. Inflation measured as the annual variation of the UF was 2.8% in 2016, 4.1% in 2015 and 5.7% in 2014. There can be no assurance that Chilean inflation will not change significantly from the current level. Although we currently benefit from moderate levels of inflation, due to the current structure of our assets and liabilities (i.e., a significant portion of our loans are indexed to the inflation rate, but there are no corresponding features in deposits or other funding sources that would increase the size of our funding base), there can be no assurance that our business, financial condition and result of operations in the future will not be adversely affected by changing levels of inflation. In summary:

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UF-denominated assets and liabilities. The effect of any changes in the nominal peso value of our UF-denominated interest earning assets and interest bearing liabilities is reflected in our results of operations as an increase (or decrease, in the event of deflation) in interest income and expense, respectively. Our net interest income will be positively affected by an inflationary environment to the extent that our average UF-denominated interest earning assets exceed our average UF-denominated interest bearing liabilities. Our net interest income will be positively affected by deflation in any period in which our average UF-denominated interest bearing liabilities exceed our average UF-denominated interest earning assets. Our net interest income will be negatively affected in a deflationary environment if our average UF-denominated interest earning assets exceed our average UF-denominated interest bearing liabilities.

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

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

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

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

Peso-denominated assets and liabilities. Interest rates prevailing in Chile during any period primarily reflect the inflation rate during the period and the expectations of future inflation. The sensitivity of our peso-denominated

interest earning assets and interest bearing liabilities to changes to such prevailing rates varies. See “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Interest Rates.” We maintain a substantial amount of non-interest bearing peso-denominated demand deposits. Because such deposits are not sensitive to inflation, any decline in the rate of inflation would adversely affect our net interest margin on inflation indexed assets funded with such deposits, and any increase in the rate of inflation would increase the net interest margin on such assets. The ratio of the average of such demand deposits and average shareholder’s equity to average interest-earning assets was 29.0%, 29.9%, and 30.2% for the years ended December 31, 2016, 2015, and 2014, respectively.

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

Foreign Exchange Fluctuations

The Chilean government’s economic policies and any future changes in the value of the Chilean peso against the U.S. dollar could adversely affect our financial condition and results of operations. The Chilean peso has been subject to significant devaluation in the past and may be subject to significant fluctuations in the future. The Central Bank exchange rate appreciated 5.7% in 2016 and 16.5% in 2015. See “Item 3. Key Information—A. Selected Financial Data—Exchange Rates.” A significant portion of our assets and liabilities are denominated in foreign currencies, principally the U.S. dollar, and we historically have maintained and may continue to maintain material gaps between the balances of such assets and liabilities. Our current strategy is not to maintain a significant difference between the balances of our assets and liabilities in foreign currencies. In 2016, 2015 and 2014, the Bank, in its spot position, held more liabilities than assets in foreign currencies, mainly the U.S. dollar, as a result of an ample supply of U.S. dollar deposits from companies that receive export revenues, foreign correspondent bank loans and bonds issued abroad. This difference is usually hedged using forwards and cross-currency swaps. Including derivatives, the Bank seeks to run no foreign currency risk in its non-trading balance sheet. Because such assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains and losses realized upon the sale of such assets, are translated to Chilean pesos in preparing our financial statements, our reported income is affected by changes in the value of the Chilean peso relative to foreign currencies (principally the U.S. dollar). The translation gain or loss over assets and liabilities (excluding derivatives held for trading) is included as foreign exchange transactions in the income statement. The translation and mark-to-market of foreign currency derivatives held for trading is recognized as a gain or loss in the net results from mark-to-market and trading. See “Item 11. Quantitative and Qualitative Disclosures About Market Risk—E. Market Risks—Foreign exchange fluctuations” for more detail on the Bank’s exposure to foreign currency.

The Bank also uses a sensitivity analysis with both internal limits and regulatory limits to seek to manage the potential loss in net interest income resulting from fluctuations of interest rates on U.S. dollar denominated assets and liabilities and a VaR model to limit foreign currency trading risk.

We also set an absolute limit on the size of Santander-Chile's consolidated net foreign currency trading position. As of December 31, 2016, the net difference between assets and liabilities in foreign currency was a net asset position of U.S.105.4 million. The average gap, be it a net asset or liability position in foreign currency, in 2016 was U.S.\$121.6 million. Both figures include derivatives used to hedge foreign currency risk. See "Item 11. Quantitative and Qualitative Disclosures About Market Risk—Volume limits." The limit on the size of the net foreign currency position is determined by the Asset and Liability Committee and is calculated and monitored by our Market Risk and Control Department.

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Segmentation criteria

The accounting policies used to determine the Bank's income and expenses by reporting segment are the same as those described in the summary of accounting policies in "Note 1—Summary of Significant Accounting Policies" of the Bank's Consolidated Financial Statements, and are customized to meet the needs of the Bank's management. The Bank earns most of its income in the form of interest income, fee and commission income and income from financial operations.

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

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

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

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

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

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

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

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

The following discussion is based upon and should be read in conjunction with the Audited Consolidated Financial Statements. The Audited Consolidated Financial Statements have been prepared in accordance with IFRS as issued by the IASB. The following table sets forth the principal components of our net income for the years ended December 31, 2016, 2015 and 2014.

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

Amounts stated in U.S. dollars at and for the year ended December 31, 2016 have been translated from Chilean (1) pesos at the exchange rate of Ch\$666.00 = U.S.\$1.00 as of December 31, 2016. See “Item 3. Key Information—A. Selected Financial Data—Exchange Rates” for more information on exchange rate.

Results of operations for the years ended December 31, 2016 and 2015. Consolidated net income for the year ended December 31, 2016 increased 5.9% to Ch\$478,432 million. Our return on annualized average equity was 16.8% in 2016 compared to 16.0% in 2015.

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

Net fees and commission income increased 7.1% to Ch\$254,424 million in the twelve-month period ended December 31, 2016 compared to the same period in 2015. In 2016, the Bank continued to experience positive client base and product usage growth. This has driven growth of fees in Global Corporate Banking that rose 64.6% in 2016 as the Bank won an important share of the investment banking, cash management and advisory services for the large

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projects being developed in Chile. The Middle-market segment increased fees by 8.1% and Retail banking increased 3.4% in 2016, mainly due to greater product usage.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Provisions for mortgage loans increased 48.1% in 2015 compared to 2014. This rise was mainly due to: (i) mortgage loan growth, which increased 17.8% in the period being analyzed, and (ii) greater charge-offs of mortgage loans. In light of lower economic growth, the Bank has been restricting the renegotiations of mortgage loans for customers presenting payment difficulties and this resulted in higher charge-offs. This is also leading to higher recoveries, which

in the case of mortgage loans, increased 27.7% in 2015 compared to 2014. The Bank also focused mortgage loan growth on higher income earners that in general are less risky. As a result of the change in the loan mix and the higher charge-offs, mortgage loan asset quality improved in 2015 compared to 2014. Mortgage loan asset quality improved in 2015 compared to 2014. The non-performing ratio for mortgage loans declined from 2.7% in 2014 to 2.1% in 2015. The impaired mortgage loans ratio also improved from 5.6% in 2014 to 5.1% in 2015.

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

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

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

Operating expenses increased 5.3% compared to 2014. The efficiency ratio was 43.8% in 2015 compared to 41.1% in 2014. The 14.2% increase in personnel salaries and expenses was mainly due to an increase in personnel compensation, higher severance payments and greater costs related to benefits included in the Bank’s collective bargaining agreement. Severance payments increased 222.4% to Ch\$34,051 million. The Bank in 2015 executed a

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program to eliminate high level management positions in order to mitigate cost growth which entailed greater severance payments. In March 2014, a new collective bargaining agreement was signed with the main unions, which became effective on October 1, 2014, and which will expire on December 31, 2018. This resulted in an increase in certain benefits related to the Bank's health insurance fund and other benefits.

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

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

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

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

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

Net interest income

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

Consists mainly of net interest income from the Financial Management Division and the cost of funding our fixed income trading portfolio. Each segment obtains funding from its clients. Any surplus deposits are transferred to the Financial Management Division, which in turn makes such excess available to other areas that need funding. The (1) Financial Management Division also sells the funds it obtains in the institutional funding market at a transfer price equal to the market price of the funds. This segment also includes intra-segment income and activities not assigned to a given segment or product line.

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

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

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

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

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

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

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

Net interest income from Retail banking increased 6.7%, mainly as a result of the 9.2% increase in loan volumes in this segment. The Bank focused growth in the high end of this segment in order to focus on margins net of risks, especially considering that in 2016 economic growth continued to slow. As a result, the highest growing loan product was residential mortgage loans that have a lower yield compared to other retail loans.

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

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

Other net interest income consists mainly of net interest income from the Bank's ALCO, which includes the available-for-sale investment portfolio, deposits in the Central Bank, the financial cost of supporting our cash position and investment portfolio for trading, the interest income from which is recognized as net income from financial operations and not interest income. The result of the Bank's inflation gap is also included in this line. The net interest income included as "other" decreased from a gain of Ch\$66,815 million in 2015 to a gain of Ch\$10,196 million in 2016. This was due to the lower inflation rate in 2016 and lower interest income from the Bank's liquidity position as well as the gradual introduction of Basel III liquidity requirements, which led the Bank to take more investments with higher liquidity and shorter maturities that have a lower yield.

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

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

(1)

Includes interbank loans.

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

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

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

· Net interest income from Retail banking increased 4.8%, mainly as a result of the 12.1% increase in loan volumes in this segment. The Bank focused growth in the high end of this segment in order to focus on margins net of risks,

especially considering that in 2015 economic growth slowed. As a result, the highest growing loan product was residential mortgage loans that have a lower yield compared to consumer loans. At the same time, the focus on high income earners also resulted in a reduction of the rate earned on consumer loans.

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

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

Other net interest income consists mainly of net interest income from the available-for-sale investment portfolio and deposits in the Central Bank and the financial cost of supporting our cash position and investment portfolio for trading, the interest income from which is recognized as net income from financial operations and not interest income. The result of the Bank's inflation gap is also included in this line. The net interest income included as "other" totaled a gain of Ch\$66,815million in 2015 compared to a gain of Ch\$211,298 million in 2014. The gain in 2015 can be explained by the lower UF inflation in 2015 compared to the previous period and the greater UF gap in 2014. The lower variation of the UF gap resulted in Ch\$99,280 million less net interest income (See "Item 5A—Impact of Inflation"). Other net

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

Fee and commission income

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

The following table sets forth certain components of our income from services (net of fees paid to third parties directly connected to providing those services, principally fees relating to credit card processing and ATM network administration) in the years ended December 31, 2016, 2015 and 2014.

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

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

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

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

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

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

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

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

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

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

	Year ended December 31,			% Change		% Change	
	2016	2015	2014	2016/2015	2015/2014		
	(in millions of Ch\$)						
Retail banking	196,845	190,380	175,007	3.4	%	8.8	%
Middle-market	30,851	28,537	27,055	8.1	%	5.5	%
Global corporate banking	25,077	15,231	22,338	64.6	%	(31.8)	%
Other	1,651	3,479	2,883	(52.5)	%	20.7	%
Total fees and commission income, net	254,424	237,627	227,283	7.1	%	4.6	%

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

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

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

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

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

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

Fees from collections decreased by 14.0% in 2015 compared to 2014. In 2015, we once again auctioned to the lowest bidder the mandatory insurance products that are sold with mortgage loans. This negatively impacted collection fees where this income is recognized.

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

Fees from letters of credit and other contingent operations increased 8.9% in 2015. This increase was mainly due to positive performance of our international and foreign trade financing businesses with clients and also due to the depreciation of the peso against the U.S. dollar since this business is mainly transacted in foreign currency.

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

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

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

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

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

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

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

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

Financial transactions, net

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

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

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

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

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

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

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

- Lesser losses in the sub-item derivatives classified as trading. In 2016, the average yearly exchange rate depreciated 3.5% compared to 14.8% in 2015. Movements in foreign currency affect this line item because it includes the valuation adjustments of our derivatives classified as trading. The Bank’s spot foreign currency position includes all assets and liabilities in foreign currency and assets and liabilities in Ch\$ linked to U.S.\$ that are not derivatives. Internal policy prohibits us from opening a large exposure in foreign currency, but we usually have more liabilities in foreign currency (mainly U.S.\$) in our spot position than assets due to our long-term funding in foreign currency and deposits denominated in foreign currencies from Chilean exporters. This net foreign currency liability spot position is hedged using different instruments. We use derivatives classified as trading, mainly forwards and cross-currency swaps, to hedge the net foreign currency spot position between short-term assets and liabilities. On average, the Bank has more short-term assets, such as U.S. dollars invested in overnight, than short-term deposits in U.S. dollars. The average exchange rate depreciated 3.5% in 2016, producing a loss in derivatives classified as trading. This loss was lower than in 2015, since the average depreciation rate was lower in 2016 against 2015.
- (i) The 15.2% lower gain from trading investments was mainly due to the lower UF inflation rate in 2016 compared to 2015. In this line item the mark-to-market and interest income of the trading fixed income portfolio are recognized. In 2016, the lower UF inflation decreased interest from this portfolio, which is mainly comprised of Central Bank

instruments denominated in UF.

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

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

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

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

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

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

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

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

	Year ended December 31,			% Change	
	2016	2015	2014	2016/2015	2015/2014
	(in millions of Ch\$)				
Santander Global Connect (1)	62,404	60,995	50,740	2.3 %	20.2 %
Market-making with clients	27,382	22,850	33,097	19.8 %	(31.0 %)
Client treasury services	89,786	83,845	83,837	7.1 %	— %
Sale of loans and charged-off loans	4,190	863	6,070	385.5 %	(85.8 %)
Proprietary trading	(94)	(567)	(1,113)	83.5 %	49.0 %
Financial Management Division and others (2)	46,475	61,358	23,771	(24.3 %)	158.1 %
Non-client treasury income (loss)	50,572	61,654	28,728	(18.0 %)	114.6 %
Total financial transactions, net	140,358	145,499	112,565	(3.5 %)	29.3 %

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

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

Client treasury services totaled Ch\$89,786 million, a gain of 7.1% compared to 2015. The results from Santander Global Connect and market-making mainly include the results from the sale of derivatives, foreign exchange and fixed income instruments to our client base. In 2016, the results from Santander Global Connect increased 2.3%. The depreciation of the peso and high market volatility led to a larger demand for hedging from our Corporate and Middle-market clients, driving this income line. The results from market-making with client services increased 19.8% in 2015, mainly due to a growth in business volumes of tailor-made treasury services and cash management sold to specific corporate clients. These results may vary year-to-year as some large operations with corporate clients may not be repeated in subsequent years.

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

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

In 2016, income from the Bank's Financial Management Division decreased 24.3% to Ch\$46,475 million. This department manages the structural interest rate risk, the structural position in inflation-indexed assets and liabilities, capital requirements and liquidity levels. The aim of the Financial Management Division is to provide stability and continuity in our net interest income from commercial activities, and to ensure that we comply with internal and regulatory limits regarding liquidity, regulatory capital, reserve requirements and market risk. This decrease in results was mainly due to lower realized gains from our available-for-sale portfolio. The results from our available-for-sale portfolio decreased 38.3% in 2016 compared to 2015 and totaled Ch\$14,598 million due to the significant decrease in long-term interest rates in the first quarter of 2015. The results from Financial Management Division also include the offset of the foreign currency exposure hedging on provision expenses for loans denominated in U.S. dollars.

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

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

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

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

Financial Statements) increased, the amount of derivatives hedging this position also rose and the loss from derivatives classified as trading rose. For more details, see “Item 11. Quantitative and Qualitative Disclosures About Market Risk—E. Market Risks—Market risk management— Market risk – local and foreign financial management.”

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

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

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

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

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

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

For more details, see “Item 11. Quantitative and Qualitative Disclosures About Market Risk—E. Market Risks—Market risk management— Market risk – local and foreign financial management.”

Client treasury services totaled Ch\$83,845 million and were flat compared to 2014. The results from Santander Global Connect and market-making mainly include the results from the sale of derivatives, foreign exchange and fixed income instruments to our client base. In 2015, the results from Santander Global Connect increased 20.2%. The depreciation of the peso and higher market volatility led to a larger demand for hedging from our Corporate and Middle-market clients, driving this income line. The results from market-making with client services decreased 31.0% in 2014, mainly due to lower business volumes of tailor-made treasury services sold to specific corporate clients. These results may vary year-to-year as some large operations with corporate clients may not be repeated in subsequent years.

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

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

In 2015, income from the Bank's Financial Management Division increased 158.1% to Ch\$61,358 million. This department manages the structural interest rate risk, the structural position in inflation-indexed assets and liabilities, capital requirements and liquidity levels. The aim of the Financial Management Division is to provide stability and continuity in our net interest income from commercial activities, and to ensure that we comply with internal and regulatory limits regarding liquidity, regulatory capital, reserve requirements and market risk. This higher result was mainly due to larger realized gains from our available-for-sale portfolio. The results from our available-for-sale portfolio increased 241.1% in 2015 compared to 2014 and totaled Ch\$23,655 million. This higher gain arose from the decline in long-term interest rates, especially in the first quarter of 2015. The results from Financial Management Division also include the offset of the foreign currency impact on provision expenses in foreign currency. As the peso depreciated against the U.S. dollar, the provision expenses in pesos for dollar denominated loans increased. This exchange rate exposure is hedged and the offsetting gain is recognized here.

Other operating income

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

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

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

Provision for loan losses

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

	Year ended December 31,			% Change	% Change
	2016	2015	2014	2016/2015	2015/2014
	(in millions of Ch\$)				
Provision for loan losses	(409,159)	(454,462)	(403,069)	(10.0 %)	12.8 %
Charge-off of loans analyzed on an individual basis	(11,222)	(12,955)	(10,811)	(13.4 %)	19.8 %
Recoveries on loans previously charged-off	78,298	68,140	58,977	14.9 %	15.5 %
Provision for loan losses, net	(342,083)	(399,277)	(354,903)	(14.3 %)	12.5 %
Year end loans (1)	27,206,431	25,300,757	22,892,649	7.5 %	10.5 %
Non-performing loans (2)	564,131	643,468	644,327	(12.3 %)	(0.1 %)
Impaired loans (3)	1,615,441	1,669,340	1,617,251	(3.2 %)	3.2 %
Allowance for loan losses (4)	790,605	762,301	684,317	3.7 %	11.4 %
Impaired loans / Year end loans (5)	5.94	% 6.60	% 7.06	%	
Non-performing loans / Year end loans (2)	2.07	% 2.54	% 2.81	%	
Allowances for loan losses / Total loans	2.91	% 3.01	% 2.99	%	
Coverage ratio non-performing loans (5)	140.15	% 118.47	% 106.21	%	

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

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

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

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

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

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

Provision for loan losses, which includes the full amount of provisions recognized as a result of loan growth and change in risk classification as well as the net result of provisions and charge-offs of loans analyzed on a group basis, totaled Ch\$409,159 million in 2016 compared to Ch\$454,462 million in 2015 and decreased 10.0%. The following table breaks down provision for loans losses by loan product for the years ended December 31, 2016, 2015 and 2014.

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

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

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

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

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

The provision expense for consumer loans increased 8.2% during 2016, primarily attributable to growth of 7.1% in the loan portfolio in 2016. During 2016, the Bank lowered its exposure to the lower end of the consumer market and

restricted renegotiations for consumer clients presenting payment difficulties, which led to an increase in charge-offs in 2016 and improvements in consumer loan asset quality. This was partially offset by recoveries from loans previously charged-off that increased from Ch\$35,565 million in 2015 to Ch\$41,072 million in 2016. The consumer non-performing loans ratio was 2.2% in 2016 compared to 2.7% in 2015 and the impaired consumer loan ratio decreased from 8.9% in 2015 to 6.5% in 2016.

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

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

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

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

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

In some instances, we will sell a portfolio of charged-off loans to a third party. Gain (loss) on these charged-off loans is recognized as net income from financial transactions as disclosed in “Note 27—Profit and Loss from Financial Operations” of our Audited Consolidated Financial Statements. The following table sets forth information about our sale of charged-off loans for the year ended December 31, 2016, 2015 and 2014.

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

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

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

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

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

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

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

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

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

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Provision for loan losses, which includes the full amount of provisions recognized as a result of loan growth and change in risk classification as well as the net result of provisions and charge-offs of loans analyzed on a group basis, totaled Ch\$454,462 million in 2015 compared to Ch\$403,069 million in 2014 and increased 12.8%.

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

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

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

Excluding this impact, provisions for commercial loans grew 24.6% in the period being analyzed. This rise was mainly due to higher provisions in Global corporate banking as the Bank downgraded various corporate clients affected by the slower economic environment, but which have not yet entered non-performing status. On the other

hand, asset quality in commercial loans in retail banking improved throughout 2015, as the Bank focused growth on less risky commercial retail customers. The NPL ratio in commercial loans decreased from 3.0% in 2014 to 2.6% in 2015 mainly due to improvements in asset quality in retail banking. The impaired commercial loan ratio reached 7.1% in 2015 compared to 7.2% at year-end 2014.

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

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

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

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

In some instances, we will sell a portfolio of charged-off loans to a third party. Gain (loss) on these charged-off loans is recognized as net income from financial transactions as disclosed in “Note 27—Profit and Loss from Financial Operations” of our Audited Consolidated Financial Statements.

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

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

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

Total provisions, net included in Others reached Ch\$12,047 million compared to the Ch\$9,172 million. In Other provision expense we include the impact of the fluctuation of the exchange rate on our provision expense. Of our total loan book, 13.3% is in foreign currency, mainly in dollars and consisting of short-term foreign trade loans. When the

peso depreciates, as was the case in 2015 and 2014, the amount of provisions set aside for these loans translated to local currency rises. This impact has a corresponding hedge recognized in the results from financial transactions and for this reason it is not assigned to any reporting segment.

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

Operating expenses

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

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

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

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

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

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

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

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

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

Other operating expenses were Ch\$68,902 million in 2016, a 17.3% increase compared to 2015. In April 2016, the Bank made changes to the management structure in line with the strategy of reducing mid-upper management levels,

incurring a one-off expense of Ch\$10,789 million due to severance payments .. See “Note 33—Other operating income and expenses” to our Audited Consolidated Financial Statements for more detail on Other operating expenses.

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

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

(1) Excludes impairment and other operating expenses.

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

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

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

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

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

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

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

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

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

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

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in data processing. All segments costs were also affected by the depreciation of the peso against the euro in 2015, which has a negative impact on IT costs denominated in that currency.

Income tax

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

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

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

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

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

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

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

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

income tax expenses in included non-cash income of Ch\$10,600 million in 2015 from the re-adjustments made to the Bank's deferred tax asset base following passage of the new tax law compared to Ch\$39,262 million in 2014.

- (ii) The Bank has more deferred tax assets than liabilities. This gain arises from the difference between the Bank's accounting and tax books regarding how provisions and charge-offs are recognized. When the statutory rates were modified, the Bank's net deferred tax assets increased as the future tax rates used to calculate this asset were gradually increased from 20.0% to 27.0%;

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

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B. Liquidity and Capital Resources

Sources of Liquidity

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

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

	Demand	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Subtotal up to 1 year	Between 1 and 3 years
As of December 31, 2016	(in millions of Ch\$)					
Obligations under repurchase agreements	—	212,437	—	—	212,437	—
Checking accounts, time deposits and other time liabilities (1)	7,949,315	6,105,767	4,193,906	2,537,299	20,786,287	118,100
Financial derivatives contracts	—	92,335	122,565	263,893	478,793	494,539
Interbank borrowings	4,557	373,423	115,769	1,154,063	1,647,812	233,541
Issue debt instruments	—	43,141	185,425	922,705	1,151,271	1,168,100
Other financial liabilities (2)	153,049	1,461	1,161	2,817	158,488	58,641
Subtotal	8,106,921	6,828,564	4,618,826	4,880,777	24,435,088	2,072,921
Contractual interest payments (3)	2,273	56,121	170,861	537,941	767,196	1,762,800
Total	8,109,194	6,884,685	4,789,687	5,418,718	25,202,284	3,835,721

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

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

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

Operational Leases

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

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

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Other Commercial Commitments

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

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

Risk-Weighted Assets and Regulatory Capital

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

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

Consolidated assets as of December 31, 2016	December 31, 2015	Risk-weighted assets(1) December 31, 2016	December 31, 2015
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(Ch\$ million)

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

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

(1) As required by local regulations.

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

(3) As a percentage of total assets.

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

Financial Investments

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

Effective interest method

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

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

Financial assets at FVTPL — Trading investments

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

A financial asset is classified as held for trading if:

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

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

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

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

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

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

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

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

Held to maturity investments

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

Available-for-sale investments (AFS investments)

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

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

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

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

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

Detail regarding the financial investments discussed above is presented below.

a) Trading

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

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b) Available-for-sale

	As of December 31,		
	2016	2015	2014
	(in millions of Ch\$)		
Central Bank and Government Securities			
Chilean Central Bank bonds	468,386	687,292	381,117
Chilean Central Bank notes	1,222,283	—	384
Other Chilean Central Bank and government securities	52,805	145,603	353,419
Subtotal	1,743,474	832,895	734,920
Other Chilean Securities			
Time deposits in Chilean financial institutions	893,000	712,859	590,382
Mortgage bonds of Chilean financial institutions	25,488	29,025	31,693
Chilean financial institution bonds	—	—	—
Chilean corporate bonds	—	—	—
Other Chilean securities	—	—	—
Subtotal	918,488	741,884	622,075
Foreign Financial Securities			
Central Bank and Government Foreign Securities	387,146	—	—
Other Foreign financial securities	339,798	469,632	294,603
Subtotal	726,944	469,632	294,603
Total	3,388,906	2,044,411	1,651,598

c) Held-to-maturity

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

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

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

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

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

Working Capital

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

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Liquidity Management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cash Flow

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

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

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

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

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

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

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

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

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

Deposits and Other Borrowings

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

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

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

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

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Composition of Deposits

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

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

Maturity of Interest Bearing Deposits

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

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

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

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

Short-term Borrowings

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

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

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

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

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

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

Total Borrowings

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

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

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

(a) Credit lines for renegotiations of loans

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

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

As of
December
31, 2015

Due within 1 year	7	4
Total	7	4

(b) Mortgage finance bonds

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

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

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(c) Senior bonds

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

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

The maturities of these bonds are as follows:

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

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

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

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

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(d) Mortgage bonds

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

The maturities of our mortgage bonds are as follows:

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

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

(e) Subordinated bonds

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

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

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

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

During 2016, the Bank did not issue subordinated bonds.

(f) Foreign borrowings

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

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

(g) Other obligations

Other obligations are summarized as follows:

As of December 31, 2016
Ch\$ millions

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

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Other Off-Balance Sheet Arrangements and Commitments

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

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

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

Asset and Liability Management

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

Capital Expenditures

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

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

(1) Includes assets ceded under operating leases.

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

C. Selected Statistical Information

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

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

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

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

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

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

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

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

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

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	For the year ended December 31, 2016			2015			2014	
	Average Balance	Interest Earned	Average Nominal Rate	Average Balance	Interest Earned	Average Nominal Rate	Average Balance	Interest Earned
Interbank loans								
Ch\$	8,291	295	3.6 %	2,271	364	16.0 %	4,356	139
UF	—	—	—%	—	—	—%	—	—
Foreign currency	2	—	—%	3,327	11	0.3 %	1	—
Total	8,293	295	3.6 %	5,598	375	6.7 %	4,357	139
Investment Agreements to resell								
Ch\$	1,388	1,208	87.0 %	204	105	51.5 %	4,074	793
UF	—	302	—%	—	23	—%	—	95
Foreign currency	—	4	—%	—	—	—%	—	—
Total	1,388	1,514	87.0 %	204	128	51.5 %	4,074	888
Threshold(1)								
Ch\$	57,859	242	0.4 %	29,895	62	0.2 %	31	—
UF	4	—	—%	—	—	—%	—	—
Foreign currency	435,946	1,762	0.4 %	612,802	494	0.1 %	479,488	264
Total	493,809	2,004	0.4 %	642,697	556	0.1 %	479,519	264
Total interest earning assets								
Ch\$	11,684,475	1,161,787	9.9 %	11,047,790	1,061,267	9.6 %	11,009,515	1,130,000
UF	13,150,312	871,380	6.6 %	12,382,225	934,880	7.6 %	11,000,787	1,022,000
Foreign currency	4,836,524	103,953	2.1 %	5,092,990	89,841	1.8 %	4,749,394	73,450
Total	29,671,311	2,137,120	7.2 %	28,523,005	2,085,988	7.3 %	26,759,696	2,227,000
Non-interest earning assets								
Cash								
Ch\$	686,449			715,484			677,003	
UF	—			—			—	
Foreign currency	98,052			98,936			78,195	
Total	784,501			814,420			755,198	
Allowance for loan losses								
Ch\$	(833,455)			(805,244)			(722,660)	
UF	—			—			—	
	(106)			(15)			—	

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Foreign currency						
Total	(833,561)		(805,259)		(722,660)	
Fixed assets						
Ch\$	220,919		222,083		202,902	
UF	—		—		—	
Foreign currency	—		—		—	
Total	220,919		222,083		202,902	
Derivatives						
Ch\$	2,940,584		3,300,507		2,910,369	
UF	—		—		—	
Foreign currency	—		—		—	
Total	2,940,584		3,300,507		2,910,369	
Financial Investment (Trading)						
Ch\$	177,617		141,784		114,875	
UF	122,113		195,203		600,005	
Foreign currency	32,496		21,828		7	
Total	332,226		358,815		714,887	
Other assets						
Ch\$	1,246,306		1,215,289		1,065,307	
UF	69,335		69,534		71,241	
Foreign currency	812,400		846,834		967,643	
Total	2,128,041		2,131,657		2,104,191	
Total non-interest earning assets						
Ch\$	4,438,420		4,789,903		4,247,703	
UF	191,448		264,737		671,363	
Foreign currency	942,842		967,583		1,045,821	
Total	5,572,710		6,022,223		5,964,887	
Total assets						
Ch\$	16,122,895	1,161,787	15,837,693	1,061,266	15,257,218	1,130,000
UF	13,341,760	871,380	12,646,962	934,881	11,672,150	1,022,000
Foreign currency	5,779,366	103,953	6,060,573	89,841	5,795,215	73,450
Total	35,244,021	2,137,120	34,545,228	2,085,988	32,724,583	2,227,000
Liabilities And Share-Holders' Equity						
Interest bearing liabilities						
Savings accounts						

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

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

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

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

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

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

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

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

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

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

Total	107,979	(83,004)	24,975	199,866	(278,999)	(79,133)
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Interest-Earning Assets: Net Interest Margin

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

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

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

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

Return on Equity and Assets; Dividend Payout

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

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

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

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

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

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

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- (1) Millions of nominal pesos.
- (2) Millions of U.S.\$ using the observed exchange rate of the day the dividend was approved at the annual shareholders' meeting, except for 2017 when the exchange rate used is Ch\$666.00.
- (3) Calculated on the basis of 188,446 million shares.
- (4) Dividend in U.S.\$ million divided by the number of ADS, which was calculated on the basis of 1,039 shares per ADS for 2012. For 2013, 2014, 2015 and 2016, it is calculated on the basis of 400 shares per ADS.
- (5) Calculated by dividing dividend paid in the year by net income attributable to the equity holders of the Bank for the previous year under Chilean Bank GAAP.
- (6) Calculated by dividing dividend paid in the year by net income attributable to the equity holders of the Bank for the previous year under IFRS.
- (7) Dividend proposed by the Board for shareholders' approval on April 26, 2017.

Loan Portfolio

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

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

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

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The loan categories are as follows:

Commercial loans

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

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

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

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

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

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

Mortgage loans

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

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

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

Consumer loans

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

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

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

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

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

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

Maturity and Interest Rate Sensitivity of Loans

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

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

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

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

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

Loans by Economic Activity

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

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

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	Total loans as of December 31,					% of total loans as of December 31,						
	2016	2015	2014	2013	2012	2016	2015	2014	2013	2012	2011	
	(in millions of Ch\$)					(in millions of Ch\$)						
Commercial loans												
Manufacturing	1,180,886	1,171,830	1,126,268	1,216,914	1,014,777	4.34	%	4.63	%	4.92	%	5.78
Mining	340,554	510,467	428,847	464,865	292,217	1.25	%	2.02	%	1.87	%	2.21
Electricity, gas and water	442,936	454,456	567,548	222,110	337,269	1.63	%	1.80	%	2.48	%	1.05
Agriculture and livestock	1,096,659	1,019,922	871,247	806,092	770,558	4.03	%	4.03	%	3.81	%	3.83
Forestry	96,806	96,069	98,039	183,716	120,002	0.36	%	0.38	%	0.43	%	0.87
Fishing	296,592	344,496	256,818	265,917	188,803	1.09	%	1.36	%	1.12	%	1.26
Transport	787,510	876,329	758,339	721,931	511,407	2.89	%	3.46	%	3.31	%	3.43
Communications	196,934	160,135	167,004	249,499	179,544	0.72	%	0.63	%	0.73	%	1.18
Construction	1,792,485	1,462,535	1,365,841	1,337,791	1,130,194	6.59	%	5.78	%	5.97	%	6.35
Commerce	3,393,133	3,061,490	2,773,410	2,704,362	2,486,974	12.47	%	12.10	%	12.17	%	12.8
Services	482,900	483,516	469,141	447,861	400,716	1.77	%	1.91	%	2.05	%	2.13
Other	4,032,877	3,695,991	3,447,842	3,206,643	3,147,133	14.84	%	14.61	%	15.06	%	15.2
Subtotals	14,140,272	13,337,236	12,330,344	11,827,701	10,579,594	51.98	%	52.71	%	53.92	%	56.1
Mortgage loans	8,619,356	7,812,850	6,632,031	5,625,812	5,271,581	31.68	%	30.88	%	28.99	%	26.7
Consumer loans	4,446,803	4,150,671	3,918,375	3,607,248	3,115,477	16.34	%	16.41	%	17.17	%	17.1
Total	27,206,431	25,300,757	22,880,750	21,060,761	18,966,652	100.00	%	100.00	%	100.00	%	100.

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

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

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Foreign Assets and Loans

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

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

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

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

Our exposure to Grupo Santander is as follows:

Counterpart	Country	Classification	Derivative instruments	Deposits USD	Loans USD	Financial Investments	Total Exposure
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			(market adjusted) USD Mn	Mn	Mn	USD Mn	USD Mn
Banco Santander Spain*	Spain	1	—	280.9	—	—	280.9

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

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

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

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

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

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

Classification of Loan Portfolio

Credit Risk Governance

The Risk Division, our credi