

BANCO SANTANDER CHILE  
Form 20-F  
June 30, 2011

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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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, 2010

OR

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

Commission file number: 1-14554

BANCO SANTANDER-CHILE

(d/b/a Santander, Banco Santander, Banco Santander Santiago, and Santander Santiago)  
(Exact name of Registrant as specified in its charter)

SANTANDER-CHILE BANK

(d/b/a Santander, Banco Santander, Santander Santiago Bank, and Santander Santiago)  
(Translation of Registrant's name into English)

Chile

(Jurisdiction of incorporation or organization)

Bandera 140

Santiago, Chile

Telephone: 011-562-320-2000

(Address of principal executive offices)

Robert Moreno Heimlich

Tel: 562-320-8284, Fax: 562-696-1679, email:rmorenoh@santander.cl

Bandera 140, 19th Floor, Santiago, Chile

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

Title of each class

Name of each exchange on which

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American Depositary Shares ("ADS"), each representing the right to receive 1,039 Shares of Common Stock without par value  
Shares of Common Stock, without par value\*  
New York Stock Exchange

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

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

None

(Title of Class)

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

7.375% Subordinated Notes due 2012

(Title of Class)

The number of outstanding shares of each class of common stock of Banco Santander-Chile at December 31, 2010, was:

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

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

☒ Yes    ☐ No

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

☐ Yes    ☒ No

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

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

☒ Yes    ☐ No

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

☐ Yes    ☒ No

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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—Competition,” “Item 5: Operating and Financial Review and Prospects,” “Item 8: Financial Information—Legal Proceedings,” and “Item 11: Quantitative and Qualitative Disclosures About Market Risk.” Our forward-looking statements also may be identified by words such as “believes,” “expects,” “anticipates,” “projects,” “intends,” “should,” “could,” “may,” “seeks,” “aim,” “combined,” “estimates,” “probability,” “risk,” “objective,” “future” or similar expressions.

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

-

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

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

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

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

CERTAIN TERMS AND CONVENTIONS

As used in this Annual Report, “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 “Banco Santander Spain” or “Santander Spain”, we refer to our parent company, Banco Santander.

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

In this Annual Report, references to “\$”, “US\$”, “U.S. dollars” and “dollars” are to United States dollars, references to “Chilean pesos,” “pesos” or “Ch\$” are to Chilean pesos and references to “UF” are to Unidades de



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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 5: Operating and Financial Review and Prospects”.

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

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

## PRESENTATION OF FINANCIAL INFORMATION

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

As required by local regulations, our locally filed consolidated financial statements have been prepared in accordance with Chilean accounting principles issued by the Superintendency of Banks and Financial Institutions (“Chilean Bank GAAP” and the “SBIF,” respectively). The accounting principles issued by the SBIF are substantially similar to IFRS but there are some exceptions. Therefore, our locally filed consolidated financial statements have been adjusted to IFRS in order to comply with the requirements of the Securities and Exchange Commission (the “SEC”). For further details and a discussion on the main differences between Chilean Bank GAAP and IFRS, see “Item 5: A. Operating and Financial Review and Prospects—Accounting Standards Applied in 2010.”

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

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

The financial statements as of and for the years ended December 31, 2010 and 2009 were prepared in accordance with IFRS. The Consolidated Statement of Financial Position as of December 31, 2008, as well as the Consolidated Statement of Income, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year ended December 31, 2008, included herein for comparative purposes, were also prepared in accordance with IFRS, on a basis consistent with the financial statements for the periods ending December 31, 2009 and December 31, 2010.

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

Our auditors, Deloitte Auditores y Consultores Limitada, an independent registered public accounting firm, have audited our consolidated financial statements in respect of the years ended December 31, 2010, 2009 and 2008 included in this Annual Report in accordance with IFRS (our “Audited Consolidated Financial Statements”). See page F-1 to our consolidated financial statements for the 2010, 2009 and 2008 report prepared by Deloitte Auditores y Consultores Limitada.

#### Functional and Presentation currency

The Chilean peso is the currency of the primary economic environment in which the Bank operates and the currency which influences its structure of costs and revenues, as such 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.”

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For presentation purposes we have translated millions of Chilean pesos (Ch\$ million) into thousands of US dollars (ThUS\$) using the rate as indicated below under “Exchange Rates”, for the Consolidated Statement of Financial Position, Consolidated Statement of Income, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flow for the period ended as of December 31, 2010.

### Loans

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

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

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

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

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

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

### Effect of Rounding

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

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### 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 the U.S. dollar amounts at any period 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, 2010, and May 31, 2011, the exchange rate in the Informal Exchange Market as published by Reuters at 1:30 pm on these days was Ch\$467.95 and Ch\$464.85, or 0.09% and 0.53% more expensive, respectively, than the published observed exchange rate for such date of Ch\$468.37 and Ch\$467.31, respectively, per US\$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for the Chilean peso. For more information on the observed exchange rate. See “Item 3: A. Selected Financial Data—Exchange Rates”.

On January 3, 2011, Chile’s Central Bank announced plans to increase its total international reserves by US\$12 billion in 2011. In the first phase, the Central Bank bought US\$50 million daily from January 5 to February 9. The Central Bank will announce the rest of the phases at a later date and, depending on market conditions, could revise the currency intervention program, which is expected to last throughout 2011. We expect the effect of these purchases will be to devalue the peso against the dollar, although actual outcomes could differ due to macroeconomic and other factors.

As of December 31, 2010, one UF was equivalent to Ch\$21,455.55; one UF was equivalent to Ch\$20,942.88 as of December 31, 2009; and one UF was equivalent to Ch\$21,452.57 as of December 31, 2008. The U.S. dollar equivalent of one UF was U.S.\$45.81 as of December 31, 2010, using the observed exchange rate reported by the Central Bank as of December 31, 2010, of Ch\$468.37 per U.S.\$1.00.

## PART I

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

Not applicable.

### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

### ITEM 3. KEY INFORMATION

#### A. Selected Financial Data

The following table presents historical financial information about us as of the dates and for each of the periods indicated. The following table should be read in conjunction with, and is qualified in its entirety by reference to, our Audited Consolidated Financial Statements appearing elsewhere in this Annual Report. Our Audited Consolidated Financial Statements and notes as of and for the years ended December 31, 2010, 2009 and 2008 included in this Annual Report are prepared in accordance with IFRS and therefore differ in some respects from the financial statements at and for the years ended December 31, 2010, 2009 and 2008 previously issued locally by the Bank in

Chile in accordance with Chilean Bank GAAP.

We have selected the following financial information from our Audited Consolidated Financial Statements. You should read this information in connection with, and this information is qualified in its entirety by reference to, such financial statements.

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	2010 In US\$ thousands(1)	As of December 31, 2010                      2009                      2008  In Ch\$ millions(2)		
CONSOLIDATED STATEMENT OF INCOME DATA (IFRS)				
Net interest income	2,008,161	939,719	856,516	892,066
Provision for loan losses	(542,611 )	(253,915 )	(333,145 )	(287,983 )
Net fee and commission income	563,269	263,582	254,130	243,129
Operating costs (3)	(965,778 )	(451,936 )	(407,894 )	(428,168 )
Other income, net (4)	203,792	95,365	155,927	61,665
Income before tax	1,266,833	592,815	525,534	480,709
Income tax expense	(182,375 )	(85,343 )	(88,924 )	(59,742 )
Net income for the period	1,084,458	507,472	436,610	420,967
Net income attributable to:				
Bank shareholders	1,080,015	505,393	431,557	413,370
Non-controlling interests	4,443	2,079	5,053	7,597
Net income attributable to Bank shareholders per share	0.0057	2.68	2.29	2.19
Net income attributable to Bank shareholders per ADS (5)	5.95	2,786	2,379.39	2,279.12
Weighted-average shares outstanding (in millions)		188,466.13	188,446.13	188,446.13
Weighted-average ADS outstanding (in millions)		181.373	181.373	181.373
CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA (IFRS)				
Cash and deposits in banks	3,765,783	1,762,198	2,043,458	855,411
Financial investments (6)	4,326,605	2,024,635	2,642,649	2,746,666
Loans and accounts receivable from customers before allowance for loan losses	33,608,894	15,727,282	13,751,276	14,681,088
Loan loss allowance	(909,172 )	(425,447 )	(349,527 )	(274,240 )
Financial derivative contracts (assets)	3,471,264	1,624,378	1,393,878	1,846,509
Other assets (7)	2,944,049	1,377,668	1,291,141	1,229,073
Total assets	47,207,423	22,090,714	20,772,875	21,084,507
Deposits (8)....	24,564,999	11,495,191	10,708,791	12,704,428
Other interest bearing liabilities (9)	13,326,123	6,235,959	6,232,982	4,769,980
Financial derivative contracts (liabilities)	3,513,151	1,643,979	1,348,906	1,469,724
Total equity (10)	4,141,418	1,937,977	1,689,903	1,517,649
Equity attributable to Bank shareholders (11)	4,073,443	1,906,168	1,660,104	1,491,770

	As of December 31,					
	2010		2009		2008	
CONSOLIDATED RATIOS						
(IFRS)						
Profitability and performance:						
Net interest margin (11)	5.4	%	5.3	%	5.7	%
Return on average total assets (12)	2.4	%	2.2	%	2.3	%
Return on average equity (13)	29.0	%	27.3	%	32.4	%
Capital:						

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Average equity as a percentage of average total assets (14)	8.4	%	8.0	%	7.0	%
Total liabilities as a multiple of equity (15)	10.4		11.3		12.9	
Credit Quality:						
Non-performing loans as a percentage of total loans (16)	2.65	%	2.97	%	2.61	%
Allowance for loan losses as percentage of total loans	2.71	%	2.54	%	1.87	%
Operating Ratios:						
Operating expenses /operating revenue (17)	37.0	%	34.2	%	37.7	%
Operating expenses /average total assets	2.2	%	2.2	%	2.5	%
OTHER DATA						
CPI Inflation Rate (18)	2.97	%	-1.4	%	7.1	%
Revaluation (devaluation) rate (Ch\$/US\$) at period end (18)	-7.52	%	-19.5	%	26.9	%
Number of employees at period end	11,001		11,118		11,592	
Number of branches and offices at period end	504		498		505	



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- (1) Amounts stated in U.S. dollars at and for the year ended December 31, 2010, have been translated from Chilean pesos at the interbank market exchange rate of Ch\$467.95 = US\$1.00 as of December 31, 2010. See “Item 3: A. Selected Financial Data—Exchange Rates” for more information on the observed exchange rate.
- (2) Except per share data, percentages and ratios, share numbers, employee numbers and branch numbers.
- (3) Operating costs is equal to the sum of the line items on personnel salaries and expenses, administrative expenses, depreciation and amortization and impairment within our Consolidated Statements of Income.
- (4) Other income, net is the sum of the line items on other operating income, net income from financial operations (net trading income), foreign exchange transactions, income from investment in other companies less other operating expense within our Consolidated Statements of Income.
- (5) 1 ADS = 1,039 shares of common stock.
- (6) Includes the line items on trading investments, investments under resale agreements, investments available for sale and investments held to maturity within our Consolidated Statements of Financial Position.
- (7) Includes the line items on unsettled transactions, investments in other companies, intangible assets, property plant and equipment, current taxes, deferred taxes and other assets within our Consolidated Statements of Financial Position.
- (8) Deposits is equal to the sum of the line items on deposits and other demand liabilities and time deposits and other time liabilities within our Consolidated Statements of Income.
- (9) Other interest bearing liabilities is equal to the sum of the line items on investments under repurchase agreements, interbank borrowings, issued debt instruments and other financial liabilities within our Consolidated Statements of Income.
- (10) Equity includes equity attributable to Bank shareholders plus non-controlling interests less allowance for mandatory dividends. Provision for mandatory dividends is made pursuant to Article 79 of the Corporations Act, in accordance with the Bank’s internal dividend policy, pursuant to which at least 30% of net income for the period is distributed, except in the case of a contrary resolution adopted at the respective shareholders’ meeting by the unanimous vote of the outstanding shares.
- (11) Net interest income divided by average interest earning assets (as presented in “Item 5: F. Selected Statistical Information”).
- (12) Net income for the period divided by average total assets (as presented in “Item 5: F. Selected Statistical Information”).
- (13) Net income for the period divided by average equity (as presented in “Item 5: F. Selected Statistical Information”).
- (14) This ratio is calculated using total equity including non-controlling interest.
- (15) Total liabilities divided by equity.

- (16) Non-performing loans include the aggregate unpaid principal and accrued but unpaid interest on all loans with at least one installment over 90 days overdue.
- (17) 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.
- (18) Based on information published by the Central Bank.

#### Exchange Rates

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

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

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

Purchases and sales of foreign currencies may be legally carried out in the Informal Exchange Market. The Informal Exchange Market reflects transactions carried out at informal exchange rates by entities not expressly authorized to operate in the Formal Exchange Market. There are no limits imposed on the extent to which the rate of exchange in the Informal Exchange Market can fluctuate above or below the Observed Exchange Rate. In recent years, the variation between the Observed Exchange Rate and the Informal Exchange Rate has not been significant. On December 31, 2010, and May 31, 2011, the exchange rate in the Informal Exchange Market as published by Reuters at 1:30 pm on these days was Ch\$467.95 and Ch\$464.85, or 0.09% and 0.53% more expensive, respectively, than the published observed exchange rate for such date of Ch\$468.37 and Ch\$467.31, respectively, per US\$1.00.

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

Year	Daily Observed Exchange Rate Ch\$ Per US\$(1)			
	Low(2)	High(2)	Average(3)	Period End(4)
2006	511.44	549.63	530.26	534.43
2007	493.14	548.67	522.69	495.82
2008	431.22	676.75	521.79	629.11
2009	491.09	643.87	559.67	506.43
2010	468.37	549.17	510.38	468.37
Month				
November 2010	477.05	488.72	482.32	486.39
December 2010	468.37	487.87	474.78	468.37
January 2011	466.05	499.03	489.44	483.32
February 2011	468.94	484.14	475.69	475.63
March 2011	472.74	485.37	479.65	482.08
April 2011	460.04	479.46	471.32	460.04
May 2011	460.09	474.19	467.73	467.31
June 2011 (up to June 28, 2011)	465.13	474.59	469.13	473.64

Source: Central Bank.

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

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## 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 2010 dividend must be proposed and approved during the first four months of 2011. Following shareholder approval, the proposed dividend is declared and paid. Historically, the dividend for a particular year has been declared and paid no later than one month following the shareholders' meeting. Dividends are paid to shareholders of record on the fifth day preceding the date set for payment of the dividend. The applicable record dates for the payment of dividends to holders of ADSs will, to the extent practicable, be the same.

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

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

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

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

Year	Dividend Ch\$ mn (1)	Per share Ch\$/share (2)	Per ADR Ch\$/ADR (3)	% over earnings (4)	% over earnings (5)
2009	213,295	1.13	1,176.00	65	52
2010	258,751	1.37	1,426.63	60	60
2011	286,293	1.52	1,578.48	60	57

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(1)

Million of nominal pesos.

- (2) Calculated on the basis of 188,446 million shares.
- (3) Calculated on the basis of 1,039 shares per ADS.
- (4) Calculated by dividing dividend paid in the year by net income attributable to shareholders for the previous year as required by local regulations.
- (5) Calculated by dividing dividend paid in the year by net income attributable to shareholders for the previous year under IFRS.

B. Capitalization and Indebtedness

Not applicable.

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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 the current disruptions and volatility in the global financial markets.

In the past two years, the global financial system has experienced difficult credit and liquidity conditions and disruptions leading to less liquidity, greater volatility, general widening of spreads and, in some cases, lack of price transparency on interbank lending rates. Global economic conditions deteriorated significantly in the second half of 2008, and many countries, including the United States, fell into recession. Many major financial institutions, including some of the world’s largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies, have been experiencing significant difficulties. Around the world, there have also been runs on deposits at several financial institutions, numerous institutions have sought additional capital and many lenders and institutional investors have reduced or ceased providing funding to borrowers (including to other financial institutions).

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

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

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

We also face competition from non-bank (such as 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.

The increase in competition within the Chilean banking industry in recent years has led to consolidation in the industry. We expect the trends of increased competition and consolidation to continue and result in the formation of large new financial groups. Consolidation in the industry, which can result in the creation of larger and stronger competitors, may adversely affect our financial condition and results of operations by decreasing the net interest margins we are able to generate.



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

As of December 31, 2010, our allowance for loan losses were Ch\$425,447 million, and the ratio of our allowance for loan losses to total loans was 2.71%. The amount of the allowances is based on our current assessment of and expectations concerning various factors affecting the quality of our loan portfolio. These factors include, among other things, our borrowers' financial condition, repayment abilities and repayment intentions, the realizable value of any collateral, the prospects for support from any guarantor, Chile's economy, government macroeconomic policies, interest rates and the legal and regulatory environment. As the recent global financial crisis has demonstrated, many of these factors are beyond our control. In addition, as these factors evolve, the models we use to determine the appropriate level of allowance for loan losses and other assets require recalibration, which can lead to increased provision expense. See "Item 5: C. Operating Results—Results of Operations for the Years ended December 31, 2010, 2009 and 2008—Provision for loan losses". We believe our allowance is adequate as of the date hereof for all known losses. If our assessment of and expectations concerning the above mentioned factors differ from actual developments, or if the quality of our loan portfolio deteriorates or the future actual losses exceed our estimates of incurred losses, our allowance for loan losses may not be adequate to cover actual losses and we may need to make additional provisions for loan losses, which may materially and adversely affect our results of operations and financial condition.

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

A substantial number of our customers consist of individuals (approximately 53.5% of the value of the total loan portfolio as of December 31, 2010, if interbank loans are included) and, to a lesser extent, small- and mid-sized companies (those with annual revenues of less than US\$2.6 million), which comprised approximately 15.1% of the value of the total loan portfolio as of December 31, 2010. As part of our business strategy, we seek to increase lending and other services to small companies and individuals. Small companies and lower- to middle-income individuals are, however, more likely to be adversely affected by downturns in the Chilean economy than large corporations and higher-income individuals. In addition, as of December 31, 2010, our residential mortgage loan portfolio totaled Ch\$4,651,137 million, representing 29.6% of our total loans. (See "Note 9: Interbank Loans" and "Note 10: Loans and Accounts Receivables from Customers" in our Audited Consolidated Financial Statements for a description and presentation of residential mortgages in statement of financial position). If the economy and real estate market in Chile experience a significant downturn, as they may due to the global financial and economic crisis, this could materially adversely affect the liquidity, businesses and financial conditions of our customers, which may in turn cause us to 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.

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

As of December 31, 2010, our non-performing loans were Ch\$416,739 million, and the ratio of our non-performing loans to total loans was 2.65%. For additional information on our asset quality, see "Item 5: F. Selected Statistical Information—Classification of Loan Portfolio Based on the Borrower's Payment Performance". We seek to continue to improve our credit risk management policies and procedures. However, we cannot assure you that our credit risk management policies, procedures and systems are free from any deficiency. Failure of credit risk management policies may result in an increase in the level of non-performing loans and adversely affect the quality of our loan portfolio. In addition, the quality of our loan portfolio may also deteriorate due to various other reasons, including factors beyond our control, such as the macroeconomic factors affecting Chile's economy. If such deterioration were to occur, it could materially adversely affect our financial conditions and results of operations.



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

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

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

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

From December 31, 2005 to December 31, 2010, our aggregate loan portfolio, excluding interbank loans, grew by 73.7% in nominal terms to Ch\$15,657,556 million (US\$33.5 billion), while our consumer loan portfolio grew by 92.2% in nominal terms to Ch\$2,700,790 million (US\$5.8 billion). From December 31, 2009 to December 31, 2010, our aggregate loan portfolio grew by 14.4% in nominal terms to Ch\$15,727,282 million (US\$33.6 billion), while our consumer loan portfolio grew by 20.4%. The further expansion of our loan portfolio (particularly in the consumer, small- and mid-sized companies and real estate segments) can be expected to expose us to a higher level of loan losses and require us to establish higher levels of provisions for loan losses.

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

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 collect complete or accurate information reflecting the actual behavior of customers or that their credit risk can be assessed correctly. Without complete, accurate and reliable information, we have to rely on other publicly available resources and our internal resources, which may not be effective. As a result, our ability to effectively manage our credit risk and subsequently our loan loss allowances may be materially

adversely affected.

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

Inflation in Chile gained momentum in 2007 and 2008. According to the Chilean National Statistics Institute, in 2007 and 2008, inflation reached 7.1% and 7.8%, respectively, due to, among other factors, the sharp rise in the international price of oil. 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%. In 2010, CPI inflation was 3.0%.

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: C. Operating Results—Impact of Inflation”. Although we benefit from inflation in Chile, due to the current structure of our assets and liabilities (i.e., a significant portion of our loans are indexed to the inflation rate, but there are no corresponding features in deposits, or other funding sources that would increase the size of our funding base), there can be no assurance that our business, financial condition and result of operations in the future will not be adversely affected by changing levels of inflation, including from extended periods of inflation that adversely affect economic growth or periods of deflation.

Our results of operations are affected by interest rate volatility.

Our results of operations depend to a great extent on our net interest income. Net interest income represented 70.0% of our net operating profit before loan losses in 2010 compared to 65.7% in 2009. Changes in market interest rates could affect the interest rates earned on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities, leading to a reduction in our net interest income or a decrease in customer demand for our loan or deposit products. Interest rates are highly sensitive to many factors beyond our control, including the reserve policies of the Central Bank, deregulation of the financial sector in Chile, domestic and international economic and political conditions and other factors. Any changes in interest rates could adversely affect our business, our future financial performance and the price of our securities. The following table shows the yields on the Chilean government’s 90-day notes as reported by the Central Bank of Chile at year-end 2006 to 2010.

Year	90-day note at Period end (%)
2006	5.11
2007	6.15
2008	7.86
2009	0.48
2010	3.40

Source: Central Bank.

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

Customer deposits are our primary source (57.0%) of funding. As of December 31, 2010, 92.0% of our customer deposits had remaining maturities of one year or less, or were payable on demand. A significant portion of our assets have longer maturities, resulting in a mismatch between the maturities of liabilities and the maturities of assets. If a

substantial number of our depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, our liquidity position, results of operations and financial condition may be materially and adversely affected. We cannot assure you that in the event of a sudden or unexpected shortage of funds in the banking system, any money markets in which we operate will be able to maintain levels of funding without incurring higher funding costs or the liquidation of certain assets. If this were to happen, our results of operations and financial condition may be materially adversely affected.

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

Chilean regulations impose restrictions on the share of assets that Chilean pension fund management companies (Administradoras de Fondos de Pension, or “AFPs”) may allocate to a single issuer, which is currently 7% per fund managed by an AFP (including any securities issued by the issuer and any bank deposits with the issuer). If the exposure of an AFP to a single issuer exceeds the 7% limit, the AFP is required to reduce its exposure below the limit within three years. As of December 31, 2010, the aggregate exposure of AFPs to us was approximately US\$4.29 billion or 2.89% of their total assets. If the exposure of any AFP to us exceeds the regulatory limit, we would need to seek alternative sources of funding, which could be more expensive and, as a consequence, may have a material adverse effect on our financial condition and results of operations.

Pension funds must also comply with other investment limits. On June 5, 2007, approved legislation in Chile (Reformas al Mercado de Capitales II, also known as “MK2”) relaxed the limits on making investments abroad in order to permit pension funds to further diversify their investment portfolios. As of December 31, 2010, the limit on making investments abroad was 60% and in 2011 it increased up to 100%, depending on the fund. As a result, pension funds may change the composition of their portfolios, including reducing their deposits with local banks. As of December 31, 2010, 8.6% of our time deposits were from AFPs. Although the legislation referred to above is intended to promote a gradual relaxation of the investment limits, and we may be able to substitute the reduced institutional funds with retail deposits, there can be no assurance that this occurrence will not have a materially adverse impact on our business, financial condition and results of operations.

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

Chilean banks are required by the General Banking Law to maintain regulatory capital of at least 8% of risk-weighted assets, net of required loan loss allowance and deductions, and paid-in capital and reserves (“basic capital”) of at least 3% of our total assets, net of required loan loss allowances. As we are the result of the merger between two predecessors, we are currently required to maintain a minimum regulatory capital to risk-weighted assets ratio of 11%. As of December 31, 2010, the ratio of our regulatory capital to risk-weighted assets, net loan loss allowance and deductions, was 14.52%. Certain developments could affect our ability to continue to satisfy the current capital adequacy requirements applicable to us, including:

- the increase of risk-weighted assets as a result of the expansion of our business or regulatory changes;
- the failure to increase our capital correspondingly;
- losses resulting from a deterioration in our asset quality;
- declines in the value of our investment instrument portfolio;
- changes in accounting rules;
- changes in provisioning guidelines that are charged directly against our equity or net income; and
- changes in the guidelines regarding the calculation of the capital adequacy ratios of banks in Chile.

Starting in 2012, Chilean banks will most likely be required to adopt the guidelines set forth under the Basel II Capital Accord (“Basel II”) with adjustments incorporated by the SBIF once these changes are approved by Congress. This should 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 set forth under Basel II, was 13.26% as of December 31, 2010. No assurance can be given that the adoption of the Basel II capital requirements will not have a material impact on our capitalization ratio.

We may also be required to raise additional capital in the future in order to maintain our capital adequacy ratios above the minimum required levels. Our ability to raise additional capital may be limited by numerous factors, including: our future financial condition, results of operations and cash flows; any necessary government regulatory



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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.

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

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

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

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

Like all large financial institutions, we are exposed to many types of operational risks, including the risk of fraud by employees and outsiders, failure to obtain proper internal authorizations, failure to properly document transactions, equipment failures and errors by employees. Fraud or other misconduct by employees or third parties may be difficult to detect and prevent and could subject us to financial losses and sanctions imposed by governmental authorities as well as seriously harm our reputation. Although we maintain a system of operational controls, there can be no assurance that operational problems or errors will not occur and that their occurrence will not have a materially adverse impact on our business, financial condition and results of operations.

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

We are subject to regulation by the SBIF. In addition, we are subject to regulation by the Central Bank with regard to certain matters, including reserve requirements, interest rates, foreign exchange mismatches and market risks.

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

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

We must maintain higher regulatory capital to risk-weighted assets than other banks in Chile. Our current required minimum regulatory capital to risk-weighted assets ratio is 11% and as of December 31, 2010, we were at 14.52%. Although we have not failed in the past to comply with our capital maintenance obligations, there can be no assurance that we will be able to do so in the future.

Currently, there are discussions among the SBIF, SERNAC (Chile's Consumer Protection Agency) and the Minister of Finance regarding a proposal to place limitations on banks' ability to sell products in packages combining multiple products. There are also discussions that may force banks to auction the provider of credit insurance. Any such limitation could have a material adverse effect on our financial condition or results of operations.

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

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

We are subject to market and operational risks associated with derivative transactions.

We enter into derivative transactions primarily for hedging purposes and, on a limited basis, on behalf of customers. These transactions are subject to market and operational risks, 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 a counterparty to perform its obligations to us).

Market practices and documentation for derivative transactions in Chile may differ from those in other countries. For example, documentation may not incorporate terms and conditions of derivatives transactions as commonly understood in other countries. In addition, the execution and performance of these transactions depends on our ability to develop adequate control and administration systems and to hire and retain qualified personnel. Moreover, our ability to monitor and analyze these transactions depends on our information technology systems. These factors may further increase risks associated with derivative transactions and, if they are not adequately controlled, this could

materially and adversely affect our results of operations and financial condition.

We are subject to counterparty risk in our banking business.

We are exposed to counterparty risks 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

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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, exchanges, clearing houses or other financial intermediaries. If these risks give rise to losses, this could materially and adversely affect our results of operations and financial condition.

Failure to protect personal information could adversely affect us.

We manage and hold confidential personal information of customers in the conduct of our banking operations. Although we have procedures and controls to safeguard personal information in our possession, unauthorized disclosures could subject us to legal actions and administrative sanctions as well as damages that could materially and adversely affect our results of operations and financial condition.

Our loan portfolios are subject to risk of prepayment, which may result in reinvestment of assets on less profitable terms.

Our loan portfolios are subject to prepayment risk which results from the ability of a borrower to pay a loan prior to maturity and which comes at a time that is inconsistent with the financing of such loan by us. Generally, in a declining interest rate environment, prepayment activity increases with the effect of reducing weighted average lives of interest earning assets and adversely affecting results. Prepayment risk also has an adverse impact on our credit card and residential mortgage portfolios, since prepayments could shorten the weighted average life of these portfolios, which may result in a mismatch in funding or in reinvestment at lower yields.

## Risks Relating to Chile

Future natural disasters may negatively affect our results of operations.

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

On February 27, 2010, an 8.8 magnitude earthquake struck central Chile, the eighth strongest on record in the world. The quake epicenter was located 200 miles southwest of Santiago and 70 miles north of Concepción, Chile's second largest city. Our branches, systems and employees were all impacted by the February 2010 earthquake and tsunami. By March 1, 2010, the systems were functioning normally, all open branches were online and all remote channels were operating normally. As of December 31, 2010, all of our branches were functioning normally.

As a result, future natural disasters, especially earthquakes, may have an adverse impact on our results of operation.

We estimate that the costs incurred and revenue foregone by us as a result of the February 2010 earthquake and tsunami was Ch\$4,738 million in 2010, net of insurance proceeds, with no further costs expected in 2011.

Temporary increases in the corporate tax rate in Chile to finance part of the reconstruction effort may have an adverse effect on us and our corporate clients.

The government and congress approved legislation that increased the corporate income tax rate in order to pay for part of the reconstruction following the earthquake and tsunami in February 2010. The new legislation has increased the corporate tax rate from its current rate of 17% to 20% in 2011. The rate will decrease to 18.5% in 2012 and further decrease back to 17% in 2013. This legislation may have an adverse effect on us and our corporate clients.

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

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

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Chilean government, which has exercised and continues to exercise substantial influence over many aspects of the private sector, or other political or economic developments in Chile. In line with the global economic climate, Chile's economy contracted in 2009 for the first time since 1999. However, despite the earthquake, the Chilean economy recovered significantly and GDP increased by 5.2% in 2010. However, there can be no assurance that the Chilean economy will continue to grow in the future or that future developments will not negatively affect Chile's overall levels of economic activity.

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

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

We are directly exposed to risks related to the weakness and volatility of the economic and political situation in Asia, the United States, Europe, Brazil, Argentina and other nations. 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. Thus, we may need to increase our allowances for loan losses, thus affecting our financial results, our results of operations and the price of our securities. As of December 31, 2010, approximately 0.36% of our assets were held abroad. The global financial and sub-prime crisis had a significant impact on the growth rate of the Chilean economy in 2009. Although the Chilean economy grew 5.2% in 2010, 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. The 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 is also involved in an international litigation with Peru regarding maritime borders and has had other conflicts with neighboring countries in the past. We cannot assure you that crisis and political uncertainty in other Latin American countries will not have an adverse effect on Chile, the price of our securities or our business.

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

Historically, one of our principal sources of funds has been time deposits. Time deposits represented 36.0% and 37.6% of our total funding as of December 31, 2010 and 2009, respectively. Large-denominations in time deposits from institutional investors may, under some circumstances, be a less stable source of funding than savings and bonds, such as during periods of significant changes in market interest rates for these types of deposit products and any resulting increased competition for such funds. The liquidity crisis triggered by the U.S. subprime market impacted global markets and affected sources of funding, including time deposits. Although our results of operations and financial position have not suffered a significant impact as a consequence of the recent credit market instability in the U.S., future market instability in the U.S. or in European markets, specifically the Spanish market, may negatively affect our ability to continue funding our business or maintain our current levels of funding without incurring higher funding costs or having to liquidate certain assets.

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

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



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Year	Exchange rate (Ch\$) Period end	Appreciation (Devaluation) (%)
2006	534.43	3.9
2007	495.82	(7.2 )
2008	629.11	26.9
2009	506.43	(19.5 )
2010	468.37	(7.5 )
June 21, 2011	472.95	1.0

Source: Central Bank.

On January 3, 2011, Chile's Central Bank announced plans to increase its total international reserves by US\$12 billion in 2011. In the first phase, the Central Bank bought US\$50 million daily from January 5 to February 9. The Central Bank will announce the rest of the phases at a later date and, depending on market conditions, could revise the currency intervention program, which is expected to last throughout 2011. We expect the effect of these purchases will be to devalue the peso against the dollar, although actual outcomes could differ due to macroeconomic and other factors. As of May 31, 2011, there had been no further announcements from the Central Bank regarding this program.

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.

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

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

Chile's Congress passed a new law in August 2010 intended to increase trading in Chile, Latin America's third-largest securities market, by allowing trading of new instruments such as exchange-traded funds and covered bonds. The law also sought to ease credit access for consumers and small companies. For example, the law made it easier for foreign banks to offer loans in Chile, cut securitization costs, allowed banks to sell bonds backed by mortgages, offers tax breaks to foreign investors in Chilean mutual funds, and repealed a law that prevented foreign banks from advertising loans. The law also intended to reduce the cost of setting up mutual funds, in part by removing limits on employing non-Chileans, and created an exchange-traded funds industry by modifying mutual fund rules to allow secondary trading and enable pension funds to invest in such mutual funds. The new class of bonds authorized by the law, known as "mortgage bonds," is a debt obligation secured by a pool of mortgages, as is the case with European covered bonds.

Unlike covered bonds, they may be issued by banks and non-banks.

The current Finance Minister plans another package of reforms, the Reformas al Mercado Financiero Bicentenario. These reforms are comprised of a series of administrative changes and new regulations over the next four years, including the creation of a financial consumer protection agency, the transformation of the local securities exchange regulator (SVS) into a securities commission and increasing the autonomy of the SBIF. These proposed regulations intend to expand the use of the Chilean peso, simplify taxes on fixed-income securities, increase bank penetration and household savings, reduce the pro-cyclicality of loan loss provisions and enhance

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solvency and liquidity (the latter must be done through a change in the General Banking Law). The reforms also intend to create new instruments that give more efficient financing alternatives to small and mid-sized companies and individuals, together with creating specific statutes for niche banks and micro-credit financing.

A bill has also been introduced by some members of Congress to modify the way in which the maximum interest rate is calculated in Chile. This could also have a material effect on the Bank depending on if this eventually becomes law.

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

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

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

In line with the future adoption of Basel II regulations in Chile, the SBIF has recently proposed to increase the minimum regulatory capital ratio from 8% to 10%, which would require an amendment to the General Banking Law. Although we currently have a regulatory capital ratio of 14.52%, 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 set forth under Basel II was 13.26% as of December 31, 2010. No assurance can be given that these changes will not have a material impact on our capitalization ratio.

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

As of December 31, 2010, on a consolidated basis we had 11,001 employees, of which 66.0% were unionized. In May 2010, a new collective bargaining agreement was signed, which will become effective on January 1, 2011 and that will expire on December 31, 2014, but this may become effective ahead of schedule with the consent of management and the union. We generally apply the terms of our collective bargaining agreement to unionized and non-unionized employees. We have traditionally 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.

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

Our foreign currency deposit ratings are equivalent to the Chilean sovereign ratings. On February 23, 2010, Moody's downgraded the subordinated debt ratings and preferred share ratings of our parent company, Banco Santander Spain. Additionally, on January 6, 2011, Standard & Poor's announced that it is considering a proposal to revise its criteria for

rating banks which could cause a downgrade of the ratings of banks, including our ratings or those of our parent company. As of May 31, 2011 Moody's and Standard and Poor's both have a negative outlook for our parent company's ratings. Any adverse revisions to our parent company's ratings and/or Chile's credit ratings for domestic and international debt by international rating agencies may adversely affect our ratings, our business, future financial performance, stockholder's equity and the price of our securities.

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

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

As a regulated financial institution, we are required to submit to the Superintendency of Banks on a monthly basis unaudited consolidated balance sheets and income statements, excluding any note disclosure, prepared in accordance with generally accepted accounting principles in Chile and the rules of the Superintendency of Banks. Such disclosure differs in a number of significant respects from information generally available in the United States with respect to U.S. financial institutions.

The securities laws of Chile, which govern open or publicly listed companies such as us, aim to promote disclosure of all material corporate information to the public. Chilean disclosure requirements, however, differ from those in the United States in some material respects. In addition, although Chilean law imposes restrictions on insider trading and price manipulation, applicable Chilean laws are different from those in the United States and in certain respects the Chilean securities markets are not as highly regulated and supervised as the U.S. securities markets.

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

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

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

pesos to U.S. dollars, investors would receive dividends and other distributions, if any, in Chilean pesos.

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

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

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

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

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

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

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

not unduly rely upon them.



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### Risks Relating to Our ADSs

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

Our ADSs are listed and traded on the NYSE. Our common stock is listed and traded on the Santiago Stock Exchange, the Chile Electronic Stock Exchange and the Valparaíso Stock Exchange, which we refer to collectively as the Chilean Stock Exchanges, although the trading market for the common stock is small by international standards. At December 31, 2009, we had 188,446,126,794 shares of common stock outstanding. The Chilean securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. According to Article 14 of the Ley de Mercado de Valores, Ley No. 18,045, or the Chilean Securities Market Law, the Superintendencia de Valores y Seguros, or the Superintendency of Securities and Insurance, may suspend the offer, quotation or trading of shares of any company listed on one or more Chilean Stock Exchanges for up to 30 days if, in its opinion, such suspension is necessary to protect investors or is justified for reasons of public interest. Such suspension may be extended for up to 120 days. If, at the expiration of the extension, the circumstances giving rise to the original suspension have not changed, the Superintendency of Securities and Insurance will then cancel the relevant listing in the registry of securities. In addition, the Santiago Stock Exchange may inquire as to any movement in the price of any securities in excess of 10% and suspend trading in such securities for a day if it deems necessary.

Although our common stock is traded on the Chilean Stock Exchanges, there can be no assurance that a liquid trading market for our common stock will continue to exist. Approximately 25.0% of our outstanding common stock is held by the public (i.e., shareholders other than Banco Santander Spain and its affiliates), including our shares that are represented by ADSs trading on the NYSE. A limited trading market in general and our concentrated ownership in particular may impair the ability of an ADS holder to sell in the Chilean market shares of common stock obtained upon withdrawal of such shares from the ADR facility in the amount and at the price and time such holder desires, and could increase the volatility of the price of the ADSs.

You may be unable to exercise preemptive rights.

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

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

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

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

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

Holders of ADSs will not be direct shareholders of our company and will be unable to enforce directly the rights of shareholders under our by-laws and the laws of Chile. Holders of ADSs may exercise voting rights with respect to the common stock represented by ADSs only in accordance with the deposit agreement governing the

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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.

## ITEM 4. INFORMATION ON THE COMPANY

### A. History and Development of the Company

#### Overview

We are the largest bank in Chile in terms of total assets and equity. As of December 31, 2010, we had total assets of Ch\$22,090,714 million (US\$47,207 million), outstanding loans net of allowances for loan losses of Ch\$15,301,835 (US\$32,700 million), total deposits of Ch\$11,495,191 million (US\$24,565 million) and equity of Ch\$1,937,977 million (US\$4,141 million). As of December 31, 2010, we employed 11,001 people (on a consolidated basis) and had the largest private branch network in Chile with 504 branches. Our headquarters are located in Santiago and we operate in every major region of Chile.

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

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

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

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

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Our principal executive offices are located at Bandera 140, Santiago, Chile. Our telephone number is +562-320-2000 and our website is [www.santander.cl](http://www.santander.cl). None of the information contained on our website is incorporated by reference into, or forms part of, this Annual Report. Our agent for service of process in the United States is Puglisi & Associates located at 850 Library Ave. Suite 204 Newark, Delaware 19711.

## Relationship with Banco Santander Spain

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

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

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

## B. Organizational Structure

Banco Santander Spain controls Santander-Chile through its holdings in Teatinos Siglo XXI Inversiones Ltda. and Santander-Chile Holding, which are controlled subsidiaries. In February 2011, Banco Santander Spain sold 1.9% of its ownership through Teatinos Siglo XXI Inversiones Ltda in the market. This gives Banco Santander Spain control over 75.00% of our shares and actual participation when excluding non-controlling interests participating in Santander Chile Holding is 74.84%.

Shareholder	Number of Shares	Percentage	
Teatinos Siglo XXI Inversiones Ltda.	74,512,075,401	39.54	%
Santander Chile Holding	66,822,519,695	35.46	%

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

Commercial Structure

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

C. Business Overview

We have 504 total branches, 259 of which are operated under the Santander brand name, with the remaining branches under certain specialty brand names, including 98 under the Santander Banefe brand name, 46 under the SuperCaja brand name, 29 under the BancaPrime brand name and 42 as auxiliary and payment centers. We provide a full range of financial services to corporate and individual customers. We divide our clients into the following segments: (i) Commercial Banking and (ii) Global Banking and Markets.

The Commercial Banking segment is comprised of the following sub-segments:

- Santander Banefe, consisting of individuals with monthly incomes between Ch\$150,000 (US\$321) and Ch\$400,000 (US\$855) and served through our Banefe branch network. This segment accounts for 4.6% of our total loans outstanding as of December 31, 2010. This segment offers customers a range of products, including consumer loans, credit cards, auto loans, residential mortgage loans, debit card accounts, savings products, mutual funds and insurance brokerage.

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- Individuals (Commercial Banking), consisting of individuals with a monthly income greater than Ch\$400,000 (US\$855). Clients in this segment account for 48.9% of our total loans outstanding as of December 31, 2010 and are offered a range of products, including consumer loans, credit cards, auto loans, commercial loans, foreign trade financing, residential mortgage loans, checking accounts, savings products, mutual funds and insurance brokerage.
- Small and mid-sized companies, consisting of small companies with annual revenue of less than Ch\$1,200 million (US\$2.6 million). As of December 31, 2010, this segment represented approximately 15.1% of our total loans outstanding. Customers in this segment are offered a range of products, including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, savings products, mutual funds and insurance brokerage.
- Institutional, such as universities, government agencies, municipalities and regional governments. As of December 31, 2010, these clients represented 2.1% of our total loans outstanding. Customers in this sub-segment are also offered the same products that are offered to the customers in our small businesses segment. This sub-segment is included in the Retail segment because customers in this sub-segment are a potential source for new individual customers.
- Companies, consisting of companies with annual revenue over Ch\$1,200 million (US\$2.6 million) and up to Ch\$10,000 million (US\$21.4 million). Customers in this segment are offered a wide range of products, including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, cash management, treasury services, financial advisory, savings products, mutual funds and insurance brokerage. As of December 31, 2010, these clients represented 8.6% of our total loans outstanding.
- Real estate, consisting of all companies in the real estate sector with annual revenue over Ch\$800 million (US\$1.7 million), including construction companies and real estate companies that execute projects for sale to third parties. As of December 31, 2010, these clients represented 3.3% of our total loans outstanding. To these clients we offer, in addition to traditional banking services, specialized services for financing, primarily residential projects, in order to increase the sale of residential mortgage loans.
- Large corporations, consisting of companies with annual revenue over Ch\$10,000 million (US\$21.4 million). Customers in this segment are also offered the same products that are offered to the customers in our mid-sized companies segment. As of December 31, 2010, these clients represented 9.0% of our total loans outstanding.

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

- Corporate, consisting of companies that are foreign multinationals or part of a larger Chilean economic group with sales of over Ch\$10,000 million (U