BANCO SANTANDER CHILE
Form 20-F
April 30, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2012

OR

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

Commission file number: 1-14554

BANCO SANTANDER-CHILE

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

(Exact name of Registrant as specified in its charter)

SANTANDER-CHILE BANK

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

(Translation of Registrant s name into English)

Chile

(Jurisdiction of incorporation or organization)

Bandera 140

Santiago, Chile

Telephone: 011-562-320-2000

(Address of principal executive offices)

Robert Moreno Heimlich

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

Bandera 140, 19th Floor, Santiago, Chile

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

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

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

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

None

(Title of Class)

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

none

(Title of Class)

The number of outstanding shares of each class of common stock of Banco Santander-Chile at December 31, 2012, 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 x 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 x

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 x No ¨

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

Yes ¨ No ¨

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

Large Accelerated Filer x 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

x International Financial Reporting Standards as issued by the International Accounting Standards Board

¨ Other

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

¨ Item 17 ¨ Item 18

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

Yes ¨ No x

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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 C. Business Overview Competition, Item 5. Operating and Financial Review and Prospects, Item 8. Financial Information A. Consolidated Statements and Other Financial Information Legal Proceedings, and Item 11. Quantitative and Qualitative

Disclosures About Market Risk. Our forward-looking statements also may be identified by words such as believes, expects, anticipates, project intends, should, could, may, seeks, aim, combined, estimates, probability, risk, VaR, target, goal, objective, futu

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

- changes in capital markets in general that may affect policies or attitudes towards lending to Chile or Chilean companies
- changes in economic conditions
- the monetary and interest rate policies of Central Bank (as defined below)
- inflation
- deflation

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unemployment

increases in defaults by our customers and in impairment losses

decreases in deposits

customer loss or revenue loss

unanticipated turbulence in interest rates

movements in foreign exchange rates

movements in equity prices or other rates or prices

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 (the Annual Report), Santander-Chile , the Bank , we, our and us or similar terms refer to Banco Santander-C together with its consolidated subsidiaries.

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

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

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

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

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

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

PRESENTATION OF FINANCIAL INFORMATION

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

As required by local regulations, our locally filed consolidated financial statements have been prepared in accordance with Chilean accounting principles issued by the SBIF (Chilean Bank GAAP). Therefore, our locally filed consolidated financial statements have been adjusted to IFRS in order to comply with the requirements of the Securities and Exchange Commission (the SEC). Chilean Bank GAAP principles are substantially similar to IFRS but there are some exceptions. For further details and a discussion of the main differences between Chilean Bank GAAP and IFRS, see to Item 5. Operating and Financial Review and Prospects A. Accounting Standards Applied in 2012.

This Annual Report contains our consolidated financial statements as of December 31, 2012, 2011 and 2010, and for the years then ended (the Audited Financial Statements). Such Audited Consolidated Financial Statements have been prepared in accordance with IFRS as issued by the IASB, and have been audited by Deloitte Auditores y Consultores Limitada, independent registered public accountants. See page F-1 of the Audited Consolidated Financial Statements for the 2012, 2011 and 2010 reports prepared by Deloitte Auditores y Consultores Limitada. The Audited Financial Statements have been prepared from accounting records maintained by the Bank and its subsidiaries.

The notes to the Audited Consolidated Financial Statements contain information in addition to that presented in the Audited Consolidated Financial Statements, which provide narrative descriptions or details of these financial statements.

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

Functional and Presentation Currency

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

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For presentational purposes, we have translated millions of Chilean pesos (Ch$ million) into thousands of US dollars (U.S.$ thousand) using the rate as indicated below under Exchange Rates, for the financial information included in this Annual Report.

Loans

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

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

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

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

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

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

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 year end, for any period have been translated from Chilean pesos based on the interbank market rate published by Reuters at 1:30 pm on the last business day of the period. On December 31, 2011 and 2012, the exchange rate in the Informal Exchange Market as published by Reuters at 1:30 pm on these days was Ch$520.35 and Ch$478.85, respectively, or 0.21% less and 0.05% more, respectively, than the published observed exchange rate for such date of Ch$521.46 and Ch$478.60, respectively, per U.S.$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for the Chilean peso. For more information on the observed exchange rate. See Item 3. Key Information A. Selected Financial Data Exchange Rates.

As of December 31, 2011 and 2012, one UF was equivalent to Ch$22,294.03 and Ch$22,840.75, respectively. The U.S. dollar equivalent of one UF was U.S.$47.72 as of December 31, 2012, using the observed exchange rate reported by the Central Bank as of December 31, 2012, of Ch$478.60 per U.S.$1.00.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following table presents selected historical financial information for Santander-Chile as of the dates and for each of the periods indicated. Financial information for Santander-Chile as of and for the years ended December 31, 2012, 2011, 2010, 2009 and 2008 has been derived from our audited consolidated financial statements prepared in accordance with IFRS. These consolidated financial statements differ in some respects our locally filed financial statements at and for the years ended December 31, 2012, 2011, 2010, 2009 and 2008 prepared in accordance with Chilean Bank GAAP.

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

	As of December 31,					
	2012	2012	2011	2010	2009	2008
	In U.S.$ thousands (1)	In Ch$ millions (2)				
CONSOLIDATED STATEMENT OF INCOME DATA (IFRS)						
Net interest income	2,177,579	1,042,734	972,300	939,719	856,516	892,066
Provision for loan losses	(843,045)	(403,692)	(316,137)	(253,915)	(333,145)	(287,983)
Net fee and commission income	565,046	270,572	277,836	263,582	254,130	243,129
Operating costs (3)	(1,127,985)	(540,136)	(501,020)	(451,936)	(407,894)	(428,168)
Other income, net (4)	75,252	36,034	50,878	95,365	155,927	61,665
Income before tax	846,847	405,512	483,857	592,815	525,534	480,709
Income tax expense	(92,710)	(44,394)	(77,193)	(85,343)	(88,924)	(59,742)
Net income for the year	754,137	361,118	406,664	507,472	436,610	420,967
Net income attributable to:						
Bank shareholders	744,477	356,493	401,733	505,393	431,557	413,370
Non-controlling interests	9,660	4,625	4,931	2,079	5,053	7,597
Net income attributable to Bank shareholders per share	3.95	1.89	2.13	2.68	2.29	2.19
Net income attributable to Bank shareholders per ADS (5)	1,581	757	2,215	2,786	2,379	2,279
Weighted-average shares outstanding (in millions)		188,446.13	188,446.13	188,446.13	188,446.13	188,446.13
Weighted-average ADS outstanding (in millions) (5)		471.115	181.373	181.373	181.373	181.373
CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA (IFRS)						
Cash and deposits in banks	2,611,285	1,250,414	2,793,701	1,762,198	2,043,458	855,411
Financial investments (6)	4,534,694	2,171,438	2,084,002	2,024,635	2,642,649	2,746,666
Loans before allowance from loan losses	39,608,754	18,966,652	17,434,782	15,727,282	13,751,276	14,681,088
Loan loss allowance	(1,148,685)	(550,048)	(488,468)	(425,447)	(349,527)	(274,240)
Financial derivative contracts (assets)	2,700,662	1,293,212	1,601,896	1,624,378	1,393,878	1,846,509

Other assets (7)	3,400,272	1,628,220	1,243,080	1,377,668	1,291,141	1,229,073
Total assets	51,706,982	24,759,888	24,668,993	22,090,714	20,772,875	21,084,507
Deposits (8)	29,408,441	14,082,232	13,334,929	11,495,191	10,708,791	12,704,428
Other interest bearing liabilities (9)	13,586,760	6,506,020	7,264,311	6,235,959	6,232,982	4,769,980
Financial derivative contracts (liabilities)	2,393,570	1,146,161	1,292,402	1,643,979	1,348,906	1,469,724
Total equity (10)	4,588,876	2,197,383	2,094,518	1,937,977	1,689,903	1,517,649
Equity attributable to Bank shareholders	4,517,319	2,163,118	2,060,717	1,906,168	1,660,104	1,491,770

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	As of December 31,				
	2012	2011	2010	2009	2008
CONSOLIDATED RATIOS (IFRS)					
Profitability and performance:					
Net interest margin (11)	4.8%	4.8%	5.4%	5.3%	5.7%
Return on average total assets (12)	1.4%	1.7%	2.4%	2.2%	2.3%
Return on average equity (13)	16.5%	20.4%	29.0%	27.3%	32.4%
Capital:					
Average equity as a percentage of average total assets (14)	8.7%	8.3%	8.4%	8.0%	7.0%
Total liabilities as a multiple of equity (15)	10.3	10.8	10.4	11.3	12.9
Credit Quality:					
Non-performing loans as a percentage of total loans (16)	3.15%	2.93%	2.65%	2.97%	2.61%
Allowance for loan losses as percentage of total loans	2.90%	2.80%	2.71%	2.54%	1.87%
Operating Ratios:					
Operating expenses /operating revenue (17)	42.6%	41.5%	37.0%	34.2%	37.7%
Operating expenses /average total assets	2.4%	2.3%	2.2%	2.2%	2.5%
OTHER DATA					
CPI Inflation Rate (18)	1.5%	4.4%	3.0%	(1.4%)	7.1%
Revaluation (devaluation) rate (Ch$/U.S.$) at year end (18)	(8.2%)	11.3%	(7.5%)	(19.5%)	26.9%
Number of employees at period end	11,713	11,566	11,001	11,118	11,592
Number of branches and offices at period end	504	499	504	498	505

(1) Amounts stated in U.S. dollars at and for the year ended December 31, 2012 have been translated from Chilean pesos at the interbank market exchange rate of Ch$478.85 = U.S.$1.00 as of December 31, 2012 based on the interbank market rate published by Reuters at 1:30 pm on the last business day of the period.

(2) Except per share data, percentages and ratios, share numbers, employee numbers and branch numbers.

(3) Operating costs is equal to the sum of the line items on personnel salaries and expenses, administrative expenses, depreciation and amortization and impairment within our Consolidated Statements of Income.

(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) On October 22, 2012 the Bank performed an ADR split: for each old ADR, an ADR holder received 2.5975 new ADRs, and the ratio of ADS to shares became 1 ADS = 400 shares. For the years 2009-2011,1 ADS = 1,039 shares of common stock.

(6) Includes the line items on trading investments, investments under resale agreements, investments available for sale and investments held to maturity within our Consolidated Statements of Financial Position.

(7) Includes the line items on cash items in process of collection, 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 are equal to the sum of the line items on deposits and other demand liabilities and time deposits and other time liabilities within our Consolidated Statements of Financial Position.

(9) Other interest bearing liabilities are equal to the sum of the line items on obligations under repurchase agreements, interbank borrowings, issued debt instruments and other financial liabilities within our Consolidated Statements of Financial Position.

(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. Operating and Financial Review and Prospects F. Selected Statistical Information).

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

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

(14) This ratio is calculated using total equity including non-controlling interest.

(15) Total liabilities divided by equity.

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

(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.

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Exchange Rates

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

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

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

Purchases and sales of foreign currencies may be legally carried out in the Informal Exchange Market. The Informal Exchange Market reflects transactions carried out at informal exchange rates by entities not expressly authorized to operate in the Formal Exchange Market. There are no limits imposed on the extent to which the rate of exchange in the Informal Exchange Market can fluctuate above or below the Observed Exchange Rate. In recent years, the variation between the Observed Exchange Rate and the Informal Exchange Rate has not been significant. On December 31, 2011 and 2012, the exchange rate in the Informal Exchange Market as published by Reuters at 1:30 pm on these days was Ch$520.35 and Ch$478.85, or 0.21% less and 0.05% more, respectively, than the published observed exchange rate for such date of Ch$521.46 and Ch$478.60, respectively, per U.S.$1.00.

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

	Daily Observed Exchange Rate Ch$ Per U.S.$(1)			
Year	**Low(2)**	**High(2)**	**Average(3)**	**Period End**
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
2011	455.91	533.74	483.36	521.46
2012	469.65	519.69	494.99	478.60
Month				
October 2012	471.54	481.98	475.36	480.03
November 2012	476.20	484.48	480.57	479.42

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	Daily Observed Exchange Rate Ch$ Per U.S.$(1)			
Month	**Low(2)**	**High(2)**	**Average(3)**	**Period End**
December 2012	474.36	481.28	477.13	478.60
January 2013	470.67	479.96	472.67	471.40
February 2013	470.67	473.60	472.34	473.30
March 2013	471.10	474.82	472.48	472.54
April 2013 (until April 26, 2013)	466.05	477.74	472.17	472.73

Source: Central Bank.

(1) Nominal figures.

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

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

Dividends

Under the current General Banking Law, a Chilean bank may only pay a single dividend per year (*i.e.*, interim dividends are not permitted). Santander-Chile s annual dividend is proposed by its Board of Directors and is approved by the shareholders at the annual ordinary shareholders meeting held the year following that in which the dividend is generated. For example, the 2012 dividend must be proposed and approved during the first four months of 2013. Following shareholder approval, the proposed dividend is declared and paid. Historically, the dividend for a particular year has been declared and paid no later than one month following the shareholders meeting. Dividends are paid to shareholders of record on the fifth day preceding the date set for payment of the dividend. The applicable record dates for the payment of dividends to holders of ADSs will, to the extent practicable, be the same.

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

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

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

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

Year	Dividend Ch$ mn(1)	Per share Ch$/share(2)	Per ADR Ch$/ADR(3)	% over earnings(4)	% over earnings(5)
2009	213,295	1.13	1,176.00	65	52
2010	258,752	1.37	1,426.63	60	60
2011	286,294	1.52	1,578.48	60	57
2012	261,051	1.39	1,439.08	60	65
2013(6)	232,780	1.24	494.10	60	65

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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, except in 2013 which is calculated on the basis of 400 shares per ADR.

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

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

(6) Approved by shareholders on April 29, 2013.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

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

Risks Associated with Our Business

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

In the past five years, the financial systems worldwide have experienced difficult credit and liquidity conditions and disruptions leading to less liquidity, greater volatility, general widening of spreads and, in some cases, lack of price transparency on interbank lending rates. Global economic conditions deteriorated significantly between 2007 and 2009, and many countries fell into recession. Recessionary conditions continue in some countries. Many major financial institutions, including some of the world s largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies experienced, and some continue to experience, significant difficulties. Around the world, there have also been runs on deposits at several financial institutions, numerous institutions have sought additional capital or have been assisted by governments, and many lenders and institutional investors have reduced or ceased providing funding to borrowers (including to other financial institutions).

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

We potentially face increased regulation of our industry. Compliance with such regulation may increase our costs, may affect the pricing for our products and services, and limit our ability to pursue business opportunities.

Reduced demand for our products and services.

Inability of our borrowers to timely or fully comply with their existing obligations.

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

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

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

The recoverability of our consumer loans in particular may be increasingly vulnerable to macroeconomic shocks that could negatively impact the household income of our clients and result in increased loan losses.

Some uncertainty remains concerning the future economic environment. While certain segments of the global economy are currently experiencing a moderate recovery, we expect such uncertainty will continue, which could have a negative impact on our business and results of operations. Global investor confidence remains cautious and downgrades of the sovereign debt of Ireland, Greece, Portugal, Spain, Italy and France, as well as the recent developments and banking crisis in Cyprus, have caused volatility in the capital markets. A slowing or failing of the economic recovery would likely aggravate the adverse effects of these difficult economic and market conditions on us and on others in the financial services industry.

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

If all or some of the foregoing risks were to materialize, this could have a material adverse effect on us.

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

Credit ratings affect the cost and other terms upon which we are able to obtain funding. Rating agencies regularly evaluate us and their ratings of our long-term debt are based on a number of factors, including our financial strength, conditions that affect the financial services industry generally and the economic environment in which the company operates.

During 2012, the three major risk rating agencies: Standard & Poor s Rating Services (S&P), Fitch Ratings Ltd. (Fitch) and Moody s Investor Services, Inc. (Moody s) downgraded Spain s sovereign rating, due to the fiscal crises in Spain and in several other European countries. As a result, Santander Spain (our controlling shareholder) also had its credit rating downgraded by the three major rating agencies: Fitch (on June 11, 2012) from A to BBB+, Moody s (on June 25, 2012) to Baa2 and S&P (on October 15, 2012) to BBB, which in each case was one notch above Spain s sovereign rating.

Following these downgrades, Moody s placed our short- and long-term ratings on outlook negative. Fitch placed our long-term ratings on outlook negative. S&P downgraded our long-term foreign issuer credit rating by one notch to A in February 2012, and in June 2012, placed our long-term ratings on outlook negative. In December 2012, S&P changed its outlook on our rating to stable. All three rating agencies indicated that the reason for these changes was strictly due to the downgraded ratings over Spain s sovereign credit ratings and Santander Spain s credit ratings.

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Our international funding costs have not been affected by the recent downgrades of Spain s sovereign debt, Santander Spain s debt and our related downgrades. In our domestic market, however, we did observe a slight rise in our funding spreads in comparison to some of our competitors in the deposit and bond market. These spreads had begun to recover and are comparable to those of Banco de Chile, the largest Bank in Chile, as of December 2012. Below is a table of our funding spreads in 2012 in comparison with those of Banco de Chile:

Bond spread differential between Santander-Chile and Banco de Chile (bp)	3Y duration	5Y duration	Difference between Santander-Chile and Banco de Chile deposit rates in the secondary market (on an annual basis)	1-30 days	31-90 days	90 days or more
Jan-12	30	15	Jan-12	0.12%	0.24%	0.24%
Feb-12	15	15	Feb-12	0.00%	(0.24%)	0.00%
Mar-12	15	45	Mar-12	0.12%	0.12%	0.00%
Apr-12	15	30	Apr-12	0.00%	0.00%	0.00%
May-12	10	25	May-12	0.24%	0.12%	0.24%
Jun-12	5	25	Jun-12	0.24%	0.24%	0.12%
Jul-12	10	25	Jul-12	0.36%	0.12%	0.36%
Aug-12	15	20	Aug-12	0.12%	0.12%	0.12%
Sep-12	20	20	Sep-12	0.12%	0.00%	(0.24%)
Oct-12	30	20	Oct-12	0.36%	0.12%	0.00%
Nov-12	25	20	Nov-12	0.36%	0.00%	0.00%
Dec-12	10	10	Dec-12	0.12%	0.00%	0.00%

Source: Santiago Stock Exchange

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

In light of the difficulties in the financial services industry and the financial markets, there can be no assurance that the rating agencies will maintain our current ratings or outlooks. Our failure to maintain favorable ratings and outlooks would likely increase our cost of funding and adversely affect our interest margins, which could have a material adverse effect on us.

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

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

The increase in competition within the Chilean banking industry in recent years has led to consolidation in the industry. We expect the trends of increased competition and consolidation to continue and to result in the formation of large new financial groups. 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.

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

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

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

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

The success of our operations and our profitability depends, in part, on the success of new products and services we offer our clients and our ability to continue offering products and services from third parties. However, we cannot guarantee that our new products and services will be responsive to client demands or successful once they are offered to our clients, or that they will be successful in the future. In addition, our clients needs or desires may change over time, and such changes may render our products and services obsolete, outdated or unattractive and we may not be able to develop new products that meet our clients changing needs. If we cannot respond in a timely fashion to the changing needs of our clients, we may lose clients, which could in turn materially and adversely affect us.

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

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

Market turmoil and economic recession could materially and adversely affect the liquidity, businesses and/or financial conditions of our borrowers, which could in turn increase our own non-performing loan ratios, impair our loan and other financial assets and result in decreased demand for borrowings in general. In addition, our customers may further significantly decrease their risk tolerance to non-deposit investments such as stocks, bonds and mutual funds, which would adversely affect our fee and commission income. Any of the conditions described above could have a material adverse effect on our business, financial condition and results of operations.

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

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

In addition, to the extent that fair values are determined using financial valuation models, such values may be inaccurate or subject to change, as the data used by such models may not be available or may become unavailable due to changes in market conditions, particularly for illiquid assets, and particularly in times of economic instability. In such circumstances, our valuation methodologies require us to make assumptions, judgments and estimates in order to

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establish fair value, and reliable assumptions are difficult to make and are inherently uncertain and valuation models are complex, making them inherently imperfect predictors of actual results. Any consequential impairments or write-downs could have a material adverse effect on our operating results, financial condition and prospects.

If we are unable to effectively control the level of non-performing or poor credit quality loans in the future, this could have a material adverse effect on us.

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of our businesses. Non-performing or low credit quality loans can negatively impact our results of operations. We cannot assure you that we will be able to effectively control the level of the impaired loans in our total loan portfolio. In particular, the amount of our reported non-performing loans may increase in the future as a result of growth in our total loan portfolio, including as a result of loan portfolios that we may acquire in the future, or factors beyond our control, such as adverse changes in the credit quality of our borrowers and counterparties or a general deterioration in Chilean or global economic conditions, impact of political events, events affecting certain industries or events affecting financial markets and global economies.

As of December 31, 2012, our non-performing loans were Ch$597,767 million, and the ratio of our non-performing loans to total loans was 3.15%. For additional information on our asset quality, see Item 5. Operating and Financial Review and Prospects F. Selected Statistical Information Classification of Loan Portfolio Based on the Borrower s Payment Performance. 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 will be 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.

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

As of December 31, 2012, our allowance for loan losses was Ch$550,048 million, the ratio of our allowance for loan losses to total loans was 2.90% and the ratio of loan loss allowances to total loans was 92.02%. 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. Operating and Financial Review and Prospects C. Operating Results Results of Operations for the Years ended December 31, 2012, 2011 and 2010 Provision for loan losses, net of recoveries. 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.

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

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

Additionally, there are certain provisions under Chilean law that may affect our ability to foreclose or liquidate residential mortgages if the real estate in question has been declared as family property by a court. Family Property refers to a legal term in which a Family Court may declare a residential property as family property in a divorce or separation case. If this occurs, in the deed of the residence, a clause is included identifying the residence as family property and any process of change in ownership or foreclosure must have the consent of both the husband and the wife. This may limit our ability to foreclose on property with this legal status.

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

A substantial number of our customers consist of individuals (approximately 51.3% of the value of the total loan portfolio as of December 31, 2012, if interbank loans are included) and, to a lesser extent, small- and mid-sized companies (those with annual revenues of less than U.S.$2.5 million), which comprised approximately 15.0% of the value of the total loan portfolio as of December 31, 2012. 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, 2012, our residential mortgage loan portfolio totaled Ch$5,271,581 million, representing 27.8% 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 our residential mortgage loan portfolio. 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.

The growth of our loan portfolio may expose us to increased loan losses. The Chilean economy has grown above the global average and this is reflected in our loan growth.

From December 31, 2007 to December 31, 2012, our aggregate loan portfolio, excluding interbank loans, grew by 54.7% in nominal terms to Ch$18,876,079 million (U.S.$39.4 billion), while our consumer loan portfolio grew 51.5% in nominal terms to Ch$3,115,477 million (U.S.$6.5 billion). From December 31, 2011 to December 31, 2012, our aggregate loan portfolio grew 8.8% to Ch$18,966,652 million (U.S.$39.6 billion), while our consumer loan portfolio grew 5.8%. 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 and economic turmoil may lead to a contraction in our loan portfolio.

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

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

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

- net interest income;
- the volume of loans originated;
- the market value of our securities holdings; and
- gains from sales of loans and securities.

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

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

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

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

Increases in interest rates may reduce gains or require us to record losses on sales of our loans or securities.

Therefore, while the Bank seeks not to maintain a significant mismatch in foreign currency, from time to time, we may have a mismatch. See Item 11. Quantitative and Qualitative Disclosure About Market Risks E. Market Risks Foreign exchange fluctuations. We are also exposed to foreign exchange rate risk as a result of mismatches between assets and liabilities denominated in different currencies. Fluctuations in the exchange rate between currencies may negatively affect our earnings and value of our assets and securities.

We are also exposed to equity price risk in connection with our trading investments in equity securities as part of our normal course of business as a commercial bank. The performance of financial markets may cause changes in the value of our investment and trading portfolios. The volatility of world equity markets due to the continued economic uncertainty and sovereign debt crisis has had a particularly strong impact on the financial sector. Continued volatility may affect the value of our investments in entities in this sector and, depending on their fair value and future recovery expectations, could become a permanent impairment which would be subject to write-offs against our results. To the extent any of these risks materialize, our net interest income or the market value of our assets and liabilities could be adversely affected.

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

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

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

In addition, we have been trying to refine our credit policies and guidelines to address potential risks associated with particular industries or types of customers. However, we may not be able to timely detect these risks before they occur, or due to limited tools available to us, our employees may not be able to effectively implement them, which may increase our credit risk. Failure to effectively implement, consistently follow or continuously refine our credit risk management system may result in an increase in the level of non-performing loans and a higher risk exposure for us, which could have a material adverse effect on us.

Some of our qualitative tools and metrics for managing risk are based upon our use of observed historical market behavior. We apply statistical and other tools to these observations to arrive at quantifications of our risk exposures. These qualitative tools and metrics may fail to predict future risk exposures. These risk exposures could, for example, arise from factors we did not anticipate or correctly evaluate in its statistical models. This would limit our ability to manage our risks. Our losses thus could be significantly greater than the historical measures indicate. In addition, our quantified modeling does not take all risks into account. Our more qualitative approach to managing those risks could prove insufficient, exposing us to material unanticipated losses. If existing or potential customers believe our risk management is inadequate, they could take their business elsewhere. This could harm our reputation as well as our revenues and profits.

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

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

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

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

Continued or worsening disruption and volatility in the global financial markets could have a material adverse effect on our ability to access capital and liquidity on financial terms acceptable to us.

Our cost of obtaining funding is directly related to prevailing market interest rates and to our credit spreads. Increases in interest rates and our credit spreads can significantly increase the cost of our funding. Changes in our credit spreads are market-driven, and may be influenced by market perceptions of our creditworthiness. Changes to interest rates and our credit spreads occur continuously and may be unpredictable and highly volatile.

If wholesale markets financing ceases to become available, or becomes excessively expensive, we may be forced to raise the rates we pay on deposits, with a view to attracting more customers, and/or to sell assets, potentially at depressed prices. The persistence or worsening of these adverse market conditions or an increase in base interest rates could have a material adverse effect on our ability to access liquidity and cost of funding (whether directly or indirectly).

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

We anticipate that our customers will continue, in the near future, to make short-term deposits (particularly demand deposits and short-term time deposits), and we intend to maintain our emphasis on the use of banking deposits as a source of funds. As of December 31, 2012, 98.7% of our customer deposits had remaining maturities of one year or less, or were payable on demand. A significant portion of our assets have longer maturities, resulting in a mismatch between the maturities of liabilities and the maturities of assets. Historically, one of our principal sources of funds has been time deposits. Time deposits represented 36.8% and 36.2% of our total liabilities and equity as of December 31, 2012 and 2011, respectively. The Chilean time deposit market is concentrated given the importance in size of the pension fund system, in which every Chilean in the workforce must contribute monthly and a portion of these funds is invested in bank deposits. These deposits, which are managed by the private pension funds, we consider to be structurally more stable than other institutional sources given that they come from mandatory savings of the Chilean public. As of December 31, 2012, the Bank s top 20 time deposits represented 36.5% of total time deposits, or 13.4% of total liabilities and equity, and totaled U.S.$6,955 million. No assurance can be given that future economic stability in the Chilean market will not negatively affect our ability to continue funding our business or to maintain our current levels of funding without incurring higher funding costs or having to liquidate certain assets.

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

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

Chilean banks are required by the General Banking Law to maintain regulatory capital of at least 8% of risk-weighted assets, net of required loan loss allowance and deductions, and paid-in capital and reserves (basic capital) of at least 3% of total assets, net of required loan loss allowances. As we are the result of the merger between two predecessors, we are currently required to maintain a minimum regulatory capital to risk-weighted assets ratio of 11%. As of December 31, 2012, the ratio of our regulatory capital to risk-weighted assets, net of loan loss allowance and deductions, was 13.72%. 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 2013 or 2014, Chilean banks will most likely be required to adopt the guidelines set forth under the Basel II and III Capital Accord with adjustments incorporated by the SBIF once these changes are approved by the Chilean 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 12.51% as of November 30, 2012, the latest figure available. No assurance can be given that the adoption of the Basel II capital requirements will not have a material impact on our capitalization ratio.

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

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

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

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

Modifications to reserve requirements may affect our business.

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

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

Chilean regulations impose a series of restrictions on how Chilean pension fund management companies (*Administradora de Fondos de Pensión*, or AFPs) may allocate their assets. In the particular case of financial issuers, there are three restrictions, each involving different assets and different limits determined by the amount of assets in each fund and the market and book value of the issuer s equity. As a consequence, limits vary within funds of AFPs and issuers. As of November 30, 2012, the latest information available, the AFP system can invest another 7.65% of its assets under management in Santander-Chile s bonds, deposits and mortgage finance bonds, and 0.57% in Santander-Chile s shares. The total amount that AFPs could additionally invest in Santander is approximately U.S.$13.0 billion. If the exposure of any AFP to Santander-Chile exceeds the regulatory limits, we would need to seek alternative sources of funding, which could be more expensive and, as a consequence, may have a material adverse effect on our financial condition and results of operations.

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, 2011, the limit on making investments abroad was 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 November 30, 2012, 10.4% of our liabilities 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.

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

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

The valuation of financial instruments measured at fair value can be subjective, in particular where models are used which include unobservable inputs. Given the uncertainty and subjectivity associated with valuing such instruments it is possible that the results of our operations and financial position could be materially misstated if the estimates and assumptions used prove to be inaccurate.

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

Changes in accounting standards could impact reported earnings.

The accounting standard setters and other regulatory bodies periodically change the financial accounting and reporting standards that govern the preparation of our consolidated financial statements. These changes can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements.

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

Chilean law applicable to public companies and financial groups and institutions, as well as our bylaws, provide for several procedures designed to ensure that the transactions entered into with or among our financial subsidiaries do not deviate from prevailing market conditions for those types of transactions, including the requirement that our board of directors approve such transactions.

We are likely to continue to engage in transactions with related parties (including our controlling shareholder) on an arm s length basis. Conflicts of interest between us and related parties may arise. These conflicts are not required to be and may not be resolved in our favor. See Item 7. Major Shareholders and Related Party Transactions.

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Operational risks, including risks relating to data collection, processing and storage systems are inherent in our business.

Our businesses depend on the ability to process a large number of transactions efficiently and accurately, and on our ability to rely on our digital technologies, computer and email services, software and networks, as well as on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. The proper functioning of financial control, accounting or other data collection and processing systems is critical to our businesses and to our ability to compete effectively. Losses can result from inadequate personnel, inadequate or failed internal control processes and systems, or from external events that interrupt normal business operations. We also face the risk that the design of our controls and procedures prove to be inadequate or are circumvented. Although we work with our clients, vendors, service providers, counterparties and other third parties to develop secure transmission capabilities and prevent against cyber attacks, we routinely exchange personal, confidential and proprietary information by electronic means, and we may be the target of attempted cyber attacks. If we cannot maintain an effective data collection, management and processing system, we may be materially and adversely affected.

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

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

In addition, our businesses are exposed to risk from potential non-compliance with policies, employee misconduct or negligence and fraud, which could result in regulatory sanctions and serious reputational or financial harm. In recent years, a number of multinational financial institutions have suffered material losses due to the actions of rogue traders or other employees. It is not always possible to deter employee misconduct and the precautions we take to prevent and detect this activity may not always be effective.

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

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

We rely on third parties for important products and services.

Third party vendors provide key components of our business infrastructure such as loan and deposit servicing systems, internet connections and network access. Any problems caused by these third parties, including as a result of their not providing us their services for any reason or their performing their services poorly, could adversely affect our ability to deliver products and services to customers and otherwise to conduct business. Replacing these third party vendors could also entail significant delays and expense.

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

Maintaining a positive reputation is critical to our attracting and maintaining customers, investors and employees. Damage to our reputation can therefore cause significant harm to our business and prospects. Harm to our reputation may arise from numerous sources, including, among others, employee misconduct, litigation or regulatory outcomes, failure to deliver minimum standards of service and quality, compliance failures, unethical behavior, and the activities of customers and counterparties. Furthermore, negative publicity regarding us, whether true or not, may result in harm to our business prospects.

Actions by the financial services industry generally or by certain members of, or individuals in, the industry may also affect our reputation. For example, the role played by financial services firms in the financial crisis and the seeming shift toward increasing regulatory supervision and enforcement has caused public perception of us and others in the financial services industry to decline. Any failure to establish or preserve a favorable reputation among our customers and in the market in general could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

We are required to comply with applicable anti-money laundering, anti-terrorism and other laws and regulations in the jurisdictions in which we operate. These laws and regulations require us, among other things, to adopt and enforce know-your-customer policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. These laws and regulations have become increasingly complex and detailed, require improved systems and sophisticated monitoring and compliance personnel and have become the subject of enhanced government supervision.

While we have adopted policies and procedures aimed at detecting and preventing the use of our banking network for money laundering and related activities, such policies and procedures have in some cases only been recently adopted and may not completely eliminate instances where we may be used by other parties to engage in money laundering and other illegal or improper activities. To the extent we fail to fully comply with applicable laws and regulations, the relevant government agencies to which we report have the power and authority to impose fines and other penalties on us, including the revocation of licenses. In addition, our business and reputation could suffer if customers use our banking network for money laundering or illegal or improper purposes.

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

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

We face various issues that may give rise to risk of loss from legal and regulatory proceedings, including tax litigation. These issues, including appropriately dealing with potential conflicts of interest, and legal and regulatory requirements, could increase the amount of damages asserted against us or subject us to regulatory enforcement actions, fines and penalties. The current regulatory environment, which suggests an increased supervisory focus on enforcement, combined with uncertainty about the evolution of the regulatory regime, may lead to material operational and compliance costs.

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

We are subject to market 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 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.

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

A default by a significant financial counterparty, or liquidity problems in the financial services industry generally, could have a material adverse effect on us.

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 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. Prepayment risk is inherent to our commercial activity and an increase in prepayments could have a material adverse effect on us.

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

Large-denominations of funding from time deposits from institutional investors may, under some circumstances, be a less stable source of funding than savings and bonds, such as during periods of significant changes in market interest rates for these types of deposit products and any resulting increased competition for such funds. As of December 31, 2012 total time deposits from institutional investors plus funds obtained from our U.S. Commercial Paper program totaled U.S.$7.2 billion or 13.9% of total liabilities and equity. The liquidity crisis triggered by the U.S. subprime market impacted global markets and affected sources of funding, including time deposits. Although our results of operations and financial position have not suffered a significant impact as a consequence of the recent credit market instability in the U.S., future market instability in the U.S. or the global financial markets may negatively affect our ability to continue funding our business or maintain our current levels of funding without incurring higher funding costs or having to liquidate certain assets.

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

We allocate management and planning resources to develop strategic plans for organic growth, and to identify possible acquisitions and disposals and areas for restructuring our businesses. We cannot provide assurance that we will, in all cases, be able to manage our growth effectively or deliver our strategic growth objectives. Challenges that may result from the strategic growth decisions include our ability to:

- manage efficiently the operations and employees of expanding businesses;
- maintain or grow our existing customer base;
- assess the value, strengths and weaknesses of investment or acquisition candidates;
- finance strategic investments or acquisitions;
- fully integrate strategic investments, or newly-established entities or acquisitions in line with our strategy;
- align our current information technology systems adequately with those of an enlarged group;
- apply our risk management policy effectively to an enlarged group; and
- manage a growing number of entities without over-committing management or losing key personnel.

Any failure to manage growth effectively, including relating to any or all of the above challenges associated with our growth plans, could have a material adverse effect on our operating results, financial condition and prospects.

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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. As a result, natural disasters, especially earthquakes, such as the February 2010 earthquake, may have an adverse impact on our results of operation.

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

The Chilean Government regularly enacts reforms to the tax and other assessment regimes to which we and our customers are subject. For example, in February 2010, the Chilean government approved legislation that increased the corporate income tax rate in order to pay for part of the reconstruction following the February 2010 earthquake and tsunami. The new legislation increased the corporate tax rate from 17% to 20% in 2011. The rate was decreased to 18.5% in 2012 and was scheduled to decrease further to 17% in 2013. However, Congress passed a new tax reform in 2012, raising again the corporate tax rate to 20%. We expect that this legislation will have an adverse effect on us and our corporate clients in 2013, and we expect to pay an effective tax rate of 18% going forward.

We cannot predict if tax reforms will be implemented in the future. The effects of these changes, if enacted, and any other changes that could result from the enactment of additional tax reforms, cannot be quantified.

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

A substantial amount of our loans is to borrowers doing business in Chile. Accordingly, the recoverability of these loans in particular, and our ability to increase the amount of loans outstanding and our results of operations and financial condition in general, are dependent to a significant extent on the level of economic activity in Chile. Our results of operations and financial condition could be affected by changes in economic or other policies of the Chilean government, which has exercised and continues to exercise substantial influence over many aspects of the private sector, or other political or economic developments in Chile. In line with the global economic climate, Chile s economy contracted 2.3% in 2009 for the first time since 1999. However, despite the February 2010 earthquake, the Chilean economy has since recovered significantly and GDP increased 5.4% in 2010, 6.2% in 2011 and 5.5% in 2012. 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.

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

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

We are exposed to risks related to the weakness and volatility of the economic and political situation in Asia, the United States, Europe (including Spain, where Santander Spain, our controlling shareholder, is based), Brazil, Argentina and other nations. Even though the world economy and the financial and capital markets had been recovering from the 2008 crisis throughout 2010 and early 2011, the conditions of the global markets again deteriorated in 2011 and continued through 2012. European countries encountered serious fiscal problems, including high debt levels that impaired growth and increased the risk of sovereign default. Also in 2011, the United States faced fiscal difficulties, which culminated in the downgrade of the U.S. long-term sovereign credit rating by S&P. Ongoing political debates in 2012 with respect to how the United States government would address the so-called fiscal cliff contributed to economic uncertainty. In 2012, the world economy continued to grow at a slow pace. As the year progressed, spillovers from the crisis in Europe weighed negatively on activity and confidence and the global recovery slowed. Although economic conditions in Europe and the United States may differ significantly from economic conditions in Chile, investors reactions to developments in these other countries may have an adverse effect on the market value of securities of Chilean issuers. In particular, investor perceptions of the risks associated with our securities may be affected by perception of risk conditions in Spain.

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If these nations economic conditions deteriorate, the economy in Chile, as both a neighboring country and a trading partner, could also be affected and could experience slower growth than in recent years, with possible adverse impact on our borrowers and counterparties. If this were to occur, we would potentially need to increase our allowances for loan losses, thus affecting our financial results, our results of operations and the price of our securities. As of December 31, 2012, approximately 2.5% of our assets were held abroad. There can be no assurance that the ongoing effects of the global financial crisis will not negatively impact growth, consumption, unemployment, investment and the price of exports in Chile. Crises and political uncertainties in other Latin American countries could also have an adverse effect on Chile, the price of our securities or our business.

Chile 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 crises and political uncertainty in other Latin American countries will not have an adverse effect on Chile, the price of our securities or our business.

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

High levels of inflation in Chile could adversely affect the Chilean economy and have an adverse effect on our business, financial condition and results of operations. Extended periods of deflation could also have an adverse effect on our business, financial condition and results of operations. In 2009, Chile experienced deflation of 1.4% as the global economy contracted. In 2012, CPI inflation was 1.49%, compared to 4.44% in 2011.

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

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

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

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

Year	Exchange rate at year end (Ch$)	Devaluation (Appreciation) (%)
2008	629.11	26.9
2009	506.43	(19.5)
2010	468.37	(7.5)
2011	521.46	11.3
2012	478.60	(8.2)
2013 (until April 26, 2013)	472.73	(1.2)

Source: Central Bank.

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

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

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

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

Historically, Chilean banks have not paid interest on amounts deposited in checking accounts. 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.

In 2011, a bill was introduced in Congress to modify the way in which the maximum interest rate is calculated in Chile. In 2012, the Senate s Finance Committee came to an agreement with the Executive branch on this proposed legislation, which is now being discussed in the Lower House of Congress. We expect this legislation to become law sometime in 2013. This new legislation is aimed at loans of less than UF 200 (U.S.$9,603) and with a term of more than 90 days, and thus includes consumer loans in installments, lines of credit and credit card lines. Currently, the maximum interest rate for loans of less than UF 200 (U.S.$9,603) and with a term of more than 90 days is calculated as the average rate of all transactions undertaken within the banking industry over the previous month of loans of less than UF 200 (U.S.$9,603) and with a term of more than 90 days, multiplied by a factor of 1.5. The average and maximum rates are published daily by the SBIF. As of December 31, 2012, the average annual interest rate for this type of loan reached 38.08%, and the maximum annual interest rate reached 57.12%.

The consensus reached in the Senate s Finance Committee proposes that for loans of less than UF 200 (U.S.$9,603) and a term of more than 90 days, the maximum rate be calculated separately for loans between UF 0 and UF 50 (U.S.$0 to U.S.$2,400) and UF 50 to UF 200 (U.S.$2,400 to U.S.$9,603).

For loans between UF 0 and UF50, the maximum rate will be equal to the average rate of loans between UF200 and UF5,000 (U.S.$2,400 to U.S.$240,085) plus 21%. As of September 30, 2012, the average rate of loans between UF 200 and UF 5,000 was 17.34%, and thus the new maximum rate would have been 38.34% compared to 56.76%. This reduction will be implemented gradually. When this law is enacted, the maximum rate for loans between UF 0 to UF 50 will automatically fall 6% to 50.76%, based on the September 30, 2012 maximum rate data. From then on and every 12 weeks, it will be reduced a further 2%, unless the flow of new loans in the industry decreased by 10%-20%, in which case the reduction will be partially or completely suspended until the next period. We estimate that it will take 16 to 23 months for the maximum rate to reach the 38% level of maximum rate the authorities are seeking for loans of this size

For loans between UF 50 and UF 200 (U.S.$2,400 to U.S.$9,603,) the maximum rate will be equal to the average rate of loans between UF 200 and UF 5,000 (U.S.$2,400 to U.S.$240,085) plus 14%. As of December 31, 2012 the average rate of loans between UF 200 to UF 5,000 was 17.74%, and thus the new maximum rate would be 31.74% compared to 56.76%. This reduction will be implemented gradually. When this law is enacted, the maximum rate for loans between UF 50 and UF 200 will automatically fall 8% to 48.76%, based on December 31, 2012 maximum rate data. From then on and every 12 weeks, it will be reduced a further 2%, unless the flow of new loans in the industry decreases by 10%-20%, in which case the reduction will be partially or completely suspended until the next period. We estimate that it will take 16 to 23 months for the maximum rate to reach the 31% level authorities are seeking for loans of this size.

If this bill in its current form is passed in Congress, it could have an adverse effect on our results of operations. We estimate that in 2013, this bill could affect between U.S.$50 and U.S.$100 million of our net interest income. This estimate is only preliminary, as it is difficult to estimate the speed of implementation of the reduction and the effect on loan volumes.

In March 2012, a bill aimed at giving additional enforcement powers to the SERNAC (Chile s Consumer Protection Agency) regarding financial services became effective and created the SERNAC Financiero, a specific consumer protection agency for the financial industry. The SERNAC Financiero has powers to supervise and regulate Bank products and services. The creation of the SERNAC Financiero has also resulted in additional scrutiny regarding prices and contracts for financial products and services, making it more difficult to raise prices and increasing competition among bank and non-bank competitors.

In July 2012, new regulations regarding the selling of mandatory insurance for loans were introduced that will increase competition and that could lower our fees from collecting these premiums. This could have a negative impact on fees in an amount we have initially estimated to be Ch$16 billion for 2013.

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 13.72% as of December 31, 2012, 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 12.51% as of November 30, 2012, the latest information available. No assurance can be given that these changes will not have a material impact on our capitalization ratio.

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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.

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

As of December 31, 2012, on a consolidated basis, we had 11,713 employees, of which 66.8% were unionized. In May 2010, a new collective bargaining agreement was signed, which became effective on January 1, 2011 and that will expire on December 31, 2014. 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.

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

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

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

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

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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.

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.

Risks Relating to Our Controlling Shareholder and our ADSs

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

Santander Spain, our controlling shareholder, controls Santander-Chile through its holdings in Teatinos Siglo XXI Inversiones S.A. and Santander Chile Holding S.A., which are controlled subsidiaries. Santander Spain has control over 67.18% of our shares and actual participation, excluding non-controlling shareholders that participate in Santander Chile Holding, S.A. of 67.01%.

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

- elect the majority of the directors and exercise control over our company and subsidiaries;
- cause the appointment of our principal officers;
- declare the payment of any dividends;
- agree to sell or otherwise transfer its controlling stake in us; and
- determine the outcome of substantially all actions requiring shareholder approval, including amendments of our bylaws, transactions with related parties, corporate reorganizations, acquisitions and disposals of assets and issuance of additional equity securities, if any.

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

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

We are a controlled company and a foreign private issuer within the meaning of the NYSE corporate governance standards. Under the NYSE rules, a controlled company is exempt from certain NYSE corporate governance requirements. In addition, a foreign private issuer may elect to comply with the practice of its home country and not to comply with certain NYSE corporate governance requirements, including the requirements that (1) a majority of the Board of Directors consist of independent directors, (2) a nominating and corporate governance committee be established that is composed entirely of independent directors and has a written charter addressing the committee s purpose and responsibilities, (3) a compensation committee be established that is composed entirely of independent directors and has a written charter addressing the committee s purpose and responsibilities and (4) an annual performance evaluation of the nominating and corporate governance and compensation committees be undertaken. 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.

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

Our ADSs are listed and traded on the NYSE. Our common stock is listed and traded on the Santiago Stock Exchange, the Chile Electronic Stock Exchange and the Valparaiso Stock Exchange, which we refer to collectively as the Chilean Stock Exchanges, although the trading market for the common stock is small by international standards. At December 31, 2012, we had 188,446,126,794 shares of common stock outstanding. The Chilean securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. According to Article 14 of the *Ley de Mercado de Valores, Ley No. 18,045*, or the Chilean Securities Market Law, the *Superintendencia de Valores y Seguros*, or the Superintendency of Securities and Insurance, may suspend the offer, quotation or trading of shares of any company listed on one or more Chilean Stock Exchanges for up to 30 days if, in its opinion, such suspension is necessary to protect investors or is justified for reasons of public interest. Such suspension may be extended for up to 120 days. If, at the expiration of the extension, the circumstances giving rise to the original suspension have not changed, the Superintendency of Securities and Insurance will then cancel the relevant listing in the registry of securities. In addition, the Santiago Stock Exchange may inquire as to any movement in the price of any securities in excess of 10% and suspend trading in such securities for a day if it deems necessary.

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

You may be unable to exercise preemptive rights.

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

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

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

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

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

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

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

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

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, 2012, we had total assets of Ch$24,759,888 million (U.S.$51,707 million), outstanding loans net of allowances for loan losses of Ch$18,326,190 (U.S.$38,271 million), total deposits of Ch$14,082,232 million (U.S.$29,408 million) and equity of Ch$2,197,383 million (U.S.$4,589 million). As of December 31, 2012, we employed 11,713 people and had the largest private branch network in Chile, with 499 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.

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

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

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

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

Relationship with Santander Spain

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

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

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

B. Organizational Structure

Santander Spain controls Santander-Chile through its holdings in Teatinos Siglo XXI Inversiones Ltda. and Santander Chile Holding S.A. which are controlled subsidiaries. In 2011, Santander Spain sold 9.7% of its ownership through Teatinos Siglo XXI Inversiones S.A. in the market. This gave Santander Spain control over 67.18% of our shares and actual participation when excluding non-controlling interests participating in Santander Chile Holding S.A. of 67.01%.

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

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Commercial Structure

The chart below sets forth the names and areas of responsibility of our senior commercial managers as of April 2013.

C. Business Overview

We have 504 total branches, 269 of which are operated under the Santander brand name, with the remaining branches under certain specialty brand names, including 93 under the *Santander Banefe* brand name, 45 under the *SuperCaja* brand name, 44 under the BancaPrime brand name and 53 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 (U.S.$313) and Ch$400,000 (U.S.$835) and served through our Banefe branch network. This segment accounts for 4.2% of our total loans outstanding as of December 31, 2012. This segment offers customers a range of products, including consumer loans, credit cards, auto loans, residential mortgage loans, debit card accounts, savings products, mutual funds and insurance brokerage.

Individuals in Commercial banking, consisting of individuals with a monthly income greater than Ch$400,000 (U.S.$835). Clients in this segment account for 47.1% of our total loans outstanding as of December 31, 2012 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 (SMEs), consisting of small companies with annual revenue of less than Ch$1,200 million (U.S.$2.5 million). As of December 31, 2012, this segment represented approximately 15.0% 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.

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Institutional, such as universities, government agencies, municipalities and regional governments. As of December 31, 2012, these clients represented 1.9% of our total loans outstanding. Customers in this sub-segment are also offered the same products that are offered to the customers in our small businesses segment. This sub-segment is included in the Retail segment because customers in this sub-segment are a potential source for new individual customers.

Companies, consisting of companies with annual revenue over Ch$1,200 million (U.S.$2.5 million) and up to Ch$10,000 million (U.S.$20.9 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, 2012, 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 (U.S.$1.7 million), including construction companies and real estate companies that execute projects for sale to third parties. As of December 31, 2012, these clients represented 4.1% of our total loans outstanding. To these clients we offer, in addition to traditional banking services, specialized services for financing, primarily residential projects, in order to increase the sale of residential mortgage loans.

Large corporations, consisting of companies with annual revenue over Ch$10,000 million (U.S.$20.9 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, 2012, these clients represented 8.8% 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.S.$20.9 million). As of December 31, 2012, these clients represented 9.8% of our total loans outstanding. Customers in this segment are offered a wide range of products, including commercial loans, leasing, factoring, foreign trade, mortgage loans, checking accounts, cash management, treasury services, financial advisory, savings products, mutual funds and insurance brokerage.

The Treasury Division, which provides sophisticated financial products mainly to companies in the wholesale banking and the middle market segments. This includes products such as short term financing and funding, securities brokerage, interest rate and foreign currency derivatives, securitization services and other tailor made financial products. The Treasury Division also manages our trading positions.

In addition, we have a Corporate Activities segment comprised of all other operational and administrative activities that are not assigned to a specific segment or product mentioned above. This segment includes the Financial Management Division (*Gestión Financiera*), which manages global functions such as the management of our structural foreign exchange gap position, our structural position in inflation-indexed assets and liabilities, our structural interest rate risk and our liquidity risk. The Financial Management Division also oversees the use of our resources, the distribution of capital among our different units and the overall financing cost of investments. The aim of the Financial Management Division is to inject stability and recurrence into the net income of commercial activities and to assure we comply with internal and regulatory limits regarding liquidity, regulatory capital, reserve requirements and market risk.

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The table below sets forth our lines of business and certain statistical information relating to each of them for the year ended December 31, 2012. Please see Note 4 Business Segments to our Audited Consolidated Financial Statements for details of revenue by business segment in the last three years.

	As of December 31, 2012						
	Loans and accounts receivable from customers (1)	**Net interest income**	**Net fee and commission income**	**Financial transactions, net (2)**	**Provisions for loan losses(3)**	**Operating costs (4)**	**Segment s net contribution (5)**
	(Ch$ million)						
SEGMENTS							
Individuals	**9,723,801**	**620,970**	**174,283**	**7,790**	**(311,265)**	**(349,513)**	**142,265**
Santander Banefe	799,412	123,168	33,853	102	(81,472)	(66,386)	9,265
Commercial Banking	8,924,389	497,802	140,430	7,688	(229,793)	(283,127)	133,000
Small and mid-sized companies (SMEs)	**2,836,695**	**234,012**	**39,024**	**4,903**	**(72,719)**	**(76,864)**	**128,356**
Institutional	**356,465**	**28,466**	**2,466**	**615**	**(346)**	**(12,686)**	**18,515**
Companies	**4,072,191**	**148,433**	**25,836**	**11,062**	**(24,608)**	**(47,756)**	**112,967**
Companies	1,632,276	70,962	13,863	5,118	(21,598)	(24,521)	43,824
Large Corporations	1,668,828	56,045	8,679	5,623	(3,705)	(17,989)	48,653
Real estate	771,087	21,426	3,294	321	695	(5,246)	20,490
Commercial Banking	**16,989,152**	**1,031,881**	**241,609**	**24,370**	**(408,938)**	**(486,819)**	**402,103**
Global Banking and Markets	**1,858,116**	**57,591**	**26,315**	**66,804**	**5,334**	**(35,209)**	**120,835**
Corporate	1,851,127	65,838	29,336	815	5,334	(13,909)	87,414
Treasury Division (6)	6,989	(8,247)	(3,021)	65,989	-	(21,300)	33,421
Other (7)	**119,384**	**(46,738)**	**2,648**	**(8,875)**	**(88)**	**(18,108)**	**(71,161)**
TOTAL	**18,966,652**	**1,042,734**	**270,572**	**82,299**	**(403,692)**	**(540,136)**	**451,777**
Other operating income							13,105
Other operating expenses							(59,637)
Income from investments in other companies							267
Income tax							(44,394)
Net income for the year							**361,118**

(1) Loans and accounts receivables from customers plus interbank loans, gross of loan loss allowances.

(2) Includes net gains from trading, net mark-to-market gains and foreign exchange transactions.

(3) Includes gross provisions for loan losses, net of releases on recoveries.

(4) Equal to the sum of personnel expenses, administrative expenses, amortizations and depreciations and deterioration.

(5) Equal to the sum of the net interest revenue, net fee income and net financial transactions, minus net provision for loan losses and operating expenses.

(6) Includes the Treasury Division s client business and trading business.

(7) Includes the Financial Management Division and the contribution of non-segmented items such as interbank loans, the cost of our capital and fixed assets. Net interest income and net financial transactions included in Other are mainly comprised of the results from the Financial Management Division.

Operations through Subsidiaries

Today, the General Banking Law permits us to directly provide the leasing and financial advisory services that we could formerly offer only through our subsidiaries, to offer investment advisory services outside of Chile and to undertake activities that we could not formerly offer directly or through subsidiaries, such as factoring, securitization, foreign investment funds, custody and transport of securities and insurance brokerage services. For the year ended December 31, 2012, our subsidiaries collectively accounted for 2.0% of our total consolidated assets.

	Percentage Owned								
Subsidiary	As of December 31, 2012			As of December 31, 2011			As of December 31, 2010		
	Direct %	Indirect %	Total %	Direct %	Indirect %	Total %	Direct %	Indirect %	Total %
Santander S.A. Corredores de Bolsa	50.59	0.41	51.00	50.59	0.41	51.00	50.59	0.41	51.00
Santander Corredora de Seguros Ltda.	99.75	0.01	99.76	99.75	0.01	99.76	99.75	0.01	99.76
Santander Asset Management S.A. Administradora General de Fondos	99.96	0.02	99.98	99.96	0.02	99.98	99.96	0.02	99.98
Santander Agente de Valores Ltda.	99.03	-	99.03	99.03	-	99.03	99.03	-	99.03
Santander S.A. Sociedad Securitizadora	99.64	-	99.64	99.64	-	99.64	99.64	-	99.64
Santander Servicios de Recaudación y Pagos Limitada	99.90	0.10	100.00	99.90	0.10	100.00	99.90	0.10	100.00

Pursuant to the provisions of International Accounting Standard (IAS) 27 and Standard Interpretations Committee (SIC) 12, we must determine the existence of Special Purpose Entities (SPEs), which must be consolidated with the financial results of the Bank. As a result, we have incorporated into our financial statements the following companies:

Santander Gestión de Recaudación y Cobranza Ltda. (collection services)

Multinegocios S.A. (management of sales force)

Servicios Administrativos y Financieros Ltda. (management of sales force)

Fiscalex Ltda. (collection services)

Multiservicios de Negocios Ltda. (call center)

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

Competition

Overview

The Chilean financial services market consists of a variety of largely distinct sectors. The most important sector, commercial banking, includes a number of privately-owned banks and one public sector bank, Banco del Estado (which operates within the same legal and regulatory framework as the private sector banks). The private-sector banks include local banks and a number of foreign-owned banks operating in Chile. The Chilean banking system is comprised of 24 banks, including one public-sector bank. The five largest banks accounted for 74.2% of all outstanding loans by Chilean financial institutions as of December 31, 2012 (excluding Corpbanca s subsidiary in Colombia).

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

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

	As of December 31, 2012	
	Market Share	**Rank**
Commercial loans	16.7%	2
Consumer loans	23.1%	1
Residential mortgage loans	21.5%	1
Total loans(1)	18.6%	2
Deposits	16.2%	3
Mutual funds (assets managed)(2)	15.3%	2
Credit card accounts	28.0%	1
Checking accounts	21.6%	2
Branches(3)	18.7%	1

Source: SBIF, excludes Corpbanca Colombia.

(1) Excludes interbank loans.

(2) Source: Asociación de Fondos Mutuos de Chile.

(3) Excludes special service payment centers.

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The following tables set out certain statistics comparing our market position to that of our peer group, defined as the five largest banks in Chile in terms of total loans as of December 31, 2012.

Loans

As of December 31, 2012, our loan portfolio was the second-largest among Chilean banks. Our loan portfolio on a stand alone basis represented 19.0% of the market for loans in the Chilean financial system as of such date. The following table sets forth our and our peer group s market shares in terms of loans (excluding Corpbanca Colombia).

	As of December 31, 2012		
Loans	**Ch$ million**	**U.S.$ million**	**Market Share**
Santander-Chile	18,966,652	39,609	18.6%
Banco de Chile	19,005,350	39,690	18.7%
Banco del Estado	14,195,130	29,644	13.9%
Banco de Crédito e Inversiones	13,136,091	27,433	12.9%
Corpbanca	10,252,993	21,412	10.1%
BBVA, Chile	7,131,754	14,894	7.0%
Others	19,207,718	40,112	18.8%
Chilean financial system	101,895,688	212,794	100.0%

Source: SBIF.

Deposits

On a stand-alone basis, we had a 16.2% market share in deposits, ranking third among banks in Chile as of December 31, 2012. Deposit market share is based on total time and demand deposits as of the respective dates. The following table sets forth our and our peer group s market shares in terms of deposits (excluding Corpbanca Colombia).

	As of December 31, 2012		
Deposits	**Ch$ million**	**U.S.$ million**	**Market Share**
Santander-Chile	14,082,232	29,408	16.2%
Banco del Estado	15,937,708	33,283	18.4%
Banco de Chile	15,083,921	31,500	17.4%
Banco de Crédito e Inversiones	10,840,953	22,640	12.5%
BBVA, Chile	5,342,368	11,157	6.2%
Corpbanca	8,795,350	18,368	10.1%
Others	16,655,462	34,782	19.2%
Chilean financial system	86,737,994	181,138	100.0%

Source: SBIF.

Total equity

With Ch$2,169,925 million (U.S.$4,532 million) in equity in Chilean Bank GAAP as of December 31, 2012, we were the largest commercial bank in Chile in terms of shareholders equity. The following table sets forth our and our peer group s shareholders equity (excluding Corpbanca Colombia).

	As of December 31, 2012		
Total Equity	**Ch$ million**	**U.S.$ million**	**Market Share**
Santander-Chile	2,169,925	4,532	19.3%
Banco de Chile	2,007,059	4,191	17.8%
Banco del Estado	1,140,863	2,383	10.1%
Banco de Crédito e Inversiones	1,419,957	2,965	12.6%
Corpbanca	996,315	2,081	8.9%
BBVA, Chile	637,956	1,332	5.7%
Others	2,878,797	6,012	25.6%
Chilean financial system	11,250,872	23,496	100.0%

Source: SBIF.

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Efficiency

As of December 31, 2012, we were the most efficient bank in our peer group. The following table sets forth our and our peer group s efficiency ratio (defined as operating expenses as a percentage of operating revenue, which is the aggregate of net interest income, fees and income from services (net), net gains from mark to market and trading, exchange differences (net) and other operating income (net)) in 2012.

Efficiency ratio	As of December 31, 2012 %
Santander-Chile	42.6%
Banco de Chile	47.2%
Banco del Estado	53.5%
Banco de Crédito e Inversiones	48.3%
BBVA, Chile	59.4%
Corpbanca	56.2%
Chilean financial system	50.6%

Source: SBIF.

Net income for the period attributable to shareholders

In 2012, we were the second-largest bank in Chile in terms of net income attributable to shareholders of Ch$392,592 million (U.S.$820 million) measured under Chilean Bank GAAP. The following table sets forth our and our peer group s net income.

	As of December 31, 2012		
Net income (1)	Ch$ million	U.S.$ million	Market Share
Santander-Chile	392,592	820	23.8%
Banco de Chile	465,851	973	28.3%
Banco de Crédito e Inversiones	271,256	566	16.5%
Corpbanca	120,131	251	7.3%
BBVA, Chile	65,221	136	4.0%
Banco del Estado	108,542	227	6.5%
Others	224,546	469	13.6%
Chilean financial system	1,648,139	3,442	100.0%

Source: SBIF.

(1) Net income before non-controlling interest.

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Return on equity

As of December 31, 2012, we were the third most profitable bank in our peer group (as measured by return on period-end equity under Chilean Bank GAAP) and the most capitalized bank as measured by the BIS ratio. The following table sets forth our and our peer group s return on average equity and BIS ratio.

	Return on period-end equity as of December 31, 2012	**BIS Ratio as of December 31, 2012**
Santander-Chile	18.1%	13.7%
Banco de Chile	23.2%	13.2%
Banco del Estado	17.1%	11.5%
Banco de Crédito e Inversiones	19.1%	13.6%
BBVA, Chile	10.2%	12.3%
Corpbanca	12.1%	11.1%
Chilean Financial System	14.7%	13.3%

Source: SBIF.

Asset quality

As of December 31, 2012, we had the second-highest non-performing loan to total loan ratio in our peer group. The following table sets forth our and our peer group s non-performing loan ratio to total loans as defined by the SBIF at the dates indicated.

	Non-performing loans /total loans(1) as of December 31, 2012
Santander-Chile	3.15
Banco de Chile	0.96
Banco del Estado	4.05
Banco de Crédito e Inversiones	1.90
BBVA, Chile	1.20
Corpbanca	1.01
Chilean financial system	2.10

Source: SBIF.

(1) Non-performing loans divided by total loans, excluding interbank loans.

Regulation and Supervision

General

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

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

The Central Bank

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

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

The SBIF

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

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

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

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

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

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

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

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

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

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

Limitations on Types of Activities

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

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

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

Deposit Insurance

The Chilean government guarantees up to 90.0% of the principal amount of certain time and demand deposits and savings accounts held by natural persons with a maximum value of UF120 per person (Ch$2,740,890 or U.S.$5,727 as of December 31, 2012) per calendar year in the entire financial system.

Reserve Requirements

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

- cash clearance account, which should be deducted from demand deposit for calculating reserve requirement;
- certain payment orders issued by pension providers; and

the amount set aside for technical reserve (as described below), which can be deducted from reserve requirement.

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

Minimum Capital

Under the General Banking Law, a bank is required to have a minimum of UF800,000 (approximately Ch$18,273 million or U.S.$38.2 million as of December 31, 2012) of paid-in capital and reserves, regulatory capital of at least 8% of its risk weighted assets, net of required allowances, and paid in capital and reserves of at least 3% of its total assets, net of required allowances.

Regulatory capital is defined as the aggregate of:

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

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

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

Capital Adequacy Requirements

According to the General Banking Law, each bank should have regulatory capital of at least 8.0% of its risk-weighted assets, net of required allowances. The calculation of risk weighted assets is based on a five-category risk classification system for bank assets that is based on the Basel Committee recommendations. The SBIF is expected to implement in 2013 or 2014 the application of the third pillar of Basel II in Chile, which includes the implementation of capital limits with market risk and operational risk-weighted assets. These changes must be approved by the Chilean Congress, as it involves a modification to the General Banking Law.

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

Within the scope of Basel II in Chile, further changes in regulation may occur. See Item 3. Key Information D. Risk Factors Risks Relating to Chile Banking regulations may restrict our operations and thereby adversely affect our financial condition and results of operations.

Lending Limits

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

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

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

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

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

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

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

Allowance for Loan Losses

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

A detailed description of the models established for determining loan loss allowances is set forth in Item 5. Operating and Financial Review and Prospects F. Selected Statistical Information Classification of Loan Portfolio and in Note 1 Summary of Significant Accounting Policies of our Audited Consolidated Financial Statements.

Capital Markets

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

Legal Provisions Regarding Banking Institutions with Economic Difficulties

The General Banking Law provides that if specified adverse circumstances exist at any bank, its Board of Directors must correct the situation within 30 days from the date of receipt of the relevant financial statements. If the Board of Directors is unable to do so, it must call a special shareholders meeting to increase the capital of the bank by the amount necessary to return the bank to financial stability. If the shareholders reject the capital increase, or if it is not effected within the term and in the manner agreed to at the meeting, or if the SBIF does not approve the Board of Directors proposal, the bank will be barred from increasing its loan portfolio beyond that stated in the financial statements presented to the Board of Directors and from making any further investments in any instrument other than in instruments issued by the Central Bank. In such a case, or in the event that a bank is unable to make timely payment in respect of its obligations, or if a bank is under provisional administration of the SBIF, the General Banking Law provides that the bank may receive a two-year term loan from another bank. The terms and conditions of such a loan must be approved by the directors of both banks, as well as by the SBIF, but need not be submitted to the borrowing bank s shareholders for their approval. In any event, a creditor bank cannot grant interbank loans to an insolvent bank in an amount exceeding 25.0% of the creditor bank s regulatory capital. The Board of Directors of a bank that is unable to make timely payment of its obligations must present a reorganization plan to its creditors in order to capitalize the credits, extend their respective terms, condone debts or take other measures for the payment of the debts. If the Board of Directors of a bank submits a

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reorganization plan to its creditors and such arrangement is approved, all subordinated debt issued by the bank, whether or not matured, will be converted by operation of law into common stock in the amount required for the ratio of regulatory capital to risk-weighted assets to be not lower than 12.0%. If a bank fails to pay an obligation, it must notify the SBIF, which shall determine if the bank is solvent.

Dissolution and Liquidation of Banks

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

Obligations Denominated in Foreign Currencies

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

Loans and Investments in Foreign Securities

Under current Chilean banking regulations, banks in Chile may grant loans to foreign individuals and entities and invest in certain securities of foreign issuers. Banks may grant commercial loans and foreign trade loans, and can buy loans granted by banks abroad. Banks in Chile may also invest in debt securities traded in formal secondary markets. Such debt securities must be (1) securities issued or guaranteed by foreign sovereign states or their central banks or other foreign or international financial entities, and (2) bonds issued by foreign companies. If the sum of investment in foreign securities and loans granted outside of Chile surpasses 70% of regulatory capital, the amount that exceeds 70% is subject to a mandatory reserve of 100%.

Table 1

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

In the event that the sum of: (a) loans granted abroad that are not to subsidiaries of Chilean companies, and that have a rating of BB- or less and do not trade on a foreign stock exchange, and (b) the investments in foreign securities which have a rating that is below that indicated in Table 1 above, but is equal to or exceeds the ratings mentioned in the Table 2 below and exceeds 20% (and 30% for banks with a BIS ratio equal or exceeding 10% of the regulatory capital of such bank), the excess is subject to a mandatory reserve of 100%.

Table 2

Rating Agency	Short Term	Long Term
Moody s	P2	Ba3
Standard and Poor s	A3	BB-
Fitch	F2	BB-
Dominion Bond Rating (DBRS)	R-2	BBB (low)

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

Additionally, a Chilean bank may invest in foreign securities whose rating is equal to or exceeds those mentioned in Table 3 below in: (i) sight deposits with foreign banks, including overnight deposits in a single entity; and (ii) securities issued or guaranteed by sovereign states or their central banks or securities issued or guaranteed by foreign entities within the Chilean State, though investment will be subject to the limits by issuer up to 30% and 50%, respectively, of the regulatory capital of the Chilean bank that makes the investment. If these foreign securities do not have a rating, the individual limit will be 10% of regulatory capital.

Table 3

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

Moreover, the sum of all demand deposits with foreign banks, including overnight deposits to related parties, as defined by the Central Bank and the SBIF, cannot surpass 25% of a bank s regulatory capital. This limit excludes foreign branches of Chilean banks or their subsidiaries, but must include amounts deposited by these entities in related parties abroad.

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

New Regulations for Mortgage Bonds

In 2012, the mortgage-covered bond legislation was approved by the Chilean congress. The new class of bonds, known as mortgage bonds, will be debt backed by the company that sells them, as well as by a pool of mortgages. Unlike covered bonds, they will not be limited to banks. These bonds, if bought by banks, will be available for immediate liquidity in the Central Bank liquidity window and will have other restrictions as to the type of mortgage they will be funding, *i.e.* mortgage loans with loan-to-values of maximum 80%.

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

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

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

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

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

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

The following activities are disclosed in response to Section 13(r) with respect to affiliates of Santander UK within the Santander Group:

During the period covered by this Annual Report, an Iranian national, resident in the UK, who is currently designated by the U.S. and the UK under the Iran Sanctions regime held a mortgage with Santander UK plc that was issued prior to any such designation. No further drawdown has been made (or would be allowed) under this mortgage although we continue to receive repayment installments. In 2012, total revenue in connection with the mortgage was £10,768.38 whilst net profits were negligible relative to the overall profits of Santander UK. Santander UK does not intend to enter into any new relationships with this customer, and any disbursements will only be made in accordance with applicable sanctions.

The same Iranian national referred to above also holds two investment accounts with Santander Asset Management UK Limited, part of the Santander Group. The accounts have remained frozen throughout 2012. The investment returns are being automatically reinvested, and no disbursements have been made to the customer. Total revenue in connection with the investment accounts was £208.15 whilst net profits were negligible in 2012 relative to the overall profits of Santander Spain.

In addition, the Santander Group has certain legacy export credits and performance guarantees with Bank Sepah and Bank Mellat, which are included in the U.S. Department of the Treasury s Office of Foreign Assets Control s Specially Designated Nationals and Blocked Persons List.

With respect to Bank Sepah, Santander Spain entered into bilateral credit facilities in May 1996 and in February 2004 of U.S.$ 95.7 million and U.S.$ 4.2 million, respectively. The former matured on May 29, 2012 and the latter matures on September 11, 2013. As of December 31, 2012, 0.5 million remained outstanding under the 2004 bilateral credit facility.

With respect to Bank Mellat, Santander Spain entered into two bilateral credit facilities in February 2000 in an aggregate principal amount of 25.9 million. Both credit facilities matured in 2012. In addition, in 2005 Santander Spain participated in a syndicated credit facility for Bank Mellat of 15.5 million, which matures on July 6, 2015. As of December 31, 2012, the Group was owed 6.5 million under this credit facility.

Both Bank Sepah and Bank Mellat have been in default under all of these agreements in recent years and Santander Spain has been and expects to continue to be repaid any amounts due by official export credit agencies, which insure between 95% and 99% of the outstanding amounts under these credit facilities. No funds have been extended by Santander Spain under these facilities since they were granted.

The Santander Group also has certain legacy performance guarantees for the benefit of Bank Sepah and Bank Mellat (stand-by letters of credit to guarantee the obligations either under tender documents or under contracting agreements of contractors who participated in public bids in Iran) that were in place prior to April 27, 2007. However, should any of the contractors default in their obligations under the public bids, the Santander Group would not be able to pay any amounts due to Bank Sepah or Bank Mellat because any such payments would be frozen pursuant to Council Regulation (EU) No. 961/2010.

In the aggregate, all of the transactions described above resulted in approximately 120,000 gross revenues and approximately -15,000 net loss to the Santander Group in 2012, all of which resulted from the performance of export credit agencies rather than any Iranian entity. The Santander Group has undertaken significant steps to withdraw from the Iranian market such as closing its representative office in Iran and ceasing all banking activities therein, including correspondent relationships, deposit taking from Iranian entities and issuing export letters of credit, except for the legacy transactions described above. The Santander Group is not contractually permitted to cancel these arrangements without either (i) paying the guaranteed amount which payment would be frozen as explained above (in the case of the performance guarantees), or (ii) forfeiting the outstanding amounts due to it (in the case of the export credits). As such, the Santander Group intends to continue to provide the guarantees and hold these assets in accordance with company policy and applicable laws.

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D. Property, Plant and Equipment

We are domiciled in Chile and own our principal executive offices located at Bandera 140, Santiago, Chile. We also own twelve other buildings in the vicinity of our headquarters, and we rent six other buildings. At December 31, 2012, we owned the locations at which 24.8% of our branches were located. The remaining branches operate at rented locations. We believe that our existing physical facilities are adequate for our needs.

Main properties as of December 31, 2012	Number
Central Offices	
Owned	6
Rented	6
Total	12
Branches(1)	
Owned	123
Rented	372
Total	495
Other property(2)	
Owned	51
Rented	7
Total	58

(1) Some branches are located inside central office buildings and other properties. Including these branches, the total number of branches is 499. Special payment centers are included in Other property.

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

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

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

The main software systems that we use are:

Category	Product	Origin
Core-System	ALTAIR	Accenture
Data base	DB2	IBM
Data base	Oracle	Oracle
Data base	SQL Server	Microsoft

WEB Service	Internet Information Server	Microsoft
Message Service	MQSeries	IBM
Transformation	MQIntegrator	IBM

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ITEM 4A. UNRESOLVED STAFF COMMENTS

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

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Accounting Standards Applied in 2012

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

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

Differences between IFRS and Chilean Bank GAAP

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

Suspension of Income Recognition on Accrual Basis

In accordance with the Compendium, financial institutions must suspend recognition of income on an accrual basis in their statements of income for certain loans included in the impaired portfolio. IFRS does not allow the suspension of accrual of interest on financial assets for which an impairment loss has been determined. We do not believe that this difference materially impacts our financial statements.

Charge-offs and Accounts Receivable

The Compendium requires companies to establish deadlines for the charge-off of loans and accounts receivable. IFRS does not require any such deadline for charge-offs. A charge-off due to impairment would be incurred if, and only if, there is objective evidence of impairment as a result of one or more events occurring after the initial recognition. This is measured on an incurred basis. We do not believe that this difference materially impacts our financial statements.

Assets Received in Lieu of Payment

The Compendium requires that the initial value of assets received in lieu of payment be the value agreed upon with a debtor as a result of the loan settlement or the value awarded in an auction, as applicable. These assets are required to be written off one year after their acquisition, if the assets have not been previously disposed of.

IFRS requires that assets received in lieu of payment be initially accounted for at fair value. Subsequently, asset valuation depends on the classification provided by the entity for that type of asset. No deadline is established for charging-off an asset. The restatement of gains and losses from repossessed assets would have an impact on the restatement of financial statements under IFRS guidelines although we would not expect it to be material.

Goodwill and Intangible Assets

With respect to goodwill and intangible assets, the Compendium provides that:

- The value of goodwill and other depreciable intangible assets will be supported by two reports issued by specialists independent from the (i) bank, (ii) the bank s external auditors, and (iii) each other.

For assets acquired before December 31, 2008, goodwill will be determined according to the Compendium, and will be amortized according to the original amortization schedule for such assets.

Goodwill arising from acquisitions before the date of transition to new Chilean Bank GAAP in January 2009 will be determined based on the previously used accounting criteria.

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With respect to goodwill and intangible assets, IFRS provides that:

- The use of independent experts valuations is not mandatory.

- Beginning with the first full year in which IFRS applies, an entity must discontinue goodwill depreciation and is required to evaluate goodwill for impairment, in compliance with IAS 36.

- It is possible to (i) choose a retroactive application of IFRS to goodwill generated before the date of the transition to IFRS, or (ii) adopt an optional exemption to record the balance of goodwill at December 31, 2008 as an attributed cost.

Since we have no goodwill, we do not believe that this difference impacts our financial statements.

Fair Value Option with Respect to Financial Assets and Liabilities

According to the Compendium, banks are not allowed to value assets or liabilities at their fair value in place of the depreciated cost method.

IFRS allows an entity to value a financial asset or liability (or a group of financial assets or liabilities, or both), on the official recognition date, at fair value, with changes in fair value to be recognized in its financial statements. Once this option has been made, it is irrevocable. The fair value option is not applicable to investments in capital instruments without a market price available in an active market, and thus whose fair value cannot be estimated in a reliable way.

We do not believe that this difference impacts our financial statements because this accounting treatment is optional.

Loan loss allowances

The main difference between Chilean bank GAAP and IFRs regarding loan loss allowances is that under Chilean Bank GAAP, we use an expected loss model, and under IFRS, we use an incurred loss approach. Additionally, Chilean Bank GAAP includes the following norms, which are not included in our IFRS loan loss allowance:

On December 29, 2009, the SBIF issued Circular No. 3,489, which incorporates changes to several provisions of the Compendium. Among other changes, it states that effective January 2010, companies must complement the basis on which insolvency provisions related to contingent operations are determined, including unrestricted lines of credit, other contingent loans, and other loan commitments. In addition, companies should also apply the changes in risk exposure applicable to contingent loans, found in Chapter B-3 of the Compendium. According to specific instructions from the SBIF in Letter to Management No. 10 dated December 21, 2010, the SBIF stated that it would not be necessary to calculate the adjustment retrospectively for 2009.

On June 10, 2010, the SBIF issued Circular No. 3,502 which, among other things, requires that Banks maintain a 0.5% minimum provision for the non-impaired part of the loan portfolio analyzed on an individual basis. In addition, on December 21, 2010, in the Letter to Management No. 9, the SBIF specified that the accounting treatment for the effects originating from the application of this minimum provision is to record it in the income for the period. However, the Bank reverses this minimum provision for purposes of its IFRS consolidated financial statements.

On August 12, 2010, Circular No. 3,503 was issued, which modified how we must classify loans included in Chapters B-1, B-2, B-3 and C1 of the Compendium of Accounting Standards, which are loans analyzed on an individual basis. Such modifications were effective from January 1, 2011, except for those modifications relating to additional provisions included in the Letter to Management No. 9 relating to Chapter B-1 which took effect in 2010. As a supplement to the Circular, the Letter to Management No. 9 was issued on December 21, 2010, which specifies that adjustments resulting from the adoption of these modifications starting on January 1, 2011 could be recorded during the first quarter of 2011; however, entities may anticipate recognition of the impact of these adjustments, in whole or in part, in 2010. As of December 31, 2010, we have chosen to recognize the entire provision adjustments aforementioned.

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Considering our incurred loss approach for IFRS purposes by using our internally developed models, all differences with the SBIF models have been reversed in respect to our Consolidated Financial Statements prepared under IFRS.

B. Other Critical Accounting Policies

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

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

Allowance for loan losses

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

Individual assessment of debtors: when debtors are recorded as individually significant, *i.e.*, when they have significant debt levels or, even for those that do not have these levels, could be classified in a group of financial assets with similar credit risk features and who, due to the size, complexity or level of exposure, require detailed information. See Item 5. Operating and Financial Review and Prospects F. Selected Statistical Information Classification of Loan Portfolio Classification of Loan Portfolio Credit Approval: Loans approved on an individual basis and Note 1 Summary of Significant Accounting Policies (p) Provisions for loan losses of our Audited Consolidated Financial Statements.

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

Derivative activities

As of December 31, 2012, 2011, and 2010, derivatives are measured at fair value on the statement of financial position and the net unrealized gain (loss) on derivatives is classified as a separate line item within the income statement. Under IFRS, banks must mark-to-market derivatives. A derivative financial instrument held for trading purposes must be marked to market and the unrealized gain or loss must be recognized in the income statement. The Bank recognizes three kinds of hedge accounting: (i) cash flow hedges, (ii) fair value hedges and (iii) hedging of foreign net investments.

When a cash flow hedge exists, the fair value movements on the part of the hedging instrument and the hedged item that is effective are recognized in equity as valuation adjustments . Any ineffective portion of the fair value movement on the hedging instrument and the hedged item is recognized in the income statement.

When a fair value hedge exists, the fair value movements on the hedging instrument and the corresponding fair value movements on the hedged item are recognized in the income statement.

When a hedge of net investment in a foreign operation exists, the fair value movements on the part of the hedging instrument and the hedged item that is effective are recognized in equity. Any ineffective portion of the fair value movement on the hedging instrument is recognized in the income statement.

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C. Operating Results

Chilean Economy

All of our operations and substantially all of our customers are located in Chile. Accordingly, our financial condition and results of operations are substantially dependent upon economic conditions prevailing in Chile. In 2012, the Chilean economy grew approximately 5.5% compared to 6.0% in 2011 and 5.4% in 2010. In the same period, internal demand increased 7.1%, with increases of 12.3% in private investment and 6.1% of household consumption. Unemployment has also been decreasing. As of December 2012, the unemployment rate was 6.1%, compared to 6.6% as of December 2011. The exchange rate appreciated in 2012 by 8.2%, and thus despite strong growth of internal demand, CPI inflation decreased to 1.5% in 2012 from 4.4% in 2011. Therefore, the Central Bank kept interest rates steady. In January 2012, interest rates were reduced by 25 basis points to 5.0%, and remained at that level for the rest of the year. Going forward, economic activity is expected to continue to increase, but possibly at a slower pace.

The growth of the Chilean banking sector evolved in line with overall economic developments, with an increase in the volume of loans and deposits. Total loans as of December 31, 2012 in the Chilean financial system were Ch$101,895,688 million (U.S.$213 billion), excluding Corpbanca s banking operations in Colombia, an increase of 15.9% in the last twelve months. Total customer deposits (defined as time deposits plus checking accounts), excluding Corpbanca s operations in Colombia, totaled Ch$86,737,994 million (U.S.$181 billion) as of December 31, 2012, an increase of 13.3% in the last twelve months. The non-performing loan (defined as loans with an installment that is at least 90 days past-due) to total loans ratio decreased from 2.3% as of December 31, 2011 to 2.1% as of December 31, 2012.

Impact of Inflation

Our assets and liabilities are denominated in Chilean pesos, Unidades de Fomento (UF) and foreign currencies. The Bank no longer recognizes inflation accounting and has eliminated price-level restatement in line with IFRS, but inflation impacts our results of operations as some loan and deposit products are contracted in UF. The UF is revalued in monthly cycles. Each day in the period beginning on the tenth day of the current month through the ninth day of the succeeding month, the nominal peso value of the UF is indexed up (or down in the event of deflation) in order to reflect a proportionate amount of the change in the Chilean Consumer Price Index during the prior calendar month. One UF equaled Ch$22,840.75 at December 31, 2012, Ch$22,294.03 at December 31, 2011 and Ch$21,455.55 at December 31, 2010. High levels of inflation in Chile could adversely affect the Chilean economy and could have an adverse effect on our business, financial condition and results of operations. Negative inflation rates also negatively impact our results. CPI inflation was 1.5% in 2012, 4.4% in 2011, and 3.0% in 2010. There can be no assurance that Chilean inflation will not change significantly from the current level. Although we currently benefit from moderate levels of inflation, due to the current structure of our assets and liabilities (*i.e.*, a significant portion of our loans are indexed to the inflation rate, but there are no corresponding features in deposits or other funding sources that would increase the size of our funding base), there can be no assurance that our business, financial condition and result of operations in the future will not be adversely affected by changing levels of inflation. In summary:

UF-denominated assets and liabilities. UF inflation was 2.45% in 2012, 3.91% in 2011 and 2.45% in 2010. The effect of any changes in the nominal peso value of our UF-denominated interest earning assets and interest bearing liabilities is reflected in our results of operations as an increase (or decrease, in the event of deflation) in interest income and expense, respectively. Our net interest income will be positively affected by an inflationary environment to the extent that our average UF-denominated interest earning assets exceed our average UF-denominated interest bearing liabilities. Our net interest income will be negatively affected in a deflationary environment if our average UF-denominated interest earning assets exceed our average UF-denominated interest bearing liabilities. Our net interest income will be negatively affected by inflation in any period in which our average UF-denominated interest bearing liabilities exceed our average UF-denominated interest earning assets. Our average UF-denominated interest earning assets exceeded our average UF-denominated interest bearing liabilities by Ch$4,940,967 million in 2012, Ch$3,611,046 million in 2011 and Ch$3,171,140 million in 2010. See Item 5. Operating and Financial Review and Prospects F. Selected Statistical Information Average Balances, Income Earned from Interest-Earning Assets and Interest Paid on Interest-Bearing Liabilities. In general, the Bank has more UF-denominated financial assets than UF-denominated financial liabilities. In the year ended December 31, 2012, the interest earned on interest earning assets denominated in UF decreased 7.8% compared to the same figure in 2011 as UF inflation decreased. The nominal interest paid on these liabilities decreased 27.7% in 2012 compared to 2011 as inflation decelerated and the Bank also reduced the quantity of interest bearing liabilities linked to the UF.

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Inflation and interest rate hedge. A key component of our asset and liability policy is the management of interest rate risk. The Bank s assets generally have a longer maturity than our liabilities. As the Bank s mortgage portfolio grows, the maturity gap tends to rise as these loans, which are contracted in UF, have a longer maturity than the average maturity of our funding base. As most of our long term financial instruments and mortgage loans are contracted in UF and most of our deposits are in nominal pesos, the rise in mortgage lending increases the Bank s exposure to inflation and to interest rate risk. The size of this gap is limited by internal and regulatory guidelines in order to avoid excessive potential losses due to strong shifts in interest rates (see Item 11. Quantitative and Qualitative Disclosures About Market Risk). In order to keep this duration gap below regulatory limits, the Bank issues long term bonds denominated in UF or interest rate swaps. The financial cost of the bonds and the efficient part of these hedges is recorded as net interest income. In 2012, the loss from the swaps taken in order to hedge mainly for inflation and interest rate risk and included in net interest income totaled Ch$57,118 million, compared to a loss of Ch$58,775 million in 2011 and a loss of Ch$2,008 million in 2010.

Inflation sensitive income	As of December 31, 2012	2011	2010	% Change 2012/2011	% Change 2011/2010
		(In millions of Ch$)			
Interest earned on UF assets(1)	648,594	703,286	537,621	(7.8%)	30.8%
Interest paid on UF liabilities(1)	(280,695)	(388,349)	(292,362)	(27.7%)	32.8%
Hedging results	(57,118)	(58,775)	(2,008)	(2.8%)	2,827.0%
Net gain	310,781	256,162	243,251	21.3%	5.3%

(1) Excludes results from hedging.

Peso-denominated assets and liabilities. Interest rates prevailing in Chile during any period primarily reflect the inflation rate during the period and the expectations of future inflation. The sensitivity of our peso-denominated interest earning assets and interest bearing liabilities to changes to such prevailing rates varies. See Item 5. Operating and Financial Review and Prospects C. Operating Results Interest Rates. We maintain a substantial amount of non-interest bearing peso-denominated demand deposits. Because such deposits are not sensitive to inflation, any decline in the rate of inflation would adversely affect our net interest margin on inflation indexed assets funded with such deposits, and any increase in the rate of inflation would increase the net interest margin on such assets. (See Item 11. Quantitative and Qualitative Disclosures About Market Risk). The ratio of the average of such demand deposits and average shareholder s equity to average interest-earning assets was 29.3%, 27.2% and 27.9% for the years ended December 31, 2012, 2011 and 2010, respectively.

Interest Rates

Interest rates earned and paid on our assets and liabilities reflect, to a certain degree, inflation, expectations regarding inflation, changes in short term interest rates set by the Central Bank and movements in long term real rates. The Central Bank manages short term interest rates based on its objectives of balancing low inflation and economic growth. Because our liabilities are generally re-priced sooner than our assets, changes in the rate of inflation or short term rates in the economy are reflected in the rates of interest paid by us on our liabilities before such changes are reflected in the rates of interest earned by us on our assets. Therefore, when short term interest rates fall, our net interest margin is positively impacted, but when short term rates increase, our interest margin is negatively affected. At the same time, our net interest margin tends to be adversely affected in the short term by a decrease in inflation rates since generally our UF-denominated assets exceed our UF-denominated liabilities. See Item 5. Operating and Financial Review and Prospects C. Operating Results Impact of Inflation Peso-denominated assets and liabilities. An increase in long term rates has a positive effect on our net interest margin, because our interest earning assets generally have longer terms than our interest bearing liabilities. In addition, because our peso-denominated liabilities have relatively short re-pricing periods, they are generally more responsive to changes in inflation or short term rates than our UF-denominated liabilities. As a result, during periods when current inflation or expected inflation exceeds the previous period s inflation, customers often switch funds from UF-denominated deposits to peso-denominated deposits, which generally bear higher interest rates, thereby adversely affecting our net interest margin.

Foreign Exchange Fluctuations

The Chilean government s economic policies and any future changes in the value of the Chilean peso against the U.S. dollar could adversely affect our financial condition and results of operations. The Chilean peso has been subject to significant devaluation in the past and may be subject to significant fluctuations in the future. The Central Bank exchange rate appreciated in 2012 by 8.2%, so despite strong growth of internal demand, CPI inflation decreased to 1.5% in 2012 from 4.4% in 2011. See Item 3. Key Information A. Selected Financial Data Exchange Rates. A significant portion of our assets and liabilities are denominated in foreign currencies, principally the U.S. dollar, and we historically have maintained and may continue to maintain material gaps between the balances of such assets and liabilities. Our current strategy is not to maintain a significant difference between the balances of our assets and liabilities in foreign currencies. In 2012, 2011 and 2010, the Bank held more liabilities than assets in foreign currencies, mainly the U.S. dollar, as a result of an ample supply of U.S.$ deposits from companies that receive export revenues, foreign correspondent bank loans and bonds issued abroad. This difference is usually hedged using forwards and cross-currency swaps. Including derivatives, the Bank seeks to run no foreign currency risk in its non-trading balance sheet. Because such assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains and losses realized upon the sale of such assets, are translated to Chilean pesos in preparing our financial statements, our reported income is affected by changes in the value of the Chilean peso relative to foreign currencies (principally the U.S. dollar). The translation gain or loss over assets and liabilities (excluding derivatives held for trading) is included as foreign exchange transactions in the income statement. The translation and mark-to-market of foreign currency derivatives held for trading is recognized as a gain or loss in the net results from mark-to-market and trading. See Item 11. Quantitative and Qualitative Disclosures About Market Risk E. Market Risks Foreign exchange fluctuations for more detail on the Bank s exposure to foreign currency.

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

We also set an absolute limit on the size of Santander-Chile s consolidated net foreign currency trading position. At December 31, 2012, the Bank s consolidated net foreign currency position was equal to U.S.$200 million. As the Bank s non-trading portfolio has no net exposure to foreign currency risk, the Bank s total exposure to foreign currency is reflected in the trading portfolio exposure to foreign currency. The Bank s average exposure to foreign currency was U.S.$1 million in 2012. See Item 11. Quantitative and Qualitative Disclosures About Market Risk Volume limits. The limit on the size of the net foreign currency position is determined by our Asset and Liability Committee and is calculated and monitored by our Market Risk Department.

Segmentation criteria

The accounting policies used to determine the Bank s income and expenses by business segment are the same as those described in the summary of accounting policies in Note 1 Summary of Significant Accounting Policies of the Bank s Consolidated Financial Statements, and are customized to meet the needs of the Bank s management. The Bank earns most of its income in the form of interest income, fee and commission income and income from financial operations. To evaluate a segment s financial performance, the highest decision-making authority for the segment bases his assessment on the segment s interest income, fee and commission income, and expenses. This assessment helps the Bank make decisions over the resources that will be allocated to each segment.

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Results of Operations for the Years Ended December 31, 2012, 2011 and 2010

The following discussion is based upon and should be read in conjunction with the Audited Consolidated Financial Statements. The Audited Consolidated Financial Statements have been prepared in accordance with IFRS as issued by the IASB. The following table sets forth the principal components of our net income for the years ended December 31, 2012, 2011 and 2010.

	2012	2012	2011	2010	% Change	% Change
CONSOLIDATED INCOME STATEMENT DATA	**(ThU.S.$)(1)**		**(Ch$ million)**		**2012 / 2011**	**2011 / 2010**
IFRS:						
Interest income and expense						
Interest income	3,948,946	1,890,953	1,768,735	1,412,983	6.9%	25.2%
Interest expense	(1,771,367)	(848,219)	(796,435)	(473,264)	6.5%	68.3%
Net interest income	2,177,579	1,042,734	972,300	939,719	7.2%	3.5%
Fees and income from services						
Fees and commission income	752,693	360,427	363,041	338,183	(0.7%)	7.4%
Fees and commission expense	(187,647)	(89,855)	(85,205)	(74,601)	5.5%	14.2%
Total net fees and commission income	565,046	270,572	277,836	263,582	(2.6%)	5.4%
Other operating income						
Net income from financial operations	(133,819)	(64,079)	170,857	38,755	-%	340.9%
Foreign exchange profit (loss), net	305,687	146,378	(76,660)	57,233	-%	-%
Financial transactions, net	171,868	82,299	94,197	95,988	(12.6%)	(1.9%)
Other operating income	27,368	13,105	18,749	43,608	(30.1%)	(57.0%)
Total other operating income	199,236	95,404	112,946	139,596	(15.5%)	(19.1%)
Net operating profit before loan losses	2,941,861	1,408,710	1,363,082	1,342,897	3.3%	1.5%
Provision for loan losses	(843,045)	(403,692)	(316,137)	(253,915)	27.7%	24.5%
Net operating profit	2,098,816	1,005,018	1,046,945	1,088,982	(4.0%)	(3.9%)
Operating expenses						
Personnel salaries and expenses	(627,123)	(300,298)	(280,613)	(250,265)	7.0%	12.1%
Administrative expenses	(382,957)	(183,379)	(166,825)	(147,343)	9.9%	13.2%
Depreciation and amortization	(117,717)	(56,369)	(53,466)	(49,403)	5.4%	8.2%
Impairment	(188)	(90)	(116)	(4,925)	(22.4%)	(97.6%)
Other operating expenses	(124,542)	(59,637)	(64,208)	(45,402)	(7.1%)	41.4%
Total operating expenses	(1,252,527)	(599,773)	(565,228)	(497,338)	6.1%	13.7%
Net Operating income	846,289	405,245	481,717	591,644	(15.9%)	(18.6%)
Other non-operating results						
Income from investments in other companies	558	267	2,140	1,171	(87.5%)	82.7%
Total other non-operating results	558	267	2,140	1,171	(87.5%)	82.7%
Income before tax	846,847	405,512	483,857	592,815	(16.2%)	(18.4%)
Income tax	(92,710)	(44,394)	(77,193)	(85,343)	(42.5%)	(9.5%)
Consolidated Net income for the period	754,137	361,118	406,664	507,472	(11.2%)	(19.9%)
Net income for the period attributable to:						
Equity holders of the Bank	744,477	356,493	401,733	505,393	(11.3%)	(20.5%)
Non-controlling interests	9,660	4,625	4,931	2,079	(6.2%)	137.2%

(1) Amounts stated in U.S. dollars at and for the year ended December 31, 2012 have been translated from Chilean pesos at the exchange rate of Ch$478.85 = U.S.$1.00 as of December 31, 2012. See Item 3. Key Information A. Selected Financial Data Exchange Rates for more information on exchange rate.

Results of operations for the years ended December 31, 2012 and 2011. Consolidated net income for the year ended December 31, 2012 decreased 11.2% to Ch$361,118 million. Our return on annualized average equity was 16.5% in 2012 compared to 20.4% in 2011.

Net operating profit before loan losses was Ch$1,408,710 million in 2012, an increase of 3.3% compared to 2011. Our net interest income increased 7.2% to Ch$1,042,734 million in 2012 from Ch$972,300 million in 2011. The average balance of our interest-earning assets increased by 6.2% in 2012 compared to 2011. Our net interest margin improved 4 basis points to 4.82% in 2012 from 4.78% in 2011. This was mainly due to stricter pricing policy on our loans and an improved funding mix, partially offset by the lower yield earned on UF interest earning assets, which was mainly due to lower UF inflation in the year.

Net fees and commission income decreased 2.6% to Ch$270,572 million in the year ended December 31, 2012 compared to the same period in 2011. In 2012, the Bank executed a profound overhaul of its Client Relationship Management (CRM) systems and other changes to its commercial team front-office functions. The Bank expects this to improve productivity in the future, but in the short-term, this caused some disruptions in business activity due to training and other factors, which negatively affected fee income in the Commercial banking segment. At the same time, the Bank modified its admission policies for loan origination, which resulted in lower business activity and client growth, especially in the individuals segment. Finally, the negative effects of the establishment of the SERNAC Financiero increased the difficulty of rising fees.

Results of financial transactions, net, which is the sum of trading activities, fair value adjustments and foreign exchange transactions, totaled Ch$82,299 million in the year ended December 31, 2012, a decrease of 12.6% compared to the same period in 2011. These results include the results of our Treasury Division s trading business and financial transactions with customers as well the results of our Financial Management Division. Client treasury services decreased 1.0% in 2012 compared to 2011 and represented the majority of our financial transaction income. In 2012, the results from Santander Global Connect (SGC) totaled Ch$52,703 million and decreased 15.8% compared to 2011, as 2011 figures included large one-time operations that were not repeated in 2012. Santander Global Connect is a specialized platform designed to facilitate the sale of derivatives to a broad range of companies in all segments and through the branch network. The results from market-making with client services increased 34.9% in 2012 compared to 2011, totaling Ch$34,991 million. This was mainly due to growth in tailor-made treasury services sold to specific corporate clients. The results from non-client Treasury Division income totaled a loss of Ch$5,395 million in 2012 compared to a gain of Ch$5,642 million in 2011. The non-client Treasury Division figures in 2011 included larger gains from the sale of loans compared to 2012 and the one-time gain of Ch$5,705 million recorded from the sale of shares in Visa Inc.

Other operating income totaled a gain of Ch$13,105 million in the year ended December 31, 2012, and decreased 30.1% compared to 2011. The main reasons for this decrease were the lower gains from income from assets received in lieu of payments and lower income from the sale of branches. Branches are risk weighted at 100% and, therefore, from a regulatory capital perspective, it is more efficient to rent them than to own them.

Provisions for loan losses, net of recoveries totaled Ch$393,264 million in 2012 and increased 24.4% compared to the amount of provisions recorded in 2011. The increase was mainly due to a rise in net provision expense of consumer loans. Provisions established for the Bank s consumer loans increased by 26.3% to Ch$201,136 million in 2012 compared to 2011. In June 2012, the Bank updated its allowance model for consumer loans, which mainly impacted the provisions established for renegotiated loans, and resulted in a provision of Ch$24,753 million. Consumer loan charge-offs also increased by Ch$ 32,860, or 71.3%, in the year ended December 31, 2012 compared to the corresponding period in 2011. The increase was mainly due to the tightening of renegotiation policies for consumer loans that led to a greater amount of impaired consumer loans entering non-performing status and subsequently being charged-off. The negative effects of the Ley de Dicom, which reduced the effectiveness of the negative credit bureau data used in our credit scoring models, also impacted provisions and charge-offs in 2012.

The ratio of impaired loans to total loans decreased from 7.6% as of December 31, 2011 to 7.1% as of December 31, 2012, as the Bank reduced growth in riskier loan segments, reduced renegotiations and increased charge-offs. The ratio of non-performing loans to total loans rose from 2.9% as of December 31, 2011 to 3.2% as of December 31, 2012. This increase was the result of stricter renegotiation policies; as the Bank charged off more loans, the number of impaired loans, which include non-performing loans and renegotiated loans, fell, but there were fewer loans being moved out of impaired status as due to these stricter policies.

Recoveries on loans previously charged-off decreased 7.8% in the year ended December 31, 2012 compared to the corresponding period in 2011. This was a direct result of a one-time recovery, due to a payment by the Chilean National Housing Association, of Ch$14,390 million in 2011 in the residential mortgage portfolio. Excluding this figure, recoveries increased 54.0% in 2012 compared to 2011. In 2012 consumer loan recoveries increased 76.5% from the corresponding period in 2011, as the Bank increased charge-offs and reduced renegotiations. Collection efforts were also bolstered, especially in consumer loans, which represents the bulk of the Bank s charge-offs.

As a result of the factors mentioned above, net operating profit decreased 4.0% in 2012 compared to 2011 and totaled Ch$1,005,018 million.

Operating expenses increased 6.1% in 2012 and totaled Ch$599,773 million compared to the corresponding period in 2011. Personnel salaries and expenses increased by 7.0% from the corresponding period in 2011 mainly due to higher salaries and headcount. Administrative expenses increased 9.9% in the year ended December 31, 2012 compared to the corresponding period in 2011. In 2012, the Bank focused on its Transformation Plan, which is a broad overhaul and improvement of our retail banking activities, especially among Individuals in Commercial banking and SMEs. This also entails greater expenses related to IT projects being carried out to improve productivity. Our efficiency ratio was 42.6% in 2012 and 41.5% in 2011.

Other operating expenses were Ch$59,637 million in 2012, a 7.1% decrease compared to 2011. This decrease was mainly due to: (i) lower provisions and expenses for repossessed assets that totaled Ch$10,176 million in 2012, compared to Ch$12,782 million in 2011 and (ii) lower operating charge-offs that totaled Ch$8,366 million in 2012, compared to Ch$9,884 million in 2011.

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Our *income tax expense* decreased by 42.5% in the year ended December 31, 2012 compared to the same period in 2011. The effective tax rate paid was 10.9% in 2012 compared to 15.9% in 2011. The lower effective tax rate in 2012 compared to 2011 was due to the decline in the statutory tax rate in Chile in 2012 to 18.5% from 20.0% in 2011. Additionally, in September 2012, the statutory tax rate to be applied in 2013 was permanently increased from 18.5% to 20% and this created a one-time income tax reversal of Ch$ 16,221 million in 2012, corresponding to the adjustment of deferred tax assets to the higher statutory rate.

Results of operations for the years ended December 31, 2011 and 2010. Net income for the year ended December 31, 2011 decreased 19.9% compared to the same period in 2010 to Ch$406,664 million. Our return on annualized average equity was 20.4% in 2011 compared to 29.0% in 2010.

Net operating profit before loan losses was Ch$1,363,082 million in 2011, an increase of 1.5% compared to 2010. Our net interest income increased 3.5% to Ch$972,300 million in 2011 from Ch$939,719 million in 2010. The average balance of our interest-earning assets increased by 16.5% in 2011 compared to 2010. However, our net interest margin decreased 60 basis points to 4.8% in 2011 from 5.4% in 2010 mainly due to higher funding costs. As discussed in further detail below, the rise in the average rate of interest paid on time deposits due to higher short-term interest rates was a result of increased overall funding costs. This was only partially offset by higher volumes, higher asset yields and higher inflation in 2011 compared to 2010.

Net fees and commission income increased 5.4% to Ch$277,836 million in 2011 compared to 2010. Net fees were positively affected by the growth of the Chilean economy and the Bank s marketing and promotion efforts to increase product usage. Fees from credit, debit and ATM cards increased 6.5%, fees from insurance brokerage fees increased by 3.9% and securities brokerage fees increased 15.6% in 2011. These increases were partially offset by a 5.4% decrease in fees from checking accounts and lines of credit. This decline was due to the reduction in the amount of lines of credit and overdraft lines made available to clients, following an increase in provisioning requirements for unused lines of credit under local Chilean Bank GAAP.

Results of financial transactions, net, which is the sum of trading activities, fair value adjustments and foreign exchange transactions, totaled Ch$94,197 million in 2011, a decrease of 1.9% compared to 2010. These results include the results of our Treasury Division s trading business and financial transactions with customers, SGC and our Financial Management Division. The results from the Financial Management Division recorded a loss of Ch$20,072 million in 2011 compared to a loss of Ch$597 million in 2010. Throughout 2011, the Bank maintained above-average levels of liquidity, part of which was generated from U.S.$-denominated liabilities, as a conservative measure given the uncertainty that surrounded global financial markets. These dollar liabilities are hedged through derivatives (short-term foreign currency swaps), but the short-term interest rate differential between U.S.$ and Ch$ has increased and has produced a higher cost registered in financial transactions, net. This higher cost is partially offset by net interest income where the interest earned on the short-term liquid asset is registered and the interest expense of the U.S.$-denominated liabilities is also recorded.

The results from SGC, a specialized platform designed to facilitate the sale of derivatives to a broad range of companies in all segments through our branch network and through market-making, increased 15.0% in 2011 from Ch$54,472 million in 2010. Our proprietary trading results totaled a gain of Ch$16,022 million in 2011, which represented an increase of 172.5% compared to 2010. This was mainly due to positive results in the foreign exchange market.

Other operating income totaled a gain of Ch$18,749 million in 2011, a 57.0% decrease from Ch$43,608 million in 2010. This decline was mainly due to the gain from sale of branches recorded in 2010, which did not occur to the same extent as in 2011, as well as lower recoveries of provisions for contingencies and a decrease in insurance payments relating to the earthquake.

Provision expense, net of recoveries increased 24.5% in 2011 compared to 2010. Provision for loan losses increased 30.6% to Ch$254,079 million in 2011 compared to 2010. Provisions for consumer loans increased 27.7% in 2011 compared to 2010. This increase was mainly due to a rise in consumer non-performing loans of 31.6% in the year. This rise was due to the 9.0% year-over-year increase in consumer loans, as well as tighter renegotiation policies in consumer

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lending that led to higher non-performing loans. Provisions for mortgage loans increased 211.0% in 2011 compared to 2010. In June 2011, the Bank modified its provisioning model for residential mortgage loans. As of June 2011, residential mortgage loans are assigned an allowance level based on credit risk profiles, which are determined utilizing a statistical model that considers: (i) the borrower s credit history, (ii) if the client is a new client or an existing client, (iii) if the client is a Bank client or a Santander Banefe client and (iv) if the client has been renegotiated in the banking system. The total impact of this change on loan loss reserves was Ch$16,258 million in 2011. Provisions in commercial loans increased 24.9% in 2011 compared to 2010. This increase was mainly due to the modification and recalibration of the Bank s provisioning model of commercial loans analyzed on a group basis which are mainly comprised of loans to small and mid-sized companies. Previously, loan loss allowance in this category of loans was mainly determined by the number of days a loan was past-due. Currently, provisions are set according to (i) performing status, (ii) if a client has been renegotiated or not, (iii) if a client is a new client or an existing client, and (iv) if the client has collateral in connection with the loan. The total impact of this change on loan loss reserves was Ch$16,560 million in 2011.

Charge-offs in 2011 increased 8.9% compared to 2010, totaling Ch$97,883 million. This increase was mainly due to a 61.7% rise in charge-offs in commercial loans in the same period, led by greater charge-offs in the SME and middle-market segments. Consumer loan charge-offs decreased 17.4% in 2011 compared to 2010 and charge-offs in residential mortgage loans decreased 12.2% in the same period.

Recoveries on loans previously charged-off increased by 17.5% in 2011 compared to 2010. This was due to the 1,061.6% increase in residential mortgage loan loss recoveries, which was a direct result of a one-time recovery of Ch$14,390 million in the residential mortgage portfolio.

As a result of the factors mentioned above, net operating profit decreased 3.9% in 2011 compared to 2010 and totaled Ch$1,046,945 million.

Operating expenses increased 13.7% in 2011 compared to the corresponding period in 2010. Personnel salaries and expenses increased by 12.1% mainly due to higher headcount, as well as higher severance payments. Administrative expenses increased 13.2%. The main reasons for this rise in administrative expenses were: (i) the 18.3% rise in branch rental expenses to Ch$22,337 million in 2011 due to the Bank having sold branches in 2010 and 2011 and these branches then being rented to us and (ii) greater business activity, as well as the expenses related to IT projects being carried out to improve productivity. Our efficiency ratio was 41.5% in 2011 compared to 37.0% in 2010.

Other operating expenses were Ch$64,208 million in 2011, a 41.4% increase compared to 2010. The increase in other operating expenses was mainly due to: (i) higher provisions for repossessed assets, which totaled Ch$10,050 million in 2011 and increased 179.6% from Ch$3,594 million in 2010; (ii) provisions for contingencies, which totaled Ch$8,144 million in 2011 and increased 950.9% from Ch$775 million in 2010 and which were mainly provisions set aside for possible non-credit contingencies such as tax, legal and labor contingencies and other non-specific provisions; and (iii) other expenses, which increased 50.4% mainly as a result of a 104.1% rise in operational charge-offs related to ATMs and other equipment that was damaged or vandalized in 2011. This was offset by lower earthquake related expenses, lower expenses related to repossessed assets and lower credit card expenses.

Our income tax expense decreased by 9.5% in the year ended December 31, 2011 compared to 2010. The effective tax rate paid was 15.9% in 2011 compared to 14.4% in 2010. The statutory tax rate in Chile in 2011 reached 20% compared to 17% in 2010. The higher effective tax rate in 2011 is mainly due to this rise in the statutory corporate tax rate. The decline in income tax expense is mainly due to the lower income before taxes.

Net interest income

	Year ended December 31,			% Change	% Change
	2012	2011	2010	2012/2011	2011/2010
	(in millions of Ch$, except percentages)				
Individuals (Commercial banking)	497,802	453,139	426,558	9.9%	6.2%
Individuals (Santander Banefe)	123,168	117,154	106,942	5.1%	9.5%
Small and mid-sized companies	234,012	207,008	192,825	13.0%	7.4%
Institutional	28,466	26,856	19,675	6.0%	36.5%
Companies	148,433	140,818	126,936	5.4%	10.9%
Total commercial banking	**1,031,881**	**944,975**	**872,936**	**9.2%**	**8.3%**

	Year ended December 31, 2012	2011	2010	% Change 2012/2011	% Change 2011/2010
	(in millions of Ch$, except percentages)				
Global banking & markets	**57,591**	**48,942**	**60,164**	**17.7%**	**(18.7%)**
Other (1)	(46,738)	(21,617)	6,619	116.2%	%
Net interest income	**1,042,734**	**972,300**	**939,719**	**7.2%**	**3.5%**
Average interest-earning assets	21,620,090	20,355,039	17,479,483	4.7%	16.5%
Average non-interest-bearing demand deposits	4,177,432	3,575,544	3,152,513	9.7%	13.4%
Net interest margin (2)	4.8%	4.8%	5.4%		
Average shareholders equity and average non-interest-bearing demand deposits to total average interest-earning assets	29.4%	27.4%	28.1%		

(1) Consists mainly of net interest income from the Financial Management Division and the cost of funding our fixed income trading portfolio. Each segment obtains funding from its clients. Any surplus deposits are transferred to the Financial Management Division, which in turn makes such excess available to other areas that need funding. The Financial Management Division also sells the funds it obtains in the institutional funding market at a transfer price equal to the market price of the funds.

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

For the years ended December 31, 2012 and 2011. Our net interest income totaled Ch$1,042,734 million in the year ended December 31, 2012, an increase of 7.2% from Ch$972,300 million in 2011. Average interest earning assets increased 6.2% in the same period, driven mainly by lending to Companies, SME and Global banking & markets. Net interest margin in 2012 was 4.8% compared to 4.8% in 2011. Net interest margins were positively affected by the average nominal rate we earned on our non-inflation linked interest earning assets. This was mainly due to a stricter pricing policy on our loans. This was partially offset by the lower yield earned on UF interest earning assets, which decreased from 8.4% in 2011 to 7.1% in 2012, mainly due to lower UF inflation in the year.

Average nominal rate earned on interest earning assets	2012	2011
Ch$	12.2%	11.2%
UF	7.1%	8.4%
Foreign currencies	2.0%	0.8%
Total	**8.8%**	**8.7%**

The Bank s funding mix also improved in 2012. The average rate paid on our interest bearing liabilities increased from 5.1% in 2011 to 5.3% in 2012, but average non-interest bearing demand deposits to total average interest earning assets increased from 27.4% in 2011 to 29.4% in 2012. Average non-interest bearing demand deposits increased 16.8% in 2012 compared to 2011 and totaled Ch$4,177,432 million.

The changes in net interest income by sub-segment in 2012 as compared to 2011 were as follows:

Net interest income from Individuals in Commercial banking increased 9.9%, mainly as a result of the 5.2% increase in loan volumes in this sub-segment and higher loan yields as a direct result of a stricter pricing policy enforced in this sub-segment. This was also due to an improved funding mix.

Net interest income from Individuals in Santander Banefe increased 5.1%, mainly as a result of higher loan prices, partially offset by the 0.7% decrease in loan volumes as a result of the Bank s more conservative stance regarding loan growth in this segment.

Net interest income from Small and mid-sized companies increased 13.0%, mainly as a result of the 10.8% increase in loans to this sub-segment and an improved funding mix.

Net interest income from Companies increased 5.4%, mainly as a result of the 11.5% increase in loans to this sub-segment due to the positive evolution of the Chilean economy. This was partially offset by increased competition in this sub-segment, which lowered loan yields, but this sub-segment has a less risky loan profile, which was a focus of the Bank in 2012 given the increase in risk in the Individuals sub-segment.

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Loans in the Global banking and markets segment increased 24.3% in 2012 compared to 2011, which led to a 17.7% increase in net interest income in this segment. Net interest income from the Global banking and markets segment decreased 18.7% in the same period as a result of this loan growth driven by a favorable economic environment, but offset by increased price competition.

Other net interest income consists mainly of net interest income from the available for sale investment portfolio and deposits in the Central Bank and the financial cost of supporting our cash position and investment portfolio for trading, the interest income from which is recognized as net income from financial operations and not interest income. The net interest income included as other totaled a loss of Ch$46,738 million in 2012 compared to a loss of Ch$21,617 million in 2011. Despite a similar result from hedging, the lower UF inflation rate negatively affected net interest income from this segment. At the same time, in 2012, the Bank reduced its excess cash position, especially in the second half of 2012 as international markets stabilized, which resulted in lower financial investment income. This was mainly executed by pre-paying the Bank s more expensive interest bearing liabilities such as some bonds and foreign bank borrowings.

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

Loans by segment	2012	As of December 31, 2011	2010	% Change 2012/2011	% Change 2011/2010
		(in millions of Ch$)			
Individuals (Commercial banking)	8,924,389	8,484,493	7,664,070	5.2%	10.7%
Individuals (Santander Banefe)	799,412	804,852	714,899	(0.7%)	12.6%
Small and mid-sized companies	2,836,695	2,560,736	2,373,360	10.8%	7.9%
Institutional	356,465	355,199	332,150	0.4%	6.9%
Companies	4,072,191	3,650,709	3,286,920	11.5%	11.1%
Total Commercial banking	16,989,152	15,855,989	14,371,399	7.1%	10.3%
Global banking & markets	1,858,116	1,494,752	1,293,221	24.3%	15.6%
Other	119,384	84,041	62,662	42.1%	34.1%
Total loans(1)	18,966,652	17,434,782	15,727,282	8.8%	10.9%

(1) Includes interbank loans.

For the years ended December 31, 2011 and 2010. Our net interest income totaled Ch$972,300 million in the year ended December 31, 2011, an increase of 3.5% from Ch$939,719 million in 2010. Average interest earning assets increased 16.5% in the same period, driven mainly by lending to individuals, companies and the global banking and markets segment. Net interest margin in 2011 was 4.8% compared to 5.4% in 2010. Net interest margins were negatively affected by the rise in average short-term interest rates. As interest-bearing liabilities generally have shorter terms than interest-earning assets, a rise in short-term rates has a negative effect on our margins. The average nominal rate we paid on our peso-denominated interest-bearing liabilities was 6.3% in 2011 compared to 2.7% in 2010. The average nominal rate we paid on our peso-denominated time deposits was 5.6% in 2011 compared to 2.3% in 2010. As a result, interest expense in 2011 increased 68.3% compared to interest expense in 2010.

The impact of interest rate increases was partially offset by a higher local inflationary environment. In 2011, the value of the UF increased by 3.9% compared to a rise of 2.5% in 2010. As we have more interest-earning assets than liabilities linked to the UF, our net interest income was positively affected by this change in inflationary trends. At the same time, the higher interest rate environment also pushed upward the nominal rate earned over our interest earning assets, albeit to a lesser extent than the rise of our funding costs. The average nominal rate earned over interest earning assets increased to 8.7% in 2011 from 8.1% in 2010.

The changes in net interest income by segment and sub-segment in 2011 as compared to 2010 were as follows:

Net interest income from Individuals in Commercial banking increased 6.2%, mainly as a result of the 10.7% increase in loan volumes in this sub-segment. This was partially offset by higher funding costs due to the rising short-term interest rates throughout 2011.

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Net interest income from Individuals in Santander Banefe increased 9.5%, mainly as a result of the 12.6% increase in loan volumes in this sub-segment. This was partially offset by higher funding costs due to the rising short-term interest rates throughout 2011.

Net interest income from Small and mid-sized companies increased 7.4% mainly as a result of the 7.9% increase in loans to this sub-segment. This was partially offset by the increase in average short-term interest rates, which affected funding costs.

Net interest income from the Companies sub-segment increased 10.9%, mainly as a result of the 11.1% increase in loans to this segment due to the positive evolution of the economy. This was partially offset by the rise in funding costs.

Loans in the Global banking and markets segment increased 15.6% in 2011 compared to 2010. Net interest income from the Global banking and markets segment decreased 18.7% in the same period. This was mainly due to the higher short-term interest rates that affected funding costs and lower loan spreads due to competitive pressures.

Other net interest income consists mainly of net interest income from the available for sale investment portfolio and deposits in the Central Bank and the financial cost of supporting our cash position and investment portfolio for trading, the interest income from which is recognized as net income from financial operations and not interest income. The net interest income included as Other totaled a loss of Ch$21,617 million in 2011 compared to a gain of Ch$6,619 million in 2010. As short-term interest rates increased, the financial cost of maintaining these lower yielding assets rose. Simultaneously, the yield obtained on low yielding assets did not rise as the Bank increased its short-term liquidity as a proactive measure given the uncertainty surrounding global financial markets since the second quarter of 2011. The nominal rate earned on the Bank s financial investments decreased from 3.2% in 2010 to 2.5% in 2011. This segment s results also reflect the impact of higher funding costs to finance the Bank s financial investments and cash position.

Fee and commission income

For the years ended December 31, 2012 and 2011. Net fees and commission income decreased 2.6% to Ch$270,572 million in the twelve-month period ended December 31, 2012 compared to the same period in 2011. In 2012, the Bank executed a profound overhaul of its Client Relationship Management (CRM) systems and other changes to its commercial team front-office functions. The Bank expects this to improve productivity in the future, but in the short-term this caused some disruptions in business activity due to training and other factors, which negatively affected fee income in Commercial banking. At the same time, the Bank modified its admission policies for loan origination, which resulted in lower business activity and client growth, especially in individuals. Finally, the negative effects of the creation of the SERNAC Financiero increased the difficulty of rising fees. See Item 3. Key Information D. Risk Factors Chile s banking regulatory and capital markets environment is continually evolving and may change.

The following table sets forth certain components of our income from services (net of fees paid to third parties directly connected to providing those services, principally fees relating to credit card processing and ATM network administration) in the years ended December 31, 2012, 2011 and 2010.

	Year ended December 31,			% Change	% Change
	2012	2011	2010	2012/2011	2011/2010
	(in millions of Ch$)				
Collections	56,472	61,803	60,136	(8.6%)	2.8%
Credit, debit and ATM cards	53,934	59,525	55,899	(9.4%)	6.5%
Asset management	33,414	37,618	39,952	(11.2%)	(5.8%)
Insurance brokerage	32,499	34,066	32,783	(4.6%)	3.9%
Checking accounts	28,755	28,725	27,011	0.1%	6.3%
Letters of credit	28,523	24,388	22,852	17.0%	6.7%
Custody and brokerage services	9,585	10,517	9,101	(8.9%)	15.6%
Lines of credit	9,296	11,602	15,603	(19.9%)	(25.6%)
Office banking	1,481	2,267	1,832	(34.7%)	23.7%
Other fees	16,613	7,325	(1,587)	126.8%	-%
Total fees and commission income, net	**270,572**	**277,836**	**263,582**	**(2.6%)**	**5.4%**

Fees from collections decreased by 8.6% in 2012 compared to 2011. This was mainly due to a 19.6% decrease of insurance premiums for loan related insurance as loan origination, especially residential mortgage loan origination, decelerated in 2012. At the same time, in July 2012, new regulations regarding the sale of mandatory insurance for loans was introduced. This affected some of our competitor s insurance rates offered in connection with mortgage loans (mainly fire, earthquake and life), thus impacting the profitability of our mortgage insurance products due to competitive pressures. This was offset by the 23.2% increase of loan collections fees that totaled Ch$18,666 million, which is a direct result of the Bank s efforts to strengthen its collection efforts.

Fees from credit, debit and ATM cards decreased by 9.4%, reflecting the reduction of clients in the Bank s Santander Banefe sub-segment, as the Bank reduced its exposure to clients with unhealthy financial behavior. This had a negative impact on certain fees, specifically credit card, checking account and line of credit fees, but the Bank expects this to have a positive impact on asset quality in this segment in future periods. In 2012, the Bank, generated 31.6% of all bank monetary purchases.

Fees from our asset management business decreased 11.2% in 2012 compared to 2011. Total funds under management increased 7.3% in 2012 and totaled Ch$3,155,557 million (U.S.$6.6 billion), but this rise was mainly concentrated in low-yielding fixed income funds, while funds under management in higher-yielding emerging market equity funds fell during the year.

Insurance brokerage fees decreased by 4.6% in 2012. This was mainly due to lower business volumes in our insurance brokerage subsidiary.

Fees from checking accounts increased 0.1% in 2012 compared to 2011. This increase was due to the 3.7% increase in total checking accounts to 743,450 in 2012, partially offset by competitive pressures on checking account maintenance fees and increased restrictions on the increase of fees following the creation of the SERNAC Financiero.

Fees from letters of credit and other contingent operations increased 17.0% in 2012. This decrease was mainly due to positive performance of our international and foreign trade financing businesses with clients.

Brokerage and custody fees decreased 8.9% in 2012 as compared to 2011. This increase was primarily due to a fall in volumes brokered by our brokerage unit following several large one-time transactions executed in 2011 and not repeated in 2012.

Fees from lines of credit decreased 19.9% in 2012 compared to 2011. This decrease was mainly due to a decrease in lines of credit as the Bank reduced its exposure to clients with unhealthy financial behavior, though the Bank expects this to have a positive impact on asset quality in the Individuals sub-segment in future periods. The decrease was also due to increased restrictions on the increase of fees following the creation of the SERNAC Financiero.

Fees from office banking decreased 34.7% in 2012 compared to 2011, as despite an increase in usage of online banking on behalf of companies, the Bank discounted the price of this product in order to attract cash management and demand deposits from clients.

The rise in other fee income of 126.8% in 2012 compared to 2011 was mainly due to higher fees in our Companies, SMES and Institutional business sub-segments as the Bank focused on increasing banking services and activities with these clients. Fees from foreign currency operations increased 13.0% compared to 2011 and totaled Ch$3,235 million. Financial advisory services fees increased 28.2% compared to 2011 to Ch$5,810 million and other net corporate service fees increased 650.7% compared to 2011 to Ch$7,936 million, due to several investment banking transactions performed in 2012.

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

	Year ended December 31,			% Change	% Change
	2012	2011	2010	2012/2011	2011/2010
			(in millions of Ch$)		
Individuals (Commercial banking)	140,430	149,970	159,708	(6.4%)	(6.1%)
Individuals (Santander Banefe)	33,853	37,206	32,133	(9.0%)	15.8%
Small and mid-sized companies	39,024	38,274	34,460	2.0%	11.1%
Institutional	2,466	1,831	2,452	34.7%	(25.3%)
Companies	25,836	24,310	20,215	6.3%	20.3%
Total commercial banking	**241,609**	**251,591**	**248,968**	**(4.0%)**	**1.1%**
Global banking and markets	**26,315**	**31,908**	**23,173**	**(17.5%)**	**37.7%**
Other	2,648	(5,663)	(8,559)	-%	(33.8%)
Total fees and commission income, net	**270,572**	**277,836**	**263,582**	**(2.6%)**	**5.4%**

Fees from Individuals in Commercial banking decreased 6.4% in 2012 compared to 2011. Fees from Individuals in Santander Banefe decreased 9.0% in 2012 compared to 2011. As mentioned, in 2012, the Bank executed a profound overhaul of its Client Relationship Management (CRM) systems and other changes to its commercial team front-office functions. At the same time, the Bank modified its admission policies for loan origination, which resulted in lower business activity and client growth, especially in individuals. Additionally, these fees were impacted by the SERNAC Financiero s restrictions on the increase of fees.

The rise in fees by 2.0% in 2012 from Small and mid-sized companies was mainly due to higher business activity in various products and services.

The 34.7% and 6.3% increases in fees in the Institutional and the Companies sub-segments, respectively, reflect the Bank s increased focus on increasing banking services and activities with these clients in 2012. This included increases in cash management fees, foreign currency operations, financial advisory services and other net corporate service fees.

Fees from the Global banking and markets segment decreased by 17.5%, primarily due to a fall in volumes our brokerage unit and several other large one-time transactions executed in 2011 and not repeated in 2012.

For the years ended December 31, 2011 and 2010. Net fees and commission income increased 5.4% to Ch$277,836 million in the twelve-month period ended December 31, 2011 compared to the same period in 2010.

Fees in the Companies segment increased by 20.3% in 2011 compared to 2010, mainly as a result of the rise in office banking fees as more clients used the on-line banking service.

Fees from Individuals in Commercial banking decreased 6.1% in 2011 compared to 2010, mainly as a result of the decrease in fees for lines of credit. This decrease was due to a reduction in the amount of lines of credit and overdraft lines available to clients for credit risk reasons that resulted from a required increase under Chilean Bank GAAP in provisioning requirements for unused lines of credit.

Fees from Individuals in Santander Banefe increased 15.8% in 2011 compared to 2010, mainly as a result of the increase in credit card fees due to higher usage and an increase in collection fees. In the second half of 2011, the Bank reorganized and augmented its collection unit resulting in greater fee collection.

The rise in fees by 11.1% from Small and mid-sized companies was mainly due to higher fees from our office banking, brokerage and custody and foreign trade related businesses.

Fees from the Institutional segment decreased 25.3% in 2011 compared to 2010 primarily as a result of lower business activity with universities.

Fees from the Global banking and markets segment increased by 37.7% in 2011 compared to 2010, mainly as a result of an increase in fees from investment banking activities, advisory services and brokerage services.

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Financial transactions, net

The following table sets forth information regarding our income (loss) from financial transactions for the years ended December 31, 2012, 2011 and 2010.

	Year ended December 31,			% Change	% Change
	2012	2011	2010	2012/2011	2011/2010
	(in millions of Ch$)				
Net income from financial operations	(64,079)	170,857	38,755	-%	340.9%
Foreign exchange profit (loss), net	146,378	(76,660)	57,233	-%	-%
Total financial transactions, net	**82,299**	**94,197**	**95,988**	**(12.6%)**	**(1.9%)**

For the years ended December 31, 2012 and 2011. Total financial transactions, net, which is the sum of trading activities, fair value adjustments in our securities portfolio and foreign exchange transactions, totaled Ch$82,299 million in the year ended December 31, 2012, a decrease of 12.6% compared to the same period in 2011. These results include the results of our Treasury Division s trading business and financial transactions with customers, as well the results of our Financial Management Division.

Net income from financial operations was a loss of Ch$64,079 million in 2012 compared to a gain of Ch$170,857 million in the corresponding period in 2011. In 2012, the Chilean peso appreciated 8.2%, compared to an 11.3% depreciation in 2011. This explains the difference in results from derivatives classified as trading, which totaled a loss of Ch$104,344 million in 2012 compared to a gain of Ch$116,877 million in 2011. Derivatives are mainly composed of forward and swap contracts that hedge our spot position in foreign currency. Our spot position includes all assets and liabilities in foreign currency and assets and liabilities in Ch$ linked to U.S.$ that are not derivatives. For more details, see Item 11. Quantitative and Qualitative Disclosures About Market Risk E. Market Risks Market risk management Market risk local and foreign financial management. As the Chilean peso appreciates, we usually record a low or negative result from the fair value of derivatives held for trading. As the Chilean peso depreciates, we usually record a high result from the fair value of derivatives held for trading. This is offset by foreign exchange transaction results, which include the mark-to-market of our spot foreign currency position, net of hedge-accounted derivatives.

	Year ended December 31,			% Change	% Change
	2012	2011	2010	2012/2011	2011/2010
	(in millions of Ch$)				
Derivatives classified as trading	(104,344)	116,877	3,598	-%	3,148.4%
Trading investments	36,338	38,819	31,058	(6.4%)	25.0%
Sale of loans	4,835	9,692	12,397	(50.1%)	(21.8%)
Available-for-sale instruments sales	(1,764)	(3,356)	(8,319)	(47.4%)	(59.7%)
Other results	856	8,825	21	(90.3%)	41,923.8%
Net income (loss) from financial operations	**(64,079)**	**170,857**	**38,755**	**-%**	**340.9%**

The lower results from trading investments are mainly due to lower interest income from this portfolio, as 94% of the assets in the portfolio are denominated in UFs and, therefore, when inflation decelerated in 2012, interest income from these assets decreased. The negative result from the available for sale portfolio is mainly due to higher long-term interest rates, which have a negative impact on the realized losses of these financial investments. The interest income from the available for sale portfolio is recorded as net interest income and interest income from the trading portfolio is recorded as income in net income from financial operations.

The income from the sale of loans totaled Ch$4,835 million in 2012 compared to Ch$9,692 million in 2011, mainly as a result of lower gains from the sale of loans that have been previously charged-off. The Bank has refocused its collection efforts from selling charged-off loans to in-house collection efforts. These loans were sold to various non-related collection companies and asset managers.

The decrease in other results was mainly due to the gain in 2011 of Ch$5,705 million recorded from the sale of all of the Bank s shares in Visa Inc, which was included in other results in 2011.

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	Year ended December 31,			% Change	% Change
	2012	2011	2010	2012/2011	2011/2010
		(in millions of Ch$)			
Net profit or loss from foreign currency exchange differences	270,990	(257,986)	273,997	-%	-%
Hedge-accounting derivatives	(120,610)	177,553	(215,721)	-%	-%
Translation gains and losses over assets and liabilities indexed to foreign currencies, net	(4,002)	3,773	(1,043)	-%	-%
Net results from foreign exchange profit (loss)	**146,378**	**(76,660)**	**57,233**	**-%**	**-%**

The net result from foreign exchange transactions totaled a gain of Ch$146,378 million in 2012 compared to a loss of Ch$76,660 million in 2011, due to the appreciation of the peso in 2012 compared to a depreciation in 2011. Foreign currency exchange differences totaled a net gain of Ch$270,990 million in 2012 compared to a loss of Ch$257,986 million in 2011. This increase was mainly the result of the appreciation of the Chilean peso against the U.S. dollar in 2012 compared to a depreciation in 2011. The effects on net income from the change in value of our spot foreign currency position are generally positive if the peso appreciates and negative if the peso depreciates as our spot funding base in foreign currency is larger than our spot asset position in foreign currency. This increase was largely offset by the fair value of foreign exchange derivatives in net gains from trading and fair value, as described above in connection with net income from financial operations. The derivatives included in this line item are mainly cross-currency swaps that hedge the interest rate risk of bonds issued abroad. Excluding interest rate and other derivatives that qualify for hedge accounting, the conversion and fair value of foreign currency derivatives are for the most part recognized as a gain or loss in the net results from fair value and trading and not as foreign exchange transactions. This distorts the results from fair value and trading and foreign exchange transactions. In order to more easily compare the results from financial transactions, net, we present the following table that separates the results by line of business.

	Year ended December 31,			% Change	
	2012	2011	2010	2012/2011	2011/2010
		(in millions of Ch$)			
Santander Global Connect	52,703	62,625	54,472	(15.8%)	15.0%
Market-making with clients	34,991	25,930	23,837	34.9%	8.8%
Client treasury services	**87,694**	**88,555**	**78,309**	**(1.0%)**	**13.1%**
Sale of loans and charged-off loans	4,835	9,692	12,397	(50.1%)	(21.8%)
Proprietary trading	8,213	16,022	5,879	(48.7%)	172.5%
Financial Management Division (1)	(18,443)	(20,072)	(597)	(8.1%)	3,262.1%
Non-client treasury income (loss)	**(5,395)**	**5,642**	**17,679**	**-%**	**(68.1%)**
Total financial transactions, net	**82,299**	**94,197**	**95,988**	**(12.6%)**	**(1.9%)**

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

Client treasury services decreased 1.0% in 2012 compared to 2011 and represented the majority of our financial transaction income. The results from Santander Global Connect and market-making mainly include the results from the sale of derivatives, foreign exchange and fixed income instruments to our client base. In 2012, the results from Santander Global Connect decreased 15.8% as 2011 figures included large one-time transactions that were not repeated in 2012 in the Global banking and markets segment. The results from market-making with client services increased 34.9% in 2012, mainly due to growth in tailor-made treasury services sold to specific corporate clients. These results may vary year-to-year as some large operations with corporate clients may not be repeated in subsequent years.

The results from non-client treasury income totaled a loss of Ch$5,395 million in 2012 compared to a gain of Ch$5,642 million in 2011. The non-client treasury figures in 2011 included larger gains from the sale of loans compared to 2012 and the one-time gain recorded from the sale of shares in Visa Inc. Additionally, in 2012, the Bank reduced its involvement in proprietary trading activities, as this is not a core business unit.

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Finally, in 2012, the net results of our Financial Management Division were negative, since the Bank has more liabilities denominated in foreign currency than assets. These principally U.S. dollar-denominated liabilities are hedged through derivatives (short term foreign currency swaps) with minimal foreign currency exposure, but due to the existence of a short term interest rate differential between U.S. dollars and Chilean pesos, this produces a financial cost registered in financial transactions, net. This higher cost is partially offset by net interest income where the interest earned on the higher-yielding peso- or UF-denominated asset is recorded and the interest expense of the lower-yielding U.S.$-denominated liabilities is also recorded.

For the years ended December 31, 2011 and 2010. Total financial transactions, net, which is the sum of trading activities, fair value adjustments in our securities portfolio and foreign exchange transactions, totaled Ch$94,197 million in the year ended December 31, 2011, a decrease of 1.9% compared to the same period in 2010. These results include the results of our Treasury Division s trading business and financial transactions with customers, as well the results of our Financial Management Division.

Net income from financial operations was Ch$170,857 million in 2011 compared to Ch$38,755 million in the corresponding period in 2010. In 2011, the Chilean peso depreciated 11.3% compared to a 7.5% appreciation in 2010. This was partially due to the increase from derivatives classified as trading, which totaled Ch$116,877 million in 2011 compared to Ch$3,598 million in 2010. Derivatives are mainly composed of forwards and swap contracts that hedge our spot position in foreign currency. Our spot position includes all assets and liabilities in foreign currency and in Ch$ linked to U.S.$ that are not derivatives. For more details, see Item 11. Quantitative and Qualitative Disclosures About Market Risk D. Market risk management Market risk local and foreign financial management. As the Chilean peso appreciates, we usually experience a low or negative result from the fair value of derivatives held for trading. As the Chilean peso depreciates, we usually experience a high result from the fair value of derivatives held for trading. This increase was offset by foreign exchange transaction results, which include the mark-to-market of our spot foreign currency position.

The income from the sale of loans totaled Ch$9,692 million in 2011 and decreased 21.8% compared to Ch$12,397 million in 2010, mainly as a result of lower gains from the sale of loans that have been previously charged-off. These loans were sold to various non-related collection companies and asset managers.

The higher results from trading investments are mainly due to higher interest income from this portfolio, as 67% of these assets are denominated in UFs and, therefore, when inflation rises, interest income from these assets increases. The negative result from the available for sale portfolio is mainly due to higher interest rates, which has a negative impact on the realized losses of these financial investments. The interest income from the available for sale portfolio is recorded as net interest income and interest income from the trading portfolio is recorded as income in net income from financial operations.

In 2011, we also recorded a gain of Ch$5,705 million from the sale of all of the Bank s shares in Visa Inc., included in other results.

The net result from foreign exchange transactions totaled a loss of Ch$76,660 million in 2011 compared to a gain of Ch$57,233 million in 2010. Foreign currency exchange differences totaled a net loss of Ch$257,986 million in 2011 compared to a gain of Ch$273,997 million in 2010. This decrease was mainly the result of the depreciation of the Chilean peso against the U.S. dollar in 2011 compared to an appreciation in 2010. The effects on net income from the change in value of our spot foreign currency position are generally negative if the peso depreciates as our spot funding base in foreign currency is larger than our spot asset position in foreign currency. This decrease was largely offset by the fair value of foreign exchange derivatives in net gains from trading and fair value as described above in net income from financial operations. The derivatives included in this line item are mainly cross-currency swaps that hedge the interest rate risk of bonds issued abroad. Excluding interest rate and other derivatives that qualify for hedge accounting, the conversion and fair value of foreign currency derivatives are for the most part recognized as a gain or loss in the net results from fair value and trading and not as foreign exchange transactions. This distorts the results from fair value and trading and foreign exchange transactions. In order to more easily compare the results from financial transactions, net, we presented above a table separating the results by line of business.

Client treasury services increased 13.1% in 2011 compared to 2010. The results from Santander Global Connect and market-making mainly include the results from the sale of derivatives, foreign exchange and fixed income instruments to our client base. In 2011, the results from Santander Global Connect increased 15.0%. The results from market-making with client services increased 8.8% in 2011, mainly due to growth in tailor-made treasury services sold to specific corporate clients.

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The results from non-client treasury income totaled a gain of Ch$5,642 million in 2011 and decreased 68.1% compared to 2010. Throughout 2011, the Bank maintained above-average levels of liquidity, part of which was generated from U.S.$-denominated liabilities, as a conservative measure given the uncertainty surrounding global financial markets. These dollar liabilities were hedged through derivatives (short term foreign currency swaps), but as the short-term interest rate differential between U.S. dollars and Chilean pesos increased, this produced a higher cost recorded in financial transactions, net. This higher cost was partially offset by net interest income where the interest earned on the short-term liquid asset was recorded and the interest expense of the U.S.$-denominated liabilities are also recorded. This explains the higher net loss recorded from our Financial Management Division. At the same time, the Bank recorded lower gains from the sale of loans and better results from proprietary trading.

Other operating income

	Year ended December 31,			% Change	% Change
	2012	2011	2010	2012/2011	2011/2010
	(In millions of Ch$)				
Income from assets received in lieu of payment	**2,654**	**5,629**	**1,556**	**(52.9%)**	**261.8%**
Net results from sale of investment in other companies	**599**	**-**	**-**	**100.0%**	**-%**
Operational leases	142	305	117	(53.4%)	160.7%
Gain on sale of Bank property, plant and equipment	9,194	11,863	31,246	(22.5%)	(62.0%)
Recovery of generic provisions for contingencies	-	-	7,040	-%	(100.0%)
Insurance coverage for earthquake	262	437	3,175	(40.0%)	(86.2%)
Other	254	515	474	(50.7%)	8.6%
Sub-total other income	**9,852**	**13,120**	**42,052**	**(24.9%)**	**(68.8%)**
Total other operating income	**13,105**	**18,749**	**43,608**	**(30.1%)**	**(57.0%)**

For the years ended December 31, 2012 and 2011. Total other operating income totaled a gain of Ch$13,105 million in the year ended December 31, 2012, a 30.1% decrease from the corresponding period in 2011. The main reasons for this decrease were the lower gains from income from assets received in lieu of payments and lower income from the sale of branches. In 2012, the Bank sold eight branches, compared to 17 in 2011, and thus recorded a lower gain from the sale of these offices. Branches are risk weighted at 100% and, therefore, from a regulatory capital perspective, it is more efficient to rent them than to own them.

	Number of branches	Book value	Selling price	Profit
		(Ch$ millions)		
As of December 31, 2012	17	6,357	14,921	8,564
As of December 31, 2011	8	6,237	17,330	11,093

The decrease was partially offset by the Ch$ 599 million profit recognized from the sale of 7.5% of the Bank s shares in Transbank S.A. to Banco BBVA. Transbank is the main credit card processor in Chile.

For the years ended December 31, 2011 and 2010. Total other operating income totaled a gain of Ch$18,749 million in the year ended December 31, 2011, a 57.0% decrease from the corresponding period in 2010.

The main reason for this decrease was that in 2010, the Bank sold 43 branches and two buildings for a gain of Ch$31,246 million, which was recognized as income from the sale of property, plant and equipment. These branches are now rented to us. The Bank did not finance this acquisition and the acquirers were unrelated parties. In 2011, the Bank sold only 8 branches, which it now rents.

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Gains from the recovery of provisions not related to any specific risk and non-credit contingencies, such as legal and tax contingencies, decreased to Ch$0 in 2011 compared to Ch$7,040 million in 2010. Gains from the recovery of provisions for contingencies in 2010 increased in 2011, mainly due to the reversal of provisions recognized in the early part of 2010 in anticipation of the potential negative impact of various events such as the February 2010 earthquake and tsunami and changes in our collective bargaining agreements; these negative impacts did not materialize to the extent initially estimated.

The Bank also recognized lower insurance claims in 2011 from earthquake damage to branches and other installations. In 2011, these claims totaled Ch$437 million compared to Ch$3,175 million in 2010.

Provision for loan losses

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

	Year ended December 31,			% Change	% Change
	2012	2011	2010	2012/2011	2011/2010
	(in millions of Ch$)				
Provision for loan losses	(286,297)	(254,079)	(194,535)	12.7%	30.6%
Charge-offs (1)	(150,410)	(97,883)	(89,859)	53.7%	8.9%
Recoveries on loans previously charged-off	33,015	35,825	30,479	(7.8%)	17.5%
Provision for loan losses, net	**(403,692)**	**(316,137)**	**(253,915)**	**27.7%**	**24.5%**
Year end loans (2)	18,966,652	17,434,782	15,727,282	8.8%	10.9%
Non-performing loans (3)	597,767	511,357	416,739	16.9%	22.7%
Impaired loans (4)	1,338,137	1,323,355	1,480,476	1.1%	(10.6%)
Allowance for loan losses (5)	550,048	488,468	425,447	12.6%	14.8%
Impaired loans / Year end loans (4)	7.06%	7.59%	9.41%		
Non-performing loans / Year end loans (3)	3.15%	2.93%	2.65%		
Allowances for loan losses / Total loans	2.90%	2.80%	2.71%		
Coverage ratio non-performing loans (6)	92.02%	95.52%	102.09%		

(1) Charge-offs are net of the reversal of allowances for loan losses previously established on the loans charged off during the period.

(2) Includes Ch$69,726 million in 2010, Ch$87,688 million in 2011 and Ch$90,573 million in 2012 in interbank loans.

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

(4) For 2010, impaired loans include: (A) for loans whose allowance is determined on an individual basis, (i) all loans to a debtor that are rated C1 through D2 and (ii) total loans to single debtors with a loan that is non-performing; and (B) for loans whose loan loss allowance is determined on a group basis, (i) total loans to a debtor, when a loan to that debtor is non-performing or has been renegotiated, excluding performing residential mortgage loans and (ii) if the loan that is non-performing or renegotiated is a residential mortgage loan, all loans to that debtor. For 2011 and 2012, impaired loans include: (A) for loans whose allowance is determined on an individual basis, (i) all loans to a debtor that are rated B3 and B4 and all deteriorated debtors and (ii) total loans to single debtors with a loan that is non-performing; and (B) for loans whose loan loss allowance is determined on a group basis, (i) total loans to a debtor, when a loan to that debtor is non-performing or has been renegotiated, excluding performing residential mortgage loans, and (ii) if the loan that is non-performing or renegotiated is a residential mortgage loan all loans to that debtor. See Note 10 Loans and Accounts Receivables from Customers of the Audited Consolidated Financial Statements. Renegotiated loans, on which payments are not past-due, are not ordinarily classified as non-performing loans, but do not accrue interest.

(5) Includes Ch$54 million in 2010, Ch$11 million in 2011 and Ch$159 million in 2012 in allowance for loan losses for interbank loans.

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

For the years ended December 31, 2012 and 2011. Provisions for loan losses, net of recoveries totaled Ch$393,264 million in 2012 and increased 24.4% compared to the amount of provisions recorded in 2011.

Provision for loan losses, which includes the full amount of provisions recognized as a result of loan growth and change in risk classification, totaled Ch$286,297 million in 2012 and increased 12.7% from 2011. The following table breaks down provision for loans losses by loan product for the years ended December 31, 2012, 2011 and 2010.

				% Change	
	2012	**2011**	**2010**	**2012/2011**	**2011/2010**
		(in millions of Ch$)			
Interbank loans	(148)	43	(12)	-%	-%
Commercial loans	(78,174)	(77,205)	(61,836)	1.3%	24.9%
Mortgage loans					