

BANCO SANTANDER CHILE
Form 20-F
June 29, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

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

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the fiscal year ended December 31, 2008

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)

Bandera 140

Santiago, Chile

Telephone: 011-562 320-2000

(Address of principal executive offices)

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 1,039 Shares of Common Stock without par value	New York Stock Exchange
Shares of Common Stock, without par value*	New York Stock Exchange

*

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

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

None
(Title of Class)

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

7.375% Subordinated Notes due 2012

The number of outstanding shares of each class of common stock of Banco Santander-Chile at December 31, 2008, was:

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

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

Yes No

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

Yes No

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

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

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer Non-Accelerated filer

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

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

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

Item 17 Item 18

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

Yes No

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CAUTIONARY STATEMENT CONCERNING
FORWARD-LOOKING STATEMENTS

We have made statements in this Annual Report on Form 20-F that constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear throughout this report and include statements regarding our intent, belief or current expectations regarding:

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

The sections of this Annual Report which contain forward-looking statements include, without limitation, “Item 3: Key Information—Risk Factors,” “Item 4: Information on the Company—Strategy,” “Item 5: Operating and Financial Review and Prospects,” “Item 8: Financial Information—Legal Proceedings,” and “Item 11: Quantitative and Qualitative Disclosures About Market Risk.” Our forward-looking statements also may be identified by words such as “believes,” “expects,” “anticipates,” “projects,” “intends,” “should,” “could,” “may,” “seeks,” “aim,” “combined,” “estimates,” “probability,” “risk,” “objective,” “future” or similar expressions.

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

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

- changes in economic conditions
- the monetary and interest rate policies of the Central Bank
 - inflation
 - deflation
 - unemployment

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

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

CERTAIN TERMS AND CONVENTIONS

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

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

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

In this Annual Report, references to “\$”, “US\$”, “U.S. dollars” and “dollars” are to United States dollars, references to “Chilean pesos,” “pesos” or “Ch\$” are to Chilean pesos and references to “UF” are to Unidades de Fomento. The UF is an inflation-indexed Chilean monetary unit with a value in Chilean pesos that changes daily to reflect changes in the official Consumer Price Index (“CPI”) of the Instituto Nacional de Estadísticas (the Chilean National Institute of Statistics) for the previous month. See “Item 5: Operating and Financial Review and Prospects” and Note 1(d) to the Audited Consolidated Financial Statements.

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

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

PRESENTATION OF FINANCIAL INFORMATION

Santander-Chile is a Chilean bank and maintains its financial books and records in Chilean pesos and prepares its audited consolidated financial statements in accordance with generally accepted accounting principles in Chile and the rules of the Superintendencia de Bancos e Instituciones Financieras de Chile (the Superintendency of Banks and Financial Institutions, which is referred to herein as the "Superintendency of Banks"), which together differ in certain significant respects from generally accepted accounting principles in the United States ("U.S. GAAP"). References to "Chilean GAAP" in this Annual Report are to generally accepted accounting principles in Chile, as supplemented by the applicable rules of the Superintendency of Banks. Our consolidated financial statements have been translated into English, certain reclassifications have been made and certain subtotals and clarifying account descriptions have been added in order to present them in accordance with the requirements of U.S. Securities Act of 1933, as amended, or the Securities Act, and the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act. See Note 27 to the audited consolidated financial statements of Santander-Chile as of December 31, 2007 and 2008, and for the years ended December 31, 2006, 2007 and 2008, contained elsewhere in this Annual Report (together with the notes thereto, the "Audited Consolidated Financial Statements") for a description of the significant differences between Chilean GAAP and U.S. GAAP, as they relate to Santander-Chile, and a reconciliation to U.S. GAAP of net income and shareholders' equity.

On November 9, 2007, the Superintendency of Banks issued Circular No. 3410, which became effective on January 1, 2008, requiring the application of the new presentation format for consolidated financial statements. Santander-Chile consolidated annual financial statements as of and for the year ended December 31, 2008 included in the Audited Consolidated Financial Statements have been prepared under Chilean GAAP and the new financial statement models. Such consolidated annual financial statements are the first annual financial statements prepared by Santander-Chile on such basis. The information as of and for the years ended December 31, 2007 and 2006 contained in the Audited Consolidated Financial Statements is presented on the same basis as the information as of and for the year ended December 31, 2008. The selected consolidated financial information included herein as of and for the year ended December 31, 2008, together with selected consolidated financial information as of and for the years ended December 31, 2007, 2006, 2005 and 2004 are derived from, and presented on the same basis as in, the Audited Consolidated Financial Statements and should be read together with the Audited Consolidated Financial Statements. As the Audited Consolidated Financial Statements and such selected consolidated financial information have been prepared under Chilean GAAP and the new financial statement models, they are not directly comparable with financial information prepared by Santander-Chile as of and for the years ended December 31, 2007 and 2006 included in our Annual Report for 2007 on Form 20-F.

Preparation of the Audited Consolidated Financial Statements under Chilean GAAP and taking into consideration the new financial statement models required by Circular No. 3410 affected both the "Net Income" line item in the consolidated statement of income and the "Total Shareholders' Equity" line item. As required by Circular No. 3410, total shareholders' equity and net income includes the equity attributable to the shareholders of both the parent company and the minority interest. Unless otherwise indicated herein, as used hereafter "the rules of the Superintendency of Banks" refers to such rules as amended or supplemented from time to time, including by Circular No. 3410.

Currency

Pursuant to Chilean GAAP, amounts expressed in the Audited Consolidated Financial Statements and all other amounts included elsewhere throughout this Annual Report for all periods expressed in Chilean pesos are expressed in constant Chilean pesos as of December 31, 2008. See Note 1.c to the Audited Consolidated Financial Statements.

Loans

Unless otherwise specified, all references herein (except in the Audited Consolidated Financial Statements) to loans are to loans and financial leases before deduction for loan loss allowance, and, except as otherwise specified, all market share data presented herein are based on information published periodically by the Superintendency of Banks. Non-performing loans include loans for which either principal or interest is overdue, and which do not accrue interest. Restructured loans for which no payments are overdue are not ordinarily classified as non-performing loans. Past due loans include, with respect to any loan, only the portion of principal and interest that is overdue for 90 or more days, and do not include the installments of such loan that are not overdue or that are

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overdue for less than 90 days, unless legal proceedings have been commenced for the entire outstanding balance according to the terms of the loan, in which case the entire loan is considered past due within 90 days after initiation of such proceedings. This practice differs from that normally followed in the United States, where the amount classified as past due would include the entire amount of principal and interest on any and all loans which have any portion overdue. See “Item 5: F. Selected Statistical Information—Classification of Loan Portfolio Based on the Borrower’s Payment Performance.”

According to the regulations established by the Superintendency of Banks, Santander-Chile is required to charge-off commercial loan installments no later than 24 months after being classified as past due, if unsecured, and if secured, no later than 36 months after being classified as past due. When an installment of a past due corporate loan (whether secured or unsecured) is charged-off, we must charge-off all installments which are overdue, notwithstanding our right to charge-off the entire amount of the loan. Once any amount of a loan is charged off, each subsequent installment must be charged off as it becomes overdue, notwithstanding our right to charge-off the entire amount of the loan. In the case of past due consumer loans, a similar practice applies, except that after the first installment becomes three months past due, Santander-Chile must charge-off the entire remaining part of the loan. We may charge-off any loan (whether commercial or consumer) before the first installment becomes overdue, but only in accordance with special procedures established by the Superintendency of Banks. Loans are charged off against the loan loss reserve to the extent of any required allowances for such loans; the remainder of such loans is charged off against income. See “Item 5: F. Selected Statistical Information—Analysis of Loan Loss Allowance.”

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

Effect of Rounding

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

Economic and Market Data

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

Exchange Rates

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

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

Unless otherwise indicated, all the U.S. dollar amounts at any year end or for any full year have been translated from Chilean pesos based on the interbank market rate published by Reuters at 1:30pm on the last business day of the year. The market rate informed by Reuters on December 31, 2008, was Ch\$641.25 per US\$1.00. Our subsidiaries use the first observed exchange rate published by the Central Bank for 2009 on January 2, 2009. The observed exchange rate reported by the Central Bank on December 31, 2008, was Ch\$629.11 per US\$1.00 and Ch\$636.45 on January 2, 2009. The Federal Reserve Bank of New York does not report a noon buying rate for the Chilean peso. For more information on the observed exchange rate. See “Item 3: A. Selected Financial Data—Exchange Rates.”

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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 historical financial information about us as of the dates and for each of the periods indicated. The following table should be read in conjunction with, and is qualified in its entirety by reference to, our Audited Consolidated Financial Statements appearing elsewhere in this Annual Report. Our Audited Consolidated Financial Statements are prepared in accordance with Chilean GAAP, which differs in certain significant respects from U.S. GAAP. Note 27 to our Audited Consolidated Financial Statements provides a description of the material differences between Chilean GAAP and U.S. GAAP and a reconciliation to U.S. GAAP of net income for the years ended December 31, 2006, 2007 and 2008, and shareholders' equity at December 31, 2007 and 2008.

We have selected the following financial information from our consolidated financial statements. You should read this information in connection with, and this information is qualified in its entirety by reference to, our consolidated financial statements included in this Annual Report. The formats of the consolidated financial statements presented in this report differ only with respect to presentation criteria from those presented in our 2007 Annual Report, because the former were prepared in accordance with the models contained in Circular No. 3410 issued by the Superintendency of Banks, which became effective on January 1, 2008, which prescribed new accounting formats for financial statements. This required reclassifying certain gains and losses among line items in the income statement as well as assets and liabilities, but did not involve a change in accounting standards. We have restated the figures for the twelve month period ended December 31, 2004, 2005, 2006 and 2007 in order to make them comparable to the 2008 figures.

	At and for the years ended December 31,					
	2004	2005	2006	2007	2008	2008
						(in thousands of US\$)(1)
	(in millions of constant Ch\$ of December 31, 2008)(1)					
CONSOLIDATED INCOME STATEMENT DATA						
Chilean GAAP:						
Net interest revenue (3)	513,656	566,998	635,821	775,758	897,041	1,398,000
Provision for loan losses	(92,605)	(77,959)	(142,956)	(224,667)	(285,953)	(445,000)
Fee income	190,738	192,362	197,647	217,857	223,593	348,000
Operating costs (4)	(333,783)	(343,739)	(381,762)	(401,470)	(423,055)	(659,000)
Other income, net (3) (5)	(88,521)	(110,647)	93,620	30,921	(16,881)	(26,000)

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Income before taxes	189,485	227,015	402,370	398,399	394,745	615,000
Income tax	(56,843)	(59,531)	(68,088)	(60,075)	(63,728)	(99,000)
Net income	246,328	286,546	334,282	338,324	331,017	516,000
Net income attributable to:						
Net income attributable to shareholders	246,102	286,387	334,106	336,086	328,146	511,000
Minority interest	226	159	176	2,238	2,871	4,000
Net income attributable to shareholders per share	1.31	1.52	1.77	1.78	1.74	2.00
Net income attributable to shareholders per ADS (7)	1,356.89	1,579.00	1,842.10	1,853.01	1,809.24	2,820.00
Dividends per share (8)	1.05	0.83	0.99	1.06	1.13	1.00
Dividends per ADS (8)	1,096.06	859.07	1,023.46	1,106.12	1,176.00	1,830.00
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)	181.373	181.373	181.373	181.373	181.373	
U.S. GAAP:						
Net interest income (9)	555,342	660,825	666,060	763,559	960,615	1,498,000
Provision for loan losses	(80,635)	(77,132)	(142,956)	(234,226)	(285,953)	(445,000)

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	2004	2005	2006	At and for the years ended December 31,		
				2007	2008	2008
	(in millions of constant Ch\$ of December 31, 2008)(1)					
	(in thousands of US\$)(1)(2)					
CONSOLIDATED INCOME STATEMENT DATA						
Net income	246,266	270,059	276,002	247,839	332,942	519,208
Net income per Share (10)	1.31	1.43	1.46	1.32	1.77	2.76
Net income per ADS (7)(10)	1,357.79	1,488.97	1,521.74	1,366.46	1,835.68	2,862.66
Weighted-avg. shares outstanding (in millions)	188,446.13	188,446.13	188,446.13	188,446.13	188,446.13	-
Weighted-avg. ADS outstanding (in millions)	181.373	181.373	181.373	181.373	181.373	-
CONSOLIDATED BALANCE SHEET DATA						
Chilean GAAP:						
Cash and balances from the Central Bank						
Financial investments (11)	2,462,914	1,492,792	1,223,661	2,072,872	2,741,871	4,275,822
Loans (not contingent)	9,592,801	11,039,535	12,623,992	13,398,281	14,700,374	22,924,560
Loan loss allowance	214,522	176,657	203,640	250,887	285,505	445,232
Derivatives (12)	-	489,954	436,013	850,186	1,846,509	2,879,546
Other assets (12)	172,211	206,011	294,397	516,238	520,348	811,458
Total assets	14,940,682	15,647,339	16,171,717	18,542,877	21,137,134	32,962,392
Deposits	2,822,164	2,591,113	2,838,774	3,123,803	2,949,757	4,600,011
Other interest bearing liabilities	12,270,645	13,043,892	8,083,344	8,589,131	9,756,266	15,214,450
Derivatives (12)	0	458,400	416,399	847,401	1,469,724	2,291,967
Equity (13)	1,278,858	1,294,126	1,458,719	1,587,714	1,602,610	2,499,197
Shareholders' equity (14)	1,277,275	1,292,483	1,456,939	1,565,885	1,578,045	2,460,889
U.S. GAAP:						
Total assets (9)	13,565,343	14,936,809	17,046,240	19,323,821	21,928,984	34,197,246
Long-term borrowings	2,234,567	1,705,669	1,855,024	1,473,041	2,347,380	3,660,632
Shareholders' equity	2,283,901	2,267,885	2,362,827	2,392,095	2,512,447	3,918,048
Goodwill	943,561	943,561	943,561	943,561	943,561	1,471,440

At and for the year ended
December 31,

2004 2005 2006 2007 2008

CONSOLIDATED RATIOS

Chilean GAAP:

Profitability and performance:

Net interest margin (15)	3.9%	4.1%	4.7%	5.6%	5.7%
Return on average total assets (16)	1.7%	1.8%	2.1%	1.9%	1.8%
Return on average equity (17)	20.3%	24.1%	24.8%	23.6%	24.0%

Capital:

Average equity as a percentage of average total assets (18)	8.2%	7.4%	8.3%	8.2%	7.4%
Total liabilities as a multiple of equity (18)	10.7	11.1	10.1	10.7	12.2

Credit Quality:

Substandard loans as a percentage of total loans (19)	4.13%	2.88%	3.20%	3.54%	4.63%
Allowance for loan losses as percentage of total loans (20)	2.24%	1.60%	1.61%	1.87%	1.94%
Past due loans as a percentage of total loans (21)	1.69%	1.15%	0.86%	0.95%	1.09%

Operating Ratios:

Operating expenses /operating revenue (22)	44.0%	41.5%	43.1%	39.4%	38.0%
Operating expenses /average total assets (23)	2.2%	2.1%	2.6%	2.6%	2.5%
Ratio of earnings to fixed charges (24):					
Including interest on deposits	1.77	1.65	1.61	1.43	1.34
Excluding interest on deposits	2.26	2.46	2.56	2.22	1.89

U.S. GAAP(25):

Profitability and performance:

Net interest margin (26)	4.3%	4.8%	4.9%	5.5%	6.1%
Return on average total assets (27)	1.7%	1.7%	1.7%	1.4%	1.8%
Return on average shareholders' equity (28)	20.3%	22.7%	20.5%	17.3%	24.2%

Ratio of earnings to fixed charges (24):

Including interest on deposits	1.87	1.71	1.60	1.38	1.38
Excluding interest on deposits	2.43	2.51	2.52	1.99	1.90

OTHER DATA

Inflation Rate(29)	2.4%	3.7%	2.6%	7.8%	7.1%
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	At and for the year ended December 31,				
	2004	2005	2006	2007	2008
Revaluation (devaluation) rate (Ch\$/US\$) at period end (29)	(6.6%)	(8.1%)	3.9%	(7.2%)	26.9%
Number of employees at period end	7,380	7,482	8,184	9,174	9,169
Number of branches and offices at period end (30)	315	364	413	464	477

- (1) Except per share data, percentages and ratios, share numbers, employee numbers and branch numbers.
- (2) Amounts stated in U.S. dollars at and for the year ended December 31, 2008, have been translated from Chilean pesos at the interbank market exchange rate of Ch\$641.25 = US\$1.00 as of December 31, 2008. See “Item 3: A. Selected Financial Data—Exchange Rates” for more information on the observed exchange rate.
- (3) In accordance with Circular No. 3345 issued by the Superintendency of Banks, which became effective on June 30, 2006, the accounting standards for valuing financial instruments acquired for trading or investment purposes, including derivative instruments on the balance sheets, were amended. The new accounting standards require that these instruments be carried at their market or fair value, and the historical differences in valuation of such instruments recognized with respect to any dates prior to 2006 be adjusted directly against the Bank’s equity. Banks were required to adopt the new accounting standards set forth in Circular No. 3345 in preparing their financial statements at and for the six-months ended June 30, 2006, and going forward. In order to implement these new accounting standards, we have created a new line item “derivatives” under both “assets” and “liabilities” in our consolidated balance sheet, and reclassified certain other items within other assets, other liabilities, financial instruments, interest income, interest expenses and other operating income, net, in our consolidated balance sheet and income statement at and for the year ended December 31, 2006, 2007 and 2008. For comparison purposes, we have also retrospectively reclassified these items at December 31, 2005, but did not retrospectively apply the new accounting standards to these items. We did not reclassify any of these items at any date or for any period prior to 2005. See “Item 5: A. Accounting Standards for Financial Investments and Derivatives.”
- (4) Operating costs is equal to the sum of personnel expenses, administrative expenses and depreciation and amortizations.
- (5) Other income, net is the sum of other operating income, other operating expenses, net gains (losses) from mark-to-market and trading and foreign exchange transactions, loss from price level restatement and investment in other companies.
- (7) 1 ADS = 1,039 shares of common stock.
- (8) The dividend per share and dividend per ADS in year t is calculated as the dividend approved and paid to shareholders in period t+1 divided by the number of shares outstanding at the end of the applicable period in period t. Dividends per ADS has been calculated on the basis of 1,039 shares per ADS and does not reflect any deduction for Chilean withholding taxes or for the foreign currency expenses of the Depositary.
- (9)

Net interest income and total assets on a U.S. GAAP basis have been determined by applying the relevant U.S. GAAP adjustments to net interest income and total assets presented in accordance with Article 9 of Regulation S-X. See Note 28 to our Consolidated Financial Statements at and for the years ended December 31, 2004, 2005, 2006, 2007 and Note 27 to the Audited Consolidated Financial Statements for the twelve-month period ended December 31, 2008, included in our Annual Report on Form 20-F.

- (10) Net income per share and per ADS in accordance with U.S. GAAP has been calculated on the basis of the weighted-average number of shares or ADSs, as applicable, outstanding during the period.
- (11) Includes financial investment held for trading, repos, financial investments available for sale and financial investments held to maturity.
- (12) For figures at December 31, 2006, 2007 and 2008, derivatives are valued at market price and classified as a separate line item on the balance sheet. Our derivatives holdings at December 31, 2005, have been reclassified from "other assets" and "other liabilities" to "derivatives", but have not been marked to market as would be required under currently applicable accounting principles. At prior dates, derivatives are classified under "other assets" or "other liabilities", and generally recorded at net notional amount. See Note 1 to the Audited Consolidated Financial Statements.
- (13) Equity includes shareholders' equity plus minority interest. Equity is calculated according to the new guidelines established in Circular No. 3410 issued by the Superintendency of Banks. According to this new format, equity must include minority interest and a minimum provision for mandatory dividends equal to 30% of net income.
- (14) Shareholders' equity is calculated according to the new guidelines established in Circular No. 3410 issued by the Superintendency of Banks. The main difference being the provision for mandatory dividends equal to 30% of net income.
- (15) Net interest revenue divided by average interest earning assets (as presented in "Item 5: F. Selected Statistical Information").
- (16) Net income divided by average total assets (as presented in "Item 5: F. Selected Statistical Information").
- (17) Net income divided by average equity (as presented in "Item 5: F. Selected Statistical Information").
- (18) This ratio is calculated using total equity including minority interest.

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- (19) Substandard loans include all consumer and mortgage loans rated B- or worse and all commercial loans rated C2 or worse. See “Item 5: F. Selected Statistical Information—Analysis of Substandard Loans and Amounts Past Due.”
- (20) Total loans exclude contingent loans.
- (21) Past due loans are loans the principal or interest amount of which is overdue for 90 or more days, and do not include the installments of such loans that are not overdue or that are less than 90 days overdue, unless legal proceedings have been commenced for the entire outstanding balance according to the terms of the loan. Total loans exclude contingent loans.
- (22) The efficiency ratio is equal to operating expenses over operating revenue. Operating expenses includes personnel expenses, administrative expenses, depreciation and amortizations, and other operating expenses. Operating revenue includes net interest revenue, fee income, net gain (loss) from mark-to-market and trading, foreign exchange transactions and other operating income.
- (23) Operating expenses includes personnel expenses, administrative expenses, depreciation and amortizations, and other operating expenses.
- (24) For the purpose of computing the ratios of earnings to fixed charges, earnings consist of earnings before income tax and fixed charges. Fixed charges consist of gross interest expense and the proportion deemed representative of the interest factor of rental expense.
- (25) The following ratios have been calculated using U.S. GAAP figures except for net interest margin.
- (26) Net interest margin has been determined by applying the relevant U.S. GAAP adjustments to net interest income for the years ended December 31, 2004, 2005, 2006, 2007 and 2008, presented in accordance with Article 9 of Regulation S-X divided by average interest earning assets calculated on a Chilean GAAP basis. See Note 28(y) to our Consolidated Financial Statements at and for the years ended December 31, 2004 and 2005, and Note 28(v) to our Consolidated Financial Statements for the years ended December 31, 2006 and 2007 and Note 27(v) to the Audited Consolidated Financial Statements for the twelve-month period ended December 31, 2008.
- (27) Net income divided by average total assets. Average total assets were calculated as an average of the beginning and ending balances for each year, and total assets on a U.S. GAAP basis have been determined by applying the relevant U.S. GAAP adjustments to total assets presented in accordance with Article 9 of Regulation S-X. See Note 27 to the Audited Consolidated Financial Statements.
- (28) Average shareholders’ equity was calculated as an average of the beginning and ending balances for each year. Shareholders’ equity on a U.S. GAAP basis has been determined by applying the relevant U.S. GAAP adjustments to shareholders’ equity presented in accordance with Article 9 of Regulation S-X. See Note 27 to the Audited Consolidated Financial Statements.
- (29) Based on information published by the Central Bank.
- (30) Figures prior to 2005 do not include special payment centers.

New Accounting Format in 2008

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Circular No. 3410 issued by the Superintendence of Banks, which became effective on January 1, 2008, prescribed new accounting formats for financial statements. The new accounting formats are congruent with International Accounting Standards, but do not involve a change in accounting standards. Banks are required to adopt the new accounting formats in 2008. The main changes are presented in the table below.

Main changes	Previous format	New format
Income statement	Items that were re-classified	Where items have been reclassified
Net interest income	1 Interest income contingent operations 2 Interest income trading portfolio	5 Interest income efficient portion of derivatives for hedging inflation and interest rate risk
Provision expense	3 Provisions for repossessed assets 4 Sale of charge-off loans	
Fee income		1 Interest income contingent operations
Financial transactions, net	5 Interest income efficient portion of derivatives for hedging inflation and interest rate risk	2 Interest income trading portfolio 4 Sale of charge-off loans
Other op. expenses	6 Sales force expenses	3 Provisions for repossessed assets
Operating expenses		6 Sales force expenses in administrative expenses

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Main changes	Previous format	New format
Balance sheet	Items that change	What change will be
Assets	1 Contingent loans	1 Contingent loans are held off balance sheet
	2 Past due loans	2 Included in each loan product. Not disclosed separately. We disclose it for information purposes
	3 Loan loss allowances	3 Loans are presented net of loan loss allowances. We disclose it separately for information purposes
Liabilities	4 Shareholders' Equity	4 Shareholders' Equity will include a provision for future dividends of 30% of net income. Liabilities will also include a new item "Provision for dividends". Shareholders' equity also includes minority interests

Previous format:

At and for the years ended December 31,
2004 2005 2006 2007

CONSOLIDATED INCOME STATEMENT DATA

Chilean GAAP:

Net interest revenue	587,893	653,123	716,285	899,013
Provision for loan losses	(99,971)	(75,903)	(143,925)	(198,627)
Fee income	149,754	165,309	190,169	210,076
Other operating income net	17,246	(15,904)	21,811	(86,814)
Other income and expenses, net	(5,024)	(25,647)	(4,188)	6,995
Operating expenses	(332,119)	(333,389)	(361,833)	(373,149)
Loss from price level restatement	(14,834)	(21,671)	(16,123)	(61,332)
Income before taxes	302,945	345,918	402,196	396,162
Income tax	(56,843)	(59,531)	(68,088)	(60,076)
Net income	246,102	286,387	334,108	336,086

New format

At and for the years ended December 31,
2004 2005 2006 2007

CONSOLIDATED INCOME STATEMENT DATA

Chilean GAAP:

Net interest revenue	513,656	566,998	635,821	775,758
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Provision for loan losses	(92,605)	(77,959)	(142,956)	(224,667)
Fee income	190,738	192,362	197,647	217,857
Operating costs	(333,783)	(343,739)	(381,763)	(401,470)
Other income, net	(88,521)	(110,647)	93,623	30,921
Income before taxes	189,485	227,015	402,372	398,399
Income tax	(56,843)	(59,531)	(68,088)	(60,075)
Net income	246,328	286,546	334,284	338,324
Net income attributable to:				
Net income attributable to shareholders	246,102	286,387	334,108	336,086
Minority interest	226	159	176	2,238

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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 which are currently in effect, all payments, remittances or transfers of foreign currency abroad which are required to be effected through the Formal Exchange Market may be effected with foreign currency procured outside the Formal Exchange Market. The Formal Exchange Market is comprised of the banks and other entities so authorized by the Central Bank. The conversion from pesos to U.S. dollars of all payments and distributions with respect to the ADSs described in this Annual Report must be transacted at the spot market rate in the Formal Exchange Market. Current regulations require that the Central Bank be informed of certain transactions and that they be effected through the Formal Exchange Market.

Purchases and sales of foreign currencies performed may be legally carried out in the Informal Exchange Market. The Informal Exchange Market reflects transactions carried out at informal exchange rates by entities not expressly authorized to operate in the Formal Exchange Market. There are no limits imposed on the extent to which the rate of exchange in the Informal Exchange Market can fluctuate above or below the observed exchange rate. On December 31, 2008, and May 29, 2009, the exchange rate in the Informal Exchange Market as published by Reuters at 1:30pm on these days was Ch\$641.25 and Ch\$561.30, or 1.9% more expensive and 0.76% cheaper, respectively, than the published observed exchange rate for such date of Ch\$629.11 and Ch\$565.60, respectively, per US\$1.00.

The following table sets forth the annual low, high, average and period end observed exchange rate for U.S. dollars for each of the following periods, as reported by the Central Bank. We make no representation that the Chilean peso or the U.S. dollar amounts referred to herein actually represent, could have been or could be converted into U.S. dollars or Chilean pesos, as the case may be, at the rates indicated, at any particular rate or at all.

Year	Daily Observed Exchange Rate Ch\$ Per US\$(1)			
	Low(2)	High(2)	Average(3)	Period End(4)
2004	559.21	649.45	609.55	559.83
2005	509.70	592.75	559.86	514.21
2006	511.44	549.63	530.26	534.43
2007	493.14	548.67	522.69	495.82
2008	431.22	676.75	521.79	629.11
Month				
November 2008	629.19	675.57	651.51	659.43
December 2008	625.59	674.83	649.32	629.11
January 2009	610.09	643.87	623.01	612.43
February 2009	583.32	623.87	606.00	595.76
March 2009	572.39	614.85	592.93	582.1
April 2009	583.18	601.04	583.18	588.62
May 2009	565.72	580.10	565.72	565.60

Source: Central Bank.

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

Dividends

Under the current General Banking Law, a Chilean bank may only pay a single dividend per year (i.e., interim dividends are not permitted). Santander-Chile's annual dividend is proposed by its Board of Directors and is approved by the shareholders at the annual ordinary shareholders' meeting held the year following that in which the dividend is generated. For example, the 2008 dividend must be proposed and approved during the first four months of 2009. Following shareholder approval, the proposed dividend is declared and paid. Historically, the dividend for a

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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 dated 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 depository (the "Depository") and will be subject to the Chilean withholding tax currently at the rate of 35% (subject to credits in certain cases as described in "Item 10: E. Taxation—Material Tax Consequences of Owning Shares of Our Common Stock or ADSs").

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

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

Year Paid	Dividend			% over earnings (4)
	Ch\$ mn (1)	Per share Ch\$/share (2)	Per ADR Ch\$/ADR (3)	
2005	198,795	1.05	1,096.06	100
2006	155,811	0.83	859.06	65
2007	185,628	0.99	1,023.46	65
2008	200,620	1.06	1,106.12	65
2009	213,295	1.13	1,176.02	65

(1) Million of nominal pesos.

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

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

(4) Calculated by dividing dividend paid in the year by net income for the previous year.

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

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also impair our business operations. Any of the following risks, if they actually occur, could materially and adversely affect our business, results of operations, prospects and financial condition.

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

Risks Associated with Our Business

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

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

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

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

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

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

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

The increase in competition within the Chilean banking industry in recent years has led to, among other things, consolidation in the industry. We expect the trends of increased competition and consolidation to continue and result in the formation of new large financial groups. Consolidation, which can result in the creation of larger and stronger competitors, may adversely affect our financial condition and results of operations by decreasing the net interest margins we are able to generate. In addition, Law No. 19,769 allows insurance companies to participate and compete with banks in the residential mortgage and credit card businesses.

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

At December 31, 2008, our allowance for impairment losses on loans was Ch\$285,505 million, and the ratio of our allowance for impairment losses to total loans was 1.9%. The amount of allowances is based on our current assessment of and expectations concerning various factors affecting the quality of our loan portfolio. These factors include, among other things, our borrowers' financial conditions, 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. If our assessment of and expectations concerning the above mentioned factors differ from actual developments, or if the quality of our loan portfolio deteriorates or the future actual losses exceed our estimates, our allowance for impairment losses may not be adequate to cover actual losses and we may need to make additional provisions for impairment losses, which may materially and adversely affect our results of operations and financial condition.

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

A substantial number of our customers consist of individuals (approximately 46.7% of the value of the total loan portfolio at December 31, 2008) and, to a lesser extent, small and medium sized companies (those with annual sales of less than US\$1.9 million), which comprised approximately 16.5% of the value of the total loan portfolio at December 31, 2008. As part of our business strategy, we seek to increase lending and other services to small companies and individuals. Small companies and individuals are, however, more likely to be adversely affected by downturns in the Chilean economy than large corporations and high income individuals. In addition, at December 31, 2008, our residential mortgage loan book totaled Ch\$3,981,346 million, representing 27.1% of our total loans. (See "Item 5: F. Selected Statistical Information—Loan Portfolio" and "Item 5: F. Selected Statistical Information—Loans by Economic Activity" for a description and presentation of residential mortgages in the balance sheet). If the economic conditions and real estate market in Chile experience a significant downturn, as it may in 2009 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 write-offs. This may in turn materially and adversely affect our asset quality, results of operations and financial condition.

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

At December 31, 2008, our past due loans were Ch\$160,824 million, and the ratio of our past due loans to total loans was 1.1%. For additional information on our asset quality, see "Item 5: F. Selected Statistical Information—Analysis of Substandard Loans and Amounts Past Due." We seek to continue to improve our credit risk management policies and procedures. However, we cannot assure you that our credit risk management policies, procedures and systems are free from any deficiency. Failure of credit risk management policies may result in an increase in the level of non-performing loans and adversely affect the quality of our loan portfolio. In addition, the quality of our loan portfolio may also deteriorate due to various other reasons, including factors beyond our control such as the macroeconomic factors affecting Chile's economy. If such deterioration were to occur, it would materially and adversely affect our financial conditions and results of operations.

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

The value of the collateral securing our loan portfolio may significantly fluctuate or decline due to factors beyond our control, including macroeconomic factors affecting Chile's economy. The real estate market is particularly vulnerable in the current economic climate and this may affect us as real estate represents a significant portion of the collateral securing our residential mortgages loan portfolio. We may also not have current 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.

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

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

From December 31, 2004 to December 31, 2008, our aggregate loan portfolio grew by 53.2% in real terms to Ch\$14,700,374 million (US\$22.9 billion), while our consumer loan portfolio grew by 66.7% in real terms to Ch\$2,248,996 (US\$3,507 million). The further expansion of our loan portfolio (particularly in the consumer, small and mid sized companies and real estate segments) can be expected to expose us to a higher level of loan losses and require us to establish higher levels of provisions for loan losses.

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

There can be no assurance that in the future our loan portfolio will continue to grow at similar rates to the historical growth rate. A reversal of the rate of growth of the Chilean economy, a slowdown in the growth of customer demand, an increased in market competition or changes in governmental regulations, could adversely affect the rate of growth of our loan portfolio and our risk index and, accordingly, increase our required allowances for loan losses. The continued economic turmoil could materially adversely affect the liquidity, businesses and financial condition of our customers as well as a general decline in consumer spending and rise in unemployment. All this could in turn lead to decreased demand for borrowings in general. Our loan portfolio may thus contract in 2009, given the economic environment.

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

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

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

Inflation in Chile gained momentum in 2007 and 2008. In 2007 and 2008, inflation reached 7.1% and 7.8%, respectively. High levels of inflation in Chile could adversely affect the Chilean economy and have an adverse effect on our business, financial condition and results of operations. In 2009, the possibility of a deflationary environment could also have an adverse effect on our business, financial condition and results of operations.

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: F. Selected Statistical Information—Average Balance Sheets, Income Earned from Interest-Earning Assets And Interest Paid on Interest Bearing Liabilities.” Although we currently 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.

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Our results of operations are affected by interest rate volatility.

Our results of operations depend to a great extent on our net interest revenue. In 2008, net interest revenue represented 73.3% of our operating revenue. Changes in market interest rates could affect the interest rates earned on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities leading to a reduction in our net interest revenue or result in a decrease in customer's demand for our loan or deposit products. Interest rates are highly sensitive to many factors beyond our control, including the reserve policies of the Central Bank, deregulation of the financial sector in Chile, domestic and international economic and political conditions and other factors. In the current economic climate, there is a greater degree of uncertainty and unpredictability in the policy decisions and the setting of interest rates by the Central Bank. Any changes in interest rates could adversely affect our business, our future financial performance and the price of our securities. The following table shows the yields on the Chilean government's 90-day notes as reported by the Central Bank of Chile at year-end 2004 – 2008 and up to May 2009.

Year	Period-end 90 day note (%)
2004	2.32
2005	4.75
2006	5.10
2007	6.15
2008	8.18
May 2009	1.20

Source: Central Bank.

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

Customer deposits are our primary source of funding. At December 31, 2008, 87.4% of our customer deposits had remaining maturities of one year or less, or were payable on demand. A significant portion of our assets have longer maturities, resulting in a mismatch between the maturities of liabilities and the maturities of assets. If a substantial number of our depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, our liquidity position, results of operations and financial condition may be materially and adversely affected. We cannot assure you that in the event of a sudden or unexpected shortage of funds in the banking system, any money markets in which we operate will be able to maintain levels of funding without incurring high funding costs or the liquidation of certain assets. If this were to happen, our results of operations and financial condition may be materially and adversely affected.

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

Chilean regulations impose restrictions on the share of assets that a Chilean pension fund management company (Administrador de Fondos de Pension, an "AFP") may allocate to a single issuer, which is currently 7% per fund managed by an AFP (including any securities issued by the issuer and any bank deposits with the issuer). If the exposure of an AFP to a single issuer exceeds the 7% limit, the AFP is required to reduce its exposure below the limit within three years. At December 31, 2008, the aggregate exposure of AFPs to us was approximately US\$4.4 billion or

5.5% of their total assets. If the exposure of any AFP to us exceeds the regulatory limit, we would need to seek alternative sources of funding, which could be more expensive and, as a consequence, may have a material adverse effect on our financial condition and results of operations.

Pension funds must also comply with other investment limits. Recently approved legislation in Chile (Reformas al Mercado de Capitales II (also known as MK2) relaxed the limits on making investments abroad in order to permit pension funds to further diversify their investment portfolios. As of December 31, 2008, the limit on making investments abroad was 50%. In 2009, this limit will gradually increase to 60% and in 2011 it will reach 80%. As a result, pension funds may change the composition of their portfolios, including reducing their deposits with local banks. At December 31, 2008, 20.0% of the Bank's time deposits were from AFPs. Although the legislation referred to above is intended to promote a gradual relaxation of the investment limits, and we may be able to substitute the reduced institutional funds with retail deposits, there can be no assurance that this occurrence will not have a material adverse impact on our business, financial condition and results of operations.

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

Chilean banks are required by the General Banking Law to maintain regulatory capital of at least 8% of risk-weighted assets, net of required loan loss allowance and deductions, and paid in capital and reserves (“basic capital”) of at least 3% of our total assets, net of required loan loss allowances. As a result of the merger between Old Santander-Chile and Santiago, we are required to maintain a minimum regulatory capital to risk-weighted assets ratio of 11%. At December 31, 2008, the ratio of our basic capital to total assets, net of loan loss allowance, was 7.2%, and the ratio of our regulatory capital to risk-weighted assets, net of loan loss allowance and deductions, was 13.8%. 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;
 - 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;
- and changes in the guidelines regarding the calculation of the capital adequacy ratios of banks in Chile.

On January 30, 2009, the Superintendency of Banks issued Circular No. 3,465 that modified the guidelines for risk weighting derivatives. If the Bank has a net liability in a derivative position and if this derivative, under certain stress and volatility measures, becomes a net asset position, then the Bank must also include this derivative as a risk weighted asset and this should have an adverse impact on regulatory capital ratios. In 2009, the adoption of accounting standards in line with International Accounting Standards will also have an impact on the level of the Bank’s restated shareholders’ equity and capitalization levels. The main impacts are the elimination of the price level restatement of capital and the revaluation of fixed assets. In 2010, the Chilean banks will most likely adopt the guidelines set forth under Basel II with adjustments incorporated by the Superintendency of Banks. This should result in a different level of minimum capital required to be maintained by the Bank. No assurance can be given that these events will not have a material impact on the Bank’s capitalization ratio.

We may also be required to raise additional capital in the future in order to maintain our capital adequacy ratios above the minimum required levels. Our ability to raise additional capital may be limited by numerous factors, including: our future financial condition, results of operations and cash flows; any necessary government regulatory approvals; our credit ratings; general market conditions for capital raising activities by commercial banks and other financial institutions; and domestic and international economic, political and other conditions.

If we require additional capital in the future, we cannot assure you that we will be able to obtain such capital on favorable terms, in a timely manner or at all. Furthermore, the Superintendency of Banks may increase the minimum capital adequacy requirements applicable to us. Accordingly, although we currently meet the applicable capital adequacy requirements, we may face difficulties in meeting these requirements in the future. If we fail to meet the capital adequacy requirements, we may be required to take corrective actions. These measures could materially and adversely affect our business reputation, financial condition and results of operations. In addition, if we are unable to raise sufficient capital in a timely manner, the growth of our loan portfolio and other risk weighted assets may be restricted, and we may face significant challenges in implementing our business strategy. As a result, our prospects,

results of operations and financial condition could be materially and adversely affected.

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

Our business is highly dependant on the ability of our information technology systems to accurately process a large number of transactions across numerous and diverse markets and products in a timely manner. The proper functioning of our financial control, risk management, accounting, customer service and other data processing systems is critical to our business and our ability to compete effectively. We have backup data for our key data processing systems that could be used in the event of a catastrophe or a failure of our primary systems, and have established alternative communication networks where available. However, we do not operate all of our redundant systems on a real time basis and cannot assure you that our business activities would not be materially disrupted if

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there were a partial or complete failure of any of these primary information technology systems or communication networks. Such failures could be caused by, among other things, software bugs, computer virus attacks or conversion errors due to system upgrading. In addition, any security breach caused by unauthorized access to information or systems, or intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

We are subject to regulation by the Superintendency of Banks. In addition, we are subject to regulation by the Central Bank with regard to certain matters, including reserve requirements and interest rates and foreign exchange mismatches and market risks. During the Chilean financial crisis of 1982 and 1983, the Central Bank and the Superintendency of Banks strictly controlled the funding, lending and general business matters of the banking industry in Chile.

Pursuant to the Ley General de Bancos, Decreto con Fuerza de Ley No. 3 de 1997, or the General Banking Law, all Chilean banks may, subject to the approval of the Superintendency of Banks, engage in certain businesses other than commercial banking depending on the risk associated with such business and the financial strength of the bank. Such additional businesses include securities brokerage, mutual fund management, securitization, insurance brokerage, leasing, factoring, financial advisory, custody and transportation of securities, loan collection and financial services. The General Banking Law also applies to the Chilean banking system a modified version of the capital adequacy guidelines issued by the Basel Committee on Banking Regulation and Supervisory Practices and limits the discretion of the Superintendency of Banks to deny new banking licenses. There can be no assurance that regulators will not in the future impose more restrictive limitations on the activities of banks, including us, than those currently in effect. Any such change could have a material adverse effect on our financial condition or results of operations.

Historically, Chilean banks have not paid interest on amounts deposited in checking accounts. However, since June 1, 2002, the Central Bank has allowed banks to pay interest on checking accounts. Currently, there are no applicable restrictions on the interest that may be paid on checking accounts. We have begun to pay interest on some checking accounts under certain conditions. If competition or other factors lead us to pay higher interest rates on checking accounts, to relax the conditions under which we pay interest or to increase the number of checking accounts on which we pay interest, any such change could have a material adverse effect on our financial condition or results of

operations.

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

Beginning January 1, 2009, Chilean banks will adopt accounting standards more congruent with International Accounting Standards and we will be restating 2008 figures under these new accounting principles. Although the

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exact impact of this change is still under discussion, there can be no assurance that this will not have a material impact on our financial condition or results of operation.

We are subject to regulatory inspections and examinations.

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

Risks Relating to Chile

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

A substantial amount of our loans are to borrowers doing business in Chile. Accordingly, the recoverability of these loans in particular, 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 a substantial influence over many aspects of the private sector, or other political or economic developments in Chile. Chile's economy may not continue to grow in the future and future developments could negatively affect Chile's exports and economic activity. In line with the current global economic climate, we expect Chile's economy to contract in 2009 for the first time since 1999. All this may materially and adversely affect our business, financial condition or results of operations.

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

The prices of securities issued by Chilean companies, including banks, are to varying degrees influenced by economic and market considerations in other countries. We cannot assure you that future developments in or affecting the Chilean economy, including consequences of economic difficulties in other markets, will not materially and adversely affect our business, financial condition or results of operations. At December 31, 2008, approximately 3.7% of our assets were held abroad.

We are directly exposed to risks related to the weakness and volatility of the economic and political situation in other parts of the world, mainly, the United States, Europe, China, Brazil and Argentina. A significant economic deterioration in one of these countries or regions could result in lower economic growth in Chile, lower loan growth, an increase our loan allowances, and therefore, this could affect our financial results, our results of operations and the price of our securities. The global financial and sub-prime crisis has had a significant impact on the growth rate of the Chilean economy and is expected to continue to negatively impact growth, consumption, unemployment, investment and the price of exports in 2009 and 2010.

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

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 could affect the U.S. dollar value of our securities. The 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 four years.

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Year	Exchange rate (Ch\$) Year-end	Devaluation (Revaluation) (%)
2004	559.83	(6.6%)
2005	514.21	(8.1%)
2006	534.43	3.9%
2007	495.82	(7.2%)
2008	629.11	26.9%
May 2009	565.72	(10.1%)

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.

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

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

Changes in banking regulations may materially and adversely affect the bank's 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, regulations governing the Chilean capital markets were approved (Reformas al Mercado de Capitales II; also known as MK2). These modifications, 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 the bank's regulatory capital (and up to 30% of the bank's 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 as they are less constrained by this requirement.

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

As a result of the current 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 loan 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.

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

As of December 31, 2008, on a consolidated basis we had 9,169 employees of which 45.3% were unionized. In March 2007, a new collective bargaining agreement became effective that will expire on March 1, 2011, but this may be negotiated ahead of schedule with the agreement of management and the union. We generally apply the terms of our collective bargaining agreement to unionized and non-unionized employees. We have traditionally enjoyed good relations with our employees and their unions, but we cannot assure you that in the future a

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strengthening of cross-industry labor movements will not materially and adversely affect our business, financial condition or results of operations.

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

Our foreign currency deposit ratings are equivalent to the Chilean sovereign ratings. In the case of Moody's, our senior and subordinated debt denominated in foreign currency pierce the sovereign ceilings. In 2007, Standard and Poor's improved their ratings for us. In 2007 and March 2009 Moody's improved their rating for us, but in May 2009, Moody's placed our foreign currency senior and subordinated bond ratings, local currency deposit ratings and Bank Financial Strength Rating under review for possible downgrade, following a similar action on the ratings of our parent company, Banco Santander Spain. Any adverse revisions to our parent company's ratings and/or Chile's credit ratings for domestic and international debt by international rating agencies may adversely affect our ratings, our business, future financial performance, stockholder's equity and the price of our equity shares and ADSs.

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

Accounting, financial reporting and securities disclosure requirements in Chile differ from those in the United States. Accordingly, the information about us available to you will not be the same as the information available to shareholders of a U.S. financial institution. There are also material differences between Chilean and U.S. accounting and financial reporting standards. As a result, Chilean financial statements and reported earnings generally differ from those reported based on U.S. accounting and reporting standards. Beginning January 1, 2009, Chilean banks will adopt accounting standards adopted by the Superintendency of Banks, and more congruent with International Accounting Standards.

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

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

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

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

purpose and responsibilities, (3) a compensation committee be established that is composed entirely of independent directors and has a written charter addressing the committee's purpose and responsibilities and (4) an annual performance evaluation of the nominating and corporate governance and compensation committees be undertaken. We currently use these exemptions and intend to continue using these exemptions. Accordingly, you will not have the same protections afforded to shareholders of companies that are subject to all NYSE corporate governance requirements. For more details on the differences between our corporate governance standards and the NYSE standards, please see “Item 6: C. Board Practices – Summary Comparison of Corporate Governance Standards and NYSE Listed Company Standards.”

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

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

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

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

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.

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

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

Risks Relating to our ADSs

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

Our ADSs are listed and traded on the NYSE. Our common stock is listed and traded on the Santiago Stock Exchange, the Chile Electronic Stock Exchange and the Valparaiso Stock Exchange, which we refer to collectively as the Chilean Stock Exchanges, although the trading market for the common stock is small by international standards. At December 31, 2008, we had 188,446,126,794 shares of common stock outstanding. The Chilean securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. According to Article 14 of the Ley de Mercado de Valores, Ley No. 18,045, or the Chilean Securities Market Law, the Superintendencia de Valores y Seguros, or the Superintendency of Securities and Insurance, may suspend the offer, quotation or trading of shares of any company listed on one or more Chilean Stock Exchanges for up to 30 days if, in its opinion, such suspension is necessary to protect investors or is justified for reasons of public interest. Such suspension may be extended for up to 120 days. If, at the expiration of the extension, the circumstances giving rise to the original suspension have not changed, the Superintendency of Securities and Insurance will then cancel the relevant listing in the registry of securities. In addition, the Santiago Stock Exchange may inquire as to any movement in the price of any securities in excess of 10% and suspend trading in such securities for a day if it deems necessary.

Although our common stock is traded on the Chilean Stock Exchanges, there can be no assurance that a liquid trading market for our common stock will continue to exist. Approximately 23.09% of our outstanding common stock is held by the public (i.e., shareholders other than Banco Santander Spain and its affiliates), including our 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.

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

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

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Overview

We are the largest bank in Chile in terms of total assets, total deposits, loans and shareholders' equity. At December 31, 2008, we had total assets of Ch\$21,137,134 million (US\$32,962 million), loans net of allowances outstanding of Ch\$14,319,370 million (US\$22,330 million), total deposits of Ch\$12,704,023 million (US\$19,811 million) and shareholders' equity of Ch\$1,602,610 million (US\$2,499 million). As of December 31, 2008, we employed 9,169 people (on a consolidated basis) and had the largest private branch network in Chile with 477 branches. Our headquarters are located in Santiago and we operate in every major region of Chile.

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

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

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

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

Our principal executive offices are located at Bandera 140, Santiago, Chile. Our telephone number is +562-320-2000 and our website is www.santander.cl. None of the information contained on our website is incorporated by reference into, or forms part of, this Annual Report. Our agent for service of process in the United States is Puglisi &

Associates.

Relationship with Banco Santander Spain

We believe that our relationship with our controlling shareholder, Banco Santander Spain, offers us a significant competitive advantage over our peer Chilean banks. Banco Santander Spain is one of the largest financial groups in Brazil and the rest of Latin America, in terms of total assets measured on a region-wide basis. It is the largest financial group in Spain and is a major player elsewhere in Europe, including the United Kingdom through its Abbey subsidiary and Portugal, where it is the third-largest banking group. Through Santander Consumer, it also

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operates a leading consumer finance franchise in the United States as well as in Germany, Italy, Spain, and several other European countries.

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

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

B. Organizational Structure

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

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

Management Team

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

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

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C. Business Overview

We have 477 total branches, 256 of which operated under the Santander brand name, 109 under the Santander Banefe brand name, 46 that operate under the brand name SuperCaja, 18 that operate under the BancaPrime brand name and 41 auxiliary and payment centers. We provide a full range of financial services to corporate and individual customers. We divide our clients into the following segments: (i) Retail (individuals, small businesses and institutional), (ii) Middle-market, and (iii) Global Banking and Market.

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

Lower-middle to middle-income (Santander Banefe), consisting of individuals with monthly income between Ch\$ 120,000 (US\$187) and Ch\$ 400,000 (US\$624), which are served through our Banefe branch network. This segment accounts for 5.0% of our loans at December 31, 2008. This segment offers customers a range of products, including consumer loans, credit cards, auto loans, residential mortgage loans, debit card accounts, savings products, mutual funds and insurance brokerage.

Middle- and upper-income, consisting of individuals with a monthly income greater than Ch\$ 400,000 (US\$624). Clients in this segment account for 41.8% of our loans at December 31, 2008 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 businesses, consisting of small companies with annual sales less than Ch\$ 1,200 million (US\$ 1.9 million). At December 31, 2008, small companies represented approximately 15.8% of our total loans outstanding. Customers in this segment are offered a range of products, including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, savings products, mutual funds and insurance brokerage.

Institutional organizations such as universities, government agencies, municipalities and regional governments. At December 31, 2008, these clients represented 1.5% of our total loans outstanding and offer customers a range of products, including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, cash management, savings products, mutual funds and insurance brokerage.

The Middle-market comprised of mid-sized companies, companies in the real estate sector and large companies as follows:

Mid-sized companies, consisting of companies with annual sales over Ch\$1,200 million (US\$1.9 million) and up to Ch\$3,500 million (US\$ 5.5 million). Customers in this segment are offered a wide range of products, including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking

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accounts, cash management, treasury services, financial advisory, savings products, mutual funds and insurance brokerage. At December 31, 2008, these clients represented 7.6% of our total loans outstanding.

Real estate. This segment also includes all companies in the real estate sector. At December 31, 2008, these clients represented 3.6% of our total loans outstanding. To clients in the real estate sector we offer apart from traditional banking services, specialized services for financing primarily residential projects in order to increase the sale of residential mortgage loans.

Large companies, consisting of companies with annual sales over Ch\$ 3,500 million (US\$5.5 million). Customers in this segment are offered a wide range of products, including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, cash management, treasury services, financial advisory, savings products, mutual funds and insurance brokerage. At December 31, 2008, these clients represented 8.5% of our total loans outstanding.

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The Global Banking and Markets segment is comprised of:

Wholesale banking, consisting of companies that are foreign multinationals or part of a large Chilean economic group with sales over Ch\$3,500 million (US\$5.5 million). At December 31, 2008, these clients represented 15.3% of our total loans outstanding. Customers in this segment are offered a wide range of products, including commercial loans, leasing, factoring, foreign trade, mortgage loans, checking accounts, cash management, treasury services, financial advisory, savings products, mutual funds and insurance brokerage.

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

The table below sets forth our lines of business and certain statistical information relating to each of them for the year ended December 31, 2008. Please see Note 27(u) to our Audited Consolidated Financial Statements for details of revenue by business segment in the last three years.

For the twelve month period ended December 31, 2008
(millions of constant Ch\$ as of December 31, 2008)

Segment	Loans	Net interest revenue	Fees	Net loan loss allowances (1)	Financial transactions, net (2)	Net segment contribution (3)
Individuals	6,870,509	531,820	144,182	(211,875)	-	464,127
Santander Banefe	732,016	184,647	31,722	(90,503)	-	125,866
Middle-upper income	6,138,493	347,173	112,460	(121,372)	-	338,261
SMEs	2,428,779	184,149	40,657	(54,360)	-	170,446
Institutional	224,738	12,273	1,728	(290)	-	13,711
Total Retail	9,524,026	728,242	186,567	(266,525)	-	648,284
Middle-market	2,882,069	98,717	16,041	(16,189)	-	98,569
Mid-sized companies	1,124,480	41,266	8,064	(8,557)	-	40,773
Real estate	522,399	16,224	1,522	(597)	-	17,149
Large companies	1,235,190	41,227	6,455	(7,035)	-	40,647
Global Banking and Markets	2,242,389	117,190	11,497	(759)	108,475	236,403
Wholesale	2,242,389	51,550	10,488	(759)	-	61,279
Treasury (4)	-	65,640	1,009	-	108,475	175,124
Others (5)	51,890	(47,108)	9,488	(2,480)	(22,433)	(62,533)
Total	14,700,374	897,041	223,593	(285,953)	86,042	920,723

Other operating income, net	
Income (loss) attributable to investments in other companies	851
Operating expenses	(465,314)
Price level restatement	(78,027)
Net income before taxes	394,745

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

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

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

(4) Includes the Treasury's client business and trading business.

(5) Includes contribution of non-segmented items such as interbank loans, the cost of the Bank's capital and fixed assets. Financial transactions, net included in other is mainly comprised of the results from the Financial Management Division (Gestion Financiera). The area of Financial Management carries out the function of managing the structural interest rate risk, the structural position in inflation indexed assets and liabilities, shareholder's equity and liquidity. The aim of Financial Management is to inject stability and recurrence into the net income of commercial activities and to assure the Bank complies with internal and regulatory limits regarding liquidity, regulatory capital, reserve requirements and market risk.

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Operations through Subsidiaries

Today, the General Banking Law permits us to provide directly the leasing and financial advisory services we could formerly offer only through our subsidiaries, to offer investment advisory services outside of Chile and to undertake activities we could not formerly offer directly or through subsidiaries, such as factoring, securitization, foreign investment funds, custody and transport of securities and insurance brokerage services. For the year ended December 31, 2008, our subsidiaries collectively accounted for approximately 9.4% of our consolidated net income. The assets and operating income of these subsidiaries as of and for the year ended December 31, 2008, represented 4.0% and 8.8% of our total assets and operating income, respectively.

Subsidiary	Percentage Owned					
	December 2007			December 2008		
	Direct %	Indirect %	Total %	Direct %	Indirect %	Total %
Santander S.A. Corredores de Bolsa (1) (2) (3)	50.59	0.41	51.00	50.59	0.41	51.00
Santander Corredores de Seguro Ltda. (Ex-Santander Leasing S.A.) (3) (4)	99.50	-	99.50	99.75	0.01	99.76
Santander Asset Management S.A. Administradora General de Fondos	99.96	0.02	99.98	99.96	0.02	99.98
Santander S.A. Agente de Valores	99.03	-	99.03	99.03	-	99.03
Santander S.A. Sociedad Securitizadora	99.64	-	99.64	99.64	-	99.64
Santander Corredora de Seguros Limitada (3) (4) (5)	99.99	-	99.99	-	-	-
Santander Servicios de Recaudación y Pagos Limitada	99.90	0.10	100.00	99.90	0.10	100.00

- (1) In conformity with the established in Articles 9 and 10 of Law No. 18.045 and Chapter 18-10 of the Recopilación Actualizada de Normas de la Superintendencia de Bancos e Instituciones Financieras, in the Extraordinary Shareholders' Meeting held on January 15, 2007 by Santander Investment S.A. Corredores de Bolsa, a related company to Banco Santander Chile, the merger between Santiago Corredores de Bolsa Limitada, a subsidiary of Banco Santander Chile, into Santander Investment S.A. Corredores de Bolsa was approved and became effective January 1, 2007. Santander Investment S.A. Corredores de Bolsa, as of January 15, 2007, became a subsidiary of Banco Santander Chile and the legal successor of Santiago Corredores de Bolsa Limitada.
- (2) The merger of Santiago Corredores de Bolsa Limitada and Santander Investment S.A. Corredores de Bolsa was accounted as a business combination of entities under common control, thus the lower value determined in the transaction was recorder as a charge to the Bank Shareholders' Equity in an amount of Ch\$1,903 million.
- (3) During 2008 the following subsidiaries changed their commercial registry:
- Santander Corredores de Seguro Ltda. (ex-Santander Leasing S.A.)
 - Santander S.A. Corredores de Bolsa
- (4) On December 4, 2007, the Superintendency of Bank, authorized the statutes modification, social rights sell and merged of the subsidiaries Santander Leasing S.A. (formerly Santiago Leasing S.A.) and Santander Corredora de Seguros Limitada (formerly Santander Santiago Corredora de Seguros Limitada).
- (5) In conformity with the regulations established in Articles 9 and 10 of Law No. 18.045 and Chapter 18-10 of the Recopilación Actualizada de Normas by the Superintendence of Bank, at the Extraordinary Shareholder's Meeting held on October 1, 2008 by Santander Corredora de Seguros S.A., a company related to Banco Santander Chile, approved the merger which incorporated the affiliated Santander Corredora de Seguros Limitada with Santander

Corredora de Seguro S.A. (previously Santander Leasing S.A.). The merger had effect and force from January 1, 2008. At the time of above-mentioned merger, Santander Corredora de Seguros S.A. became a legal extension of Santander Corredora de Seguros Limitada. The merger of Santander Corredora de Seguros S.A. and Santander Corredora de Seguros Limitada did not result in any changes in accounting for Banco Santander Chile.

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Competition

Overview

The Chilean financial services market consists of a variety of largely distinct sectors. The most important sector, commercial banking, includes a number of privately-owned banks and one public-sector bank, Banco del Estado (which operates within the same legal and regulatory framework as the private sector banks). The private-sector banks include local banks and a number of foreign-owned banks which are operating in Chile. The Chilean banking system is comprised of 23 private-sector banks and one public-sector bank. Five private-sector banks along with the state-owned bank together accounted for 81.3% of all outstanding loans by Chilean financial institutions at December 31, 2008.

The Chilean banking system has experienced increased competition in recent years largely due to consolidation in the industry and new legislation. Effective November 29, 2007, Scotiabank Sud Americano merged with Banco del Desarrollo, while at January 1, 2008, Banco de Chile merged with Citibank Chile. We also face competition from non-bank and non-finance competitors (principally department stores) with respect to some of our credit products, such as credit cards, consumer loans and insurance brokerage. In addition, we face competition from non-bank finance competitors, such as leasing, factoring and automobile finance companies, with respect to credit products, and mutual funds, pension funds and insurance companies, with respect to savings products. Currently, banks continue to be the main suppliers of leasing, factoring and mutual funds, and the insurance sales business has grown rapidly.

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

	Market Share at December 31, 2007	Market Share at December 31, 2008	Rank as of at December 31, 2008
Commercial loans	18.5%	18.5%	2
Consumer loans	26.3	26.2	1
Residential mortgage loans	24.7	24.3	2
Foreign trade loans (loans for export, import and contingent)	18.9	19.5	1
Total loans	21.0	20.8	1
Deposits (1)	21.3	20.8	1
Mutual funds (assets managed)	21.8	19.6	2
Credit card accounts	36.0	33.9	1
Checking Accounts (2)	27.9	27.0	1
Branches (3)	20.2	19.7	1

Source: Superintendency of Banks

- (1) Net of clearance.
- (2) According to latest data available as of November 2008.
- (3) According to latest data available as of December 2008. Excluding special-service payment centers.

The following tables set out certain statistics comparing our market position to that of our peer group, defined as the five largest banks in Chile in terms of total loans market share as of December 31, 2008.

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Loans

As of December 31, 2008, our loan portfolio was the largest among Chilean banks. Our loan portfolio on a stand-alone basis represented 20.8% of the market for loans in the Chilean financial system at such date. The following table sets forth our and our peer group's market shares in terms of loans at the dates indicated.

Loans	At December 31, 2008			At December 31, 2007
	Ch\$ million	US\$ million	Market Share	Market Share
Santander-Chile	14,604,840	23,215	20.8%	21.1%
Banco de Chile (1)	13,649,005	21,696	19.4	19.7
Banco del Estado	9,322,591	14,819	13.3	13.5
Banco de Crédito e Inversiones	9,340,574	14,847	13.3	12.3
BBVA, Chile	5,262,417	8,365	7.5	8.3
Corpbanca	4,944,183	7,859	7.0	6.9
Others	13,127,529	20,867	18.7	18.3
Chilean financial system	70,251,139	111,667	100.0%	100.0%

Source: Superintendency of Banks

(1) 2007 figures correspond to pro-forma of Banco de Chile and Citibank Chile NA, as they merged effective January 1, 2008.

Deposits

On a stand alone basis, we had a 21.3% market share in deposits, ranking the first place among banks in Chile at December 31, 2007. Deposit market share is based on total time and demand deposits at the respective dates. The following table sets forth our and our peer group's market shares in terms of deposits at the dates indicated.

Deposits	At December 31, 2008			At December 31, 2007
	Ch\$ million	US\$ million	Market Share	Market Share
Santander-Chile	12,706,023	20,197	20.8%	21.3%
Banco de Chile (1)	11,479,851	18,248	18.8	19.7
Banco del Estado	9,526,365	15,143	15.6	15.2
Banco de Crédito e Inversiones	8,094,809	12,867	13.2	12.4
BBVA, Chile	4,500,082	7,153	7.4	8.1
Corpbanca	3,708,644	5,895	6.1	5.4
Others	11,088,618	17,626	18.1	17.9
Chilean financial system	61,104,392	97,128	100.0%	100.0%

Source: Superintendency of Banks

(1)

2007 figures correspond to pro-forma of Banco de Chile and Citibank Chile NA, as they merged effective January 1, 2008.

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Shareholders' equity

With Ch\$1,602,609 million (US\$2,499 million) in shareholders' equity, at December 31, 2008, we were the largest commercial bank in Chile in terms of shareholders' equity. The following table sets forth our and our peer group's shareholders' equity at December 31, 2007 and 2008.

Shareholders' Equity (1)	At December 31, 2008			At December 31, 2007
	Ch\$ million	US\$ million	Market Share	Market Share
Santander-Chile	1,602,609	2,499	21.3%	20.7%
Banco de Chile (2)	1,297,743	2,024	17.3	19.8
Banco del Estado	695,307	1,084	9.3	8.4
Banco de Crédito e Inversiones	790,448	1,233	10.5	10.1
BBVA, Chile	450,619	703	6.0	5.3
Corpbanca	483,307	754	6.4	7.0
Others	2,195,970	3,425	29.2	28.7
Chilean financial system	7,516,003	11,721	100.0%	100.0%

Source: Superintendency of Banks.

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

(2) 2007 figures correspond to pro-forma of Banco de Chile and Citibank Chile NA, as they merged effective January 1, 2008.

Efficiency

For the year ended December 31, 2008, 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 revenue, fees and income from services (net), net gains from mark-to-market and trading, exchange differences (net) and other operating income (net)) for the year indicated.

Efficiency ratio (1)	As of December 31, 2008 %	As of December 31, 2007 %
Santander-Chile	38.0%	39.4%
Banco de Chile (2)	49.8	50.1
Banco del Estado	54.9	57.0
Banco de Crédito e Inversiones	48.4	51.1
BBVA, Chile	50.7	62.7
Corpbanca	42.2	42.4
Chilean financial system	47.8%	48.7%

Source: Superintendency of Banks, except Santander Chile.

(1) Figures for 2007 and 2008 not completely comparable due to changes in the Balance and Income Statements presentation formats effective January 1, 2008.

(2)

2007 figures correspond to pro-forma of Banco de Chile and Citibank Chile NA, as they merged effective January 1, 2008.

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Return on average equity

As of December 31, 2008, we were the most profitable bank in our peer group (as measured by return on average equity) and the most capitalized bank as measured by the BIS ratio. The following table sets forth our and our peer group's return on average equity for the year ended December 31, 2007 and 2008, and BIS ratio at the dates indicated:

	Return on average equity		BIS Ratio	
	at December 31,		at December 31,	
	2008	2007	2008	2007
	%	%	%	%
Santander-Chile	24.0%	23.6%	13.8%	12.2%
Banco de Chile	22.5	23.0	11.7	10.7
Banco del Estado	8.6	8.5	10.8	10.8
Banco de Crédito e Inversiones	21.1	19.2	11.1	10.4
BBVA, Chile	10.6	8.7	10.9	10.3
Corpbanca	12.3	10.5	10.8	11.3
Chilean Financial System	14.1%	13.9%	12.5%	12.2%

Source: Superintendency of Banks, except Santander-Chile. Calculated by dividing annual net income by monthly average equity. For Santander-Chile, the average equity is calculated on a daily basis by the Bank (see "Item 5: F. Selected Statistical Information—Average Balance Sheets, Income Earned from Interest-Earning Assets And Interest Paid on Interest Bearing Liabilities"). Figures for 2007 and 2008 not completely comparable due to changes in the Balance and Income Statement presentation formats effective January 1, 2008.

Asset Quality

At December 31, 2008, on a stand alone basis, we had the second highest loan loss allowance to total loans ratio (expected loss ratio) in our peer group. The following table sets forth our and our peer group's loan loss allowance to total loans ratio as defined by the Superintendency of Banks at the dates indicated.

	Loan Loss allowances/total loans	
	at December 31,	
	2008	2007
	%	%
Santander-Chile	1.94%	1.87%
Banco de Chile (1)	1.63	1.39
Banco del Estado	2.15	1.97
Banco de Crédito e Inversiones	1.38	1.32
BBVA, Chile	1.16	0.99
Corpbanca	1.45	1.27
Chilean financial system	1.76%	1.58%

Source: Superintendency of Banks, except Santander Chile. Figures for 2007 and 2008 not completely comparable due to changes in the Balance and Income Statement presentation formats effective January 1, 2008.

(1) 2007 figures correspond to pro-forma of Banco de Chile and Citibank Chile NA, as they merged effective January 1, 2008.

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Regulation and Supervision

General

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

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

The Central Bank

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

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

The Superintendency of Banks

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

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

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

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

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

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

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

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

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

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

Limitations on Types of Activities

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

engage in other specific financial service activities such as securities brokerage services, equity investments, securities, mutual fund management, investment fund management, financial advisory and leasing activities. Subject to specific limitations and the prior approval of the Superintendency of Banks and the Central Bank, Chilean banks may own majority or minority interests in foreign banks.

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

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

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

Deposit Insurance

The Chilean government guarantees up to 90.0% of the principal amount of certain time and demand deposits and savings accounts held by natural persons with a maximum value of UF120 per person (Ch\$2,574,308 or US\$4,015 at December 31, 2008) per calendar year in the entire financial system.

Reserve Requirements

Deposits are subject to a reserve requirement of 9.0% for peso and foreign currency-denominated demand deposits and 3.6% for UF, peso and foreign currency-denominated 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;
- the amount set aside for “technical reserve” (as described below), which can be deducted from reserve requirement.

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

Minimum Capital

Under the General Banking Law, a bank is required to have a minimum of UF800,000 (approximately Ch\$17,162 million and US\$26.7 million as of December 31, 2008) 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. As of 2009, the third

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pillar of Basel II should become effective in Chile, which includes the implementation of capital limits with market risk and operational risk-weighted assets. These changes must be approved by Congress as it involves a modification to the General Banking Law.

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

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

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

Lending Limits

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

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

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

Allowance for Loan Losses

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

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will be made aware of the problems detected by the Superintendency of Banks 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 Superintendency of Banks until they are authorized by the Superintendency of Banks to do otherwise. We are classified in category 1.

Under our loan classification categories loans are divided into: (i) consumer loans (including loans granted to individuals for the purpose of financing the purchase of consumer goods or payment of services); (ii) residential mortgage loans (including loans granted to individuals for the purchase, construction or improvements of residential real estate, in which the value of the property covers at least 100% of the amount of the loan); and (iii) commercial loans (includes all loans other than consumer loans and residential mortgage loans). A detailed description of the models established for determining loan loss allowances is set forth in “Item 5: F. Selected Statistical Information—Classification of Loan Portfolio” and in Note 1 of our Audited Consolidated Financial Statements.

Capital Markets

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

Legal Provisions Regarding Banking Institutions with Economic Difficulties

The General Banking Law provides that if specified adverse circumstances exist at any bank, its Board of Directors must correct the situation within 30 days from the date of receipt of the relevant financial statements. If the Board of Directors is unable to do so, it must call a special shareholders’ meeting to increase the capital of the bank by the amount necessary to return the bank to financial stability. If the shareholders reject the capital increase, or if it is not effected within the term and in the manner agreed to at the meeting, or if the Superintendency of Banks does not approve the Board of Directors’ proposal, the bank will be barred from increasing its loan portfolio beyond that stated in the financial statements presented to the Board of Directors and from making any further investments in any instrument other than in instruments issued by the Central Bank. In such a case, or in the event that a bank is unable to make timely payment in respect of its obligations, or if a bank is under provisional administration of the Superintendency of Banks, the General Banking Law provides that the bank may receive a two-year term loan from another bank. The terms and conditions of such a loan must be approved by the directors of both banks, as well as by the Superintendency of Banks, but need not be submitted to the borrowing bank’s shareholders for their approval. In any event, a creditor bank cannot grant interbank loans to an insolvent bank in an amount exceeding 25.0% of the creditor bank’s regulatory capital. The Board of Directors of a bank that is unable to make timely payment of its obligations must present a reorganization plan to its creditors in order to capitalize the credits, extend their respective terms, condone debts or take other measures for the payment of the debts. If the Board of Directors of a bank submits a reorganization plan to its creditors and such arrangement is approved, all subordinated debt issued by the bank, whether or not matured, will be converted by operation of law into common stock in the amount required for the ratio of regulatory capital to risk-weighted assets not to be lower than 12.0% . If a bank fails to pay an obligation, it must notify the Superintendency of Banks, which shall determine if the bank is solvent.

Dissolution and Liquidation of Banks

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

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circumstances, the Central Bank will lend the bank the funds necessary to pay these obligations. Any such loans are preferential to any claims of other creditors of the liquidated bank.

Obligations Denominated in Foreign Currencies

Foreign currency denominated obligations of Chilean banks are subject to various limits and obligations. The regulations of the Central Bank do not permit the difference, whether positive or negative, between a bank's assets and liabilities denominated in any foreign currency (including assets and liabilities denominated in U.S. dollars but payable in pesos, as well as those denominated in pesos and indexed to the U.S. dollar exchange rate) to exceed 20% of the bank's paid-in capital and reserves; except in the case where the balance of such assets exceeds the balance of such liabilities and the excess difference does not exceed the bank's allowances and reserves denominated in such foreign currency (excluding profits to be remitted abroad). Santander-Chile must also comply with various regulatory and internal limits regarding exposure to movements in foreign exchange rates (See "Item 11: Quantitative and Qualitative Disclosures About Market Risks").

Investments in Foreign Securities

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

Table 1

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

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

Table 2

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

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

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

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Table 3

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

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

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

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 ("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.

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D. Property, Plants and Equipment

We are domiciled in Chile and own our principal executive offices located at Bandera 140, Santiago, Chile. We also own ten other buildings in the vicinity of our headquarters and we rent five other buildings. At December 31, 2008, we owned the locations at which 42% 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, 2008	Number
Central Offices	
Own	11
Rented	5
Total	16
Branches (1)	
Own	172
Rented	243
Total	415
Other property (2)	
Own	62
Rented	4
Total	66

(1) Some branches are located inside central office buildings and other properties. Including these branches the total number of branches is 419. 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 SUN/UNIX	Interconnections applications Credit & debit cards
Midrange	IBM	Treasury, MIS, Work Flow, Accounting
Desktop	IBM	WEB
Center	Avaya	Platform applications
Center	Genesys	Telephone system
	Nice	Integration Voice/data
	Periphonics	Voice recorder
		IVR

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The main software systems that we use are:

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

ITEM 4A. UNRESOLVED STAFF COMMENTS

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

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ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. New Accounting Format in 2008

Circular No. 3410 issued by the Superintendence of Banks, which became effective on January 1, 2008, prescribed new accounting formats for financial statements. The new accounting formats are congruent with International Accounting Standards, but do not involve a change in accounting standards. Banks are required to adopt the new accounting formats in 2008. The main changes are presented in the table below. The balance sheet and income statement for the twelve-month period ended December 31, 2006 and 2007 have been reclassified in order to make them comparable with the 2008 figures.

Main changes	Previous format	New format
Income statement	Items that were re-classified	Where items have been reclassified
Net interest income	1 Interest income contingent operations 2 Interest income trading portfolio	5 Interest income efficient portion of derivatives for hedging inflation and interest rate risk
Provision expense	3 Provisions for repossessed assets 4 Sale of charge-off loans	
Fee income		1 Interest income contingent operations
Financial transactions, net	5 Interest income efficient portion of derivatives for hedging inflation and interest rate risk	2 Interest income trading portfolio 4 Sale of charge-off loans
Other op. expenses	6 Sales force expenses	3 Provisions for repossessed assets
Operating expenses		6 Sales force expenses in administrative expenses
Main changes	Previous format	New format
Balance sheet	Items that change	What change will be
Assets	1 Contingent loans	1 Contingent loans are held off balance sheet
	2 Past due loans	2 Included in each loan product. Not disclosed separately. We disclose it for information purposes
	3 Loan loss allowances	3 Loans are presented net of loan loss allowances. We disclose it separately for information purposes
Liabilities	4 Shareholders' Equity	4 Shareholders' Equity will include a provision for future

dividends of 30% of net income.

Liabilities will also include a new item "Provision for dividends". Shareholders' equity also includes minority interests

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B. Critical Accounting Policies

We prepare our financial statements in accordance with Chilean GAAP, which requires management to make estimates and assumptions with respect to certain matters that are inherently uncertain. We also reconcile our financial statements to U.S. GAAP (see Note 27 to our Audited Consolidated Financial Statements) and are required to make estimates and assumptions in this reconciliation process. Certain critical accounting policies, in particular those relating to goodwill and intangible assets, are only applicable for U.S. GAAP purposes. Our consolidated financial statements include various estimates and assumptions, including but not limited to the adequacy of the allowance for loan losses, estimates of the fair value of certain financial instruments, the selection of useful lives of certain assets and the valuation and recoverability of goodwill. We evaluate these estimates and assumptions on an ongoing basis. Management bases its estimates and assumptions on historical experience and on various other factors that it believes to be reasonable under the circumstances. Actual results in future periods could differ from those estimates and assumptions, and if these differences were significant enough, our reported results of operations would be affected materially.

We believe that the following are the more critical judgment areas or involve a higher degree of complexity in the application of the accounting policies that currently affect our financial condition and results of operations.

Derivative activities

At December 31, 2006, 2007 and 2008, derivatives are valued at market price on the balance sheet and the net unrealized gain (loss) on derivatives is classified as a separate line item on the income statement. In prior periods, the notional amounts were carried off the balance sheet.

Pursuant to the new accounting standards, banks must mark to market derivatives. A derivative financial instrument held for trading purposes must be marked to market and the unrealized gain or loss recognized in the income statement. New accounting standards have also been adopted for derivatives held for hedging purposes with effect for the six months ended June 30, 2006, and thereafter, changes in book value of hedged items are included in the mark-to-market and trading line items, except to the extent set forth below.

The Superintendency of Banks recognizes three kinds of hedge accounting: (i) cash flow hedges, (ii) fair value hedges and (iii) hedging of foreign investments.

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

Allowance for loan losses

Chilean banks are required to maintain loan loss allowances in amounts determined in accordance with the regulations issued by the Superintendency of Banks. Under these regulations, we must classify our portfolio into various categories of payment capability. The minimum amount of required loan loss allowances is determined based on fixed percentages of estimated loan losses assigned to each category. As of January 1, 2006, we have improved our credit scoring systems for consumer and mortgage loans. The new credit scoring system considers both the length of time by which the loan is overdue and the borrower's risk profile, which includes the borrower's overall indebtedness and credit behavior under the borrower's obligations to third parties. (See "Item 5: F. Selected Statistical Information—Loan Portfolio—Classification of Loan Portfolio.")

In 2006, we improved our internal provisioning models by not only focusing on non-performance, but introducing statistical models that take into account a borrower's credit history and indebtedness levels. Group ratings that determine loan loss allowances based only on non-performance are being phased out and replaced by

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statistical scoring systems. Commencing in December 2006, we no longer analyze large commercial loans on a group basis. All large commercial loans have since been rated on an individual basis. For large commercial loans, leasing and factoring, we assign a risk category level to each borrower and his respective loans. We consider the following risk factors in classifying a borrower's risk category: (i) the borrower's industry or sector, (ii) owners or managers, (iii) financial condition, (iv) payment ability and (v) payment behavior. Further improvements were made in 2007, mainly expanding from 12 to 21 months the back testing period used in determining a client's risk profile. For a detailed description of the models we use to determine loan loss allowances for commercial loans. See "Item 5: F. Selected Statistical Information—Loan Portfolio—Classification of Loan Portfolio—Allowances for large commercial loans." Group assessment for loan loss allowances is permitted for a large number of borrowers whose individual loan amounts are relatively insignificant. Currently, we use group analysis to determine loan loss allowances for certain types of loans, such as loans to small- and mid-sized companies and commercial loans to individuals. (See "Item 5: F. Selected Statistical Information—Loan Portfolio—Classification of Loan Portfolio—Allowances for group evaluations on small- and mid-sized commercial loans.")

Goodwill and Intangible Assets with Indefinite Useful Lives

Under U.S. GAAP, we have significant intangible assets consisting of goodwill and trademarks. We record all assets and liabilities acquired in purchase acquisitions, including goodwill and other acquired intangibles, at their fair value. These include amounts pushed down from Santander Chile Holding, S.A. and Teatinos Siglo XXI, S.A., each a direct or indirect subsidiary of Banco Santander Spain, and, together, our majority shareholders. In 2006, we decided to change our branding strategy by increasing the use of the brand "Santander" and phasing out the brand "Santiago" within five years. In 2007, we completed the phasing out of the "Santiago" brand ahead of schedule in accordance with policy set by our parent company in 2007 regarding the Santander brand worldwide. As a result, we decided to fully amortize the brand "Santiago" in 2007.

Goodwill and indefinite lived assets are no longer amortized over their estimated useful lives using straight line and accelerated methods, and are subject to at least an annual impairment review. The initial goodwill and intangibles recorded and subsequent impairment analysis requires management to make subjective judgments concerning estimates of how the acquired asset will perform in the future using a discounted cash flow analysis. Additionally, estimated cash flows may extend beyond ten years and, by their nature, are difficult to determine. Events and factors that may significantly affect the estimates include, among others, competitive forces, customer behavior and attrition, changes in revenue growth trends, cost structures and technology and changes in interest rates and specific industry or market sector conditions. For a further discussion of accounting practices for goodwill and intangible assets with indefinite useful lives under U.S. GAAP, see Note 27 to our Audited Consolidated Financial Statements.

Differences between Chilean GAAP and U.S. GAAP

Chilean GAAP vary in certain important respects from U.S. GAAP. Such differences involve certain methods for measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by U.S. GAAP and the accounting treatment of mergers.

Note 27 to our Audited Consolidated Financial Statements presents a description of the significant differences between Chilean GAAP and U.S. GAAP. Note 27(z) sets forth recent accounting pronouncements under U.S. GAAP.

C. Transition to the new rules established by the Superintendency of Banks and Chilean Generally Accepted Accounting Principles

The Superintendency of Banks together with other Chilean Superintendencies and regulatory bodies agreed to a plan of convergence with International Financial Reporting Standards (“IFRS”) in order to internationalize financial reporting for public companies in Chile.

The Superintendency of Banks, by means of circular No 3410 on November 9, 2007, issued its “Compendium of Accounting Standards” (the “Compendium”) which contains the new accounting formats and reporting standards and policies for the finance industry that will be applied beginning on January 1, 2009.

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The Bank is completing a plan for transition to the Compendium which includes an analysis of the accounting method differences, the selection of the accounting methods to be applied when alternative treatment are permitted and an assessment of the changes in reporting procedures and systems.

In accordance with instructions issued by the Superintendency of Banks regarding the adoption of the Compendium, beginning on March 2009, Banco Santander Chile should prepare its financial statements in accordance with such Compendium. The preliminary effects of this change on the Bank's financial statements have been measured and communicated to the Superintendency of Banks, and those adjustments could differ from those to be finally determined.

D. Operating Results

Chilean Economy

All of our operations and substantially all of our customers are located in Chile. Accordingly, our financial condition and results of operations are substantially dependent upon economic conditions prevailing in this country. In 2008, Chile's GDP growth, as was the case in most parts of the world, began to feel the effects of the global financial crisis. Chile's GDP expanded 3.2% in 2008 compared to 4.7% in 2007 and 4.6% in 2006. GDP growth slowed considerably in the second half of 2008. This evolution of the economy was also apparent in the growth of internal demand which in 2008 grew by 7.4%, but contracted 0.2% in the fourth quarter of 2008.

Quarterly Evolution of GDP Growth and Internal Demand, %

Source: Banco Central de Chile

The slowdown in world growth rates also negatively impacted the prices of Chile's main commodity exports. The price of copper, Chile's main export, fell 53.4% in 2008. This led to a 1.8% decrease in exports in 2008 that totaled US\$66 billion. It is important to note that the Chilean government has consistently maintained a fiscal surplus, which as a percentage of GDP reached 5.1% in 2008, 8.8% in 2007 and 7.7% in 2006. At year-end 2008, the total reserves in the Central Bank plus the accumulated savings in the Chilean Copper Stabilization Fund totaled US\$50.3 billion, which should help to sustain government spending in 2009, despite the lower expected economic growth. Unemployment also began to rise in the second half of 2008. The average unemployment rate increased to 7.7% in 2008 compared to 7.0% in 2007 and 8.0% in 2006.

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Evolution of Prices of Chile's Main Exports (Base 100 =Dec. 2003)

Source: Banco Central de Chile

Inflation levels mirrored the movements of oil prices in 2008. CPI inflation in Chile reached its twelve-month high in October 2008 with an annual increase of 9.9%, but ended the year at 7.1%. As the price of oil and economic expectations descended rapidly in the second half of 2008, CPI inflation trends reverted with deflation in the last months of the year. As a result, the Central Bank, throughout the first three quarters of 2008, tightened monetary policy. This was followed by a rapid relaxation in the last quarter of the year in line with international interest rate movements. The overnight interbank rate set by the Central Bank reached a peak of 8.25% as of September 2008. As of May 2009, this rate was 1.25%. As the global economy slowed down, the Chilean peso depreciated 26.9% against the U.S. dollar in 2008 compared to a 7.2% appreciation in 2007 and a 3.9% depreciation in 2006.

Source: Banco Central de Chile and INE

The Chilean banking system also evolved in line with the economic developments during 2008. In the first three quarters of 2008, the Chilean financial system continued to grow at a rapid pace in various loan products and segments. In the fourth quarter 2008, with the worsening of the global financial crisis, the loan market shifted its focus with a decrease in the growth rates of lending to individuals and an increase in the growth rate of lending to companies. The shortage of liquidity abroad resulted in many companies substituting their foreign sources of financing for local ones. Total loans in 2008 increased 20.9% in nominal terms. The Chilean banking system also saw a strong inflow of deposits, especially in the fourth quarter as funds were retired from variable and fixed income mutual funds and moved into bank deposits. Time deposits increased 24.2% in 2008 and mutual funds under management (off-balance sheet) decreased 7.2% in the year.

In terms of asset quality, the Chilean financial system continued to show healthy standards, but deterioration of credit standards was observable in the year, especially among individuals. The main reason for this was the high inflation rate, as higher prices deteriorated purchasing power, especially among the middle to lower income

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segments. Going forward and as a result of these developments in 2008, banking activity in 2009 should contract and asset quality should worsen. We expect unemployment rates to rise, affecting loan growth and asset quality indicators in the retail segments. Lower economic growth should also have an impact on loan growth to companies and asset quality in various economic sectors.

Evolution of asset quality indicators

* Expected loss = Loan loss reserves for consumer and residential mortgage loans / Total consumer and residential mortgage loans.

** Past due loans = all installments of loans more than 90 days overdue.

Source: Superintendency of Banks

As a result of these developments in 2008, economic activity in Chile should slow down in 2009 given the volatility of international markets and the global economic recession. GDP growth in 2009 in Chile is expected to be slightly negative as export, consumption and investment growth rates will decelerate.

The results of Santander Chile in 2009 will be directly and indirectly affected by the economic recession and the more challenging environment for the Chilean banking system. We may experience any or all of the following:

- lower or negative loan growth;
- lower growth or contraction of net interest revenue and margins as a result of lower loan growth and the negative effects on margins caused by lower inflation rates or deflation;
- deterioration of asset quality indicators and an increase in provision expense as unemployment rises and internal demand falls; and
 - lower fee growth due to lower consumer expenditure and usage of bank products.

Impact of Inflation

Inflation impacts 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. Negative inflation rates also negatively impact our results. In 2008, the inflation rate in Chile was 7.1% compared to 7.8% in 2007 and 2.6% in 2006. In the last months of 2008 and the first quarter of 2009, Chile was going through a deflationary environment. There can be no assurance that Chilean inflation will not change significantly from the current level. Although we currently benefit from moderate levels of inflation, due to the current structure of our assets and liabilities (i.e., a significant portion of our loans are indexed to the inflation rate, but there are no corresponding features in deposits or other funding sources that would increase the size of our funding base), there can be no assurance that our business, financial condition and result of operations in the future will not be adversely affected by changing levels of inflation. In summary:

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- **UF-denominated assets and liabilities.** Our assets and liabilities are denominated in Chilean pesos, UF and foreign currencies. 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 to Ch\$18,336.38 at December 31, 2006, Ch\$19,622.66 at December 31, 2007 and \$21,452.57 at December 31, 2008. In 2008, UF inflation was 9.3% compared to 7.0% in 2007 and 2.0% in 2006. 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 revenue and expense, respectively. Our net interest revenue 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 revenue 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 revenue will be negatively affected by inflation in any period in which our average UF-denominated interest bearing liabilities exceed our average UF-denominated interest earning assets. Our average UF-denominated interest earning assets exceeded our average UF-denominated interest bearing liabilities by Ch\$2,439,563 million in 2008 compared to Ch\$2,586,209 million in 2007. See “Item 5: F. Selected Statistical Information—Average Balance Sheets, Income Earned from Interest-Earning Assets And Interest Paid on Interest Bearing Liabilities.” In general, the Bank has more UF-denominated financial assets than UF-denominated financial liabilities. In the year ended December 31, 2008, the interest gained on interest earning assets denominated in UF increased 20.2% compared to 2007 as a result of the higher UF inflation rates in 2008 compared to 2007. The interest paid on these liabilities increased by 43.0% during this period.
- **Price level restatement.** Chilean GAAP requires that financial statements be restated to reflect the full effects of loss in the purchasing power of the Chilean peso on the financial position and results of operations of reporting entities. The Bank must adjust its capital, fixed assets and other non financial assets for variations in price levels on a monthly basis according to the CPI index with a one-month lag. Since the Bank’s capital is generally larger than the sum of fixed and other non financial assets, the Bank would record a loss from price level restatement in an inflationary economy and a gain in a deflationary environment. For the year ended December 31, 2008, the loss from price level restatement totaled Ch\$78,027 million compared to Ch\$61,332 million in 2007. The inflation rate used for calculating price level restatement was 8.9% in 2008 and 7.4% in 2007. In line with the new accounting standards to be adopted in 2009, the Bank will no longer be required to adjust its capital, fixed assets and other non financial assets for variations in price levels on a monthly basis and, therefore, will no longer recognize a gain or loss from price level restatement.
- **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 denominated 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 denominated 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 2008, the financial cost of the swaps taken in order to hedge for inflation and interest rate risk totaled Ch\$53,956 million compared to Ch\$35,283 million in 2007. This higher cost was a direct result of the higher UF inflation rate in these two periods.

At December 31,

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Inflation sensitive income	2007	2008	% Change
	(In million of constant Chilean pesos at December 31, 2008)		
Interest gained on UF assets	824,173	990,430	20.2%
Interest paid on UF liabilities (1)	(485,921)	(694,758)	43.0%

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Price level restatement	(61,332)	(78,027)	27.2%
Net Gain	276,920	217,645	(21.4%)
(1) Includes inflation hedge			

- Peso-denominated assets and liabilities. Interest rates prevailing in Chile during any period primarily reflect the inflation rate during the period and the expectations of future inflation. The sensitivity of our peso-denominated interest earning assets and interest bearing liabilities to changes to such prevailing rates varies. (See “Item 5: D. Operating Results—Interest Rates”). We maintain a substantial amount of non interest bearing peso-denominated demand deposits. Because such deposits are not sensitive to inflation, any decline in the rate of inflation would adversely affect our net interest margin on inflation indexed assets funded with such deposits, and any increase in the rate of inflation would increase the net interest margin on such assets. (See “Item 11: Quantitative and Qualitative Disclosures About Market Risk”). The ratio of the average of such demand deposits to average interest-earning assets was 15.8%, 17.1% and 15.7% for the years ended December 31, 2006, 2007 and 2008, 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 generally reprice sooner than our assets, changes in the rate of inflation or short term rates in the economy are reflected in the rates of interest paid by us on our liabilities before such changes are reflected in the rates of interest earned by us on our assets. Therefore, when short term interest rates fall, our net interest margin is positively impacted, but when short term rates increase, our interest margin is negatively affected. At the same time, our net interest margin tends to be adversely affected in the short term by a decrease in inflation rates since generally our UF-denominated assets exceed our UF-denominated liabilities. (See “Item 5: D. Operating Results—Impact of Inflation—Peso-denominated Assets and Liabilities”). An increase in long term rates has a positive effect on our net interest margin, because our interest earning assets generally have longer terms than our interest bearing liabilities. In addition, because our peso-denominated liabilities have relatively short repricing periods, they are generally more responsive to changes in inflation or short term rates than our UF-denominated liabilities. As a result, during periods when current inflation or expected inflation exceeds the previous period’s inflation, customers often switch funds from UF-denominated deposits to peso-denominated deposits, which generally bear higher interest rates, thereby adversely affecting our net interest margin.

Foreign Exchange Fluctuations

The Chilean government’s economic policies and any future changes in the value of the Chilean peso against the U.S. dollar could adversely affect our financial condition and results of operations. The Chilean peso has been subject to significant devaluation in the past and may be subject to significant fluctuations in the future. In 2008, the Chilean peso in relation to the U.S. dollar depreciated 26.9% compared to a 7.2% appreciation in 2007 and a 3.9% depreciation in 2006. (See “Item 3: A. Selected Financial Data—Exchange Rates”). A significant portion of our assets and liabilities are denominated in foreign currencies, principally the U.S. dollar, and we historically have maintained and may continue to maintain material gaps between the balances of such assets and liabilities. Because such assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains and losses realized upon the sale of such assets, are translated to Chilean pesos in preparing our financial statements, our reported income is affected by changes in the value of the Chilean peso relative to foreign currencies (principally the U.S. dollar). The translation gain or loss over assets and liabilities (excluding derivatives held for trading) is included as foreign exchange transactions in the income statement. The translation and mark-to-market of foreign currency derivatives held for

trading is recognized as a gain or loss in the net results from mark-to-market and trading.

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

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

Results of Operations for the Years Ended December 31, 2006, 2007 and 2008

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 Chilean GAAP (including the rules of the Superintendency of Banks relating thereto), which differ in certain significant respects from U.S. GAAP. Note 27 to the Audited Consolidated Financial Statements describes the significant differences between Chilean GAAP and U.S. GAAP and includes a reconciliation to U.S. GAAP of our net income for the years ended December 31, 2006, 2007 and 2008, and of our shareholders’ equity at December 31, 2007 and 2008. The Audited Consolidated Financial Statements have been restated in constant Chilean pesos as of December 31, 2008. See Note 1.c to the Audited Consolidated Financial Statements.

Introduction

The following table sets forth the principal components of our net income for the years ended December 31, 2006, 2007 and 2008.

	For the year ended December 31,				% Change	
	2006	2007	2008	2008	2006/2007	2007/2008
	(in millions of constant Ch\$ as of December 31, 2008)			(in thousands of US\$(1))		
CONSOLIDATED INCOME STATEMENT DATA						
Chilean GAAP:						
Interest income and expense						
Interest revenue	1,295,280	1,730,592	2,061,112	3,214,210	33.6%	19.1%
Interest expense	(659,459)	(954,834)	(1,164,071)	(1,815,315)	44.8%	21.9%
Net interest revenue	635,821	775,758	897,041	1,398,895	22.0%	15.6%
Fees and income from services						
Fees and other services income						
	239,658	266,923	276,433	431,085	11.4%	3.6%
Other services expense	(42,011)	(49,066)	(52,840)	(82,402)	16.8%	7.7%
Total fees and income from services, net	197,647	217,857	223,593	348,683	10.2%	2.6%
Other operating income						
Net gain from mark-to-market and trading						
	135,465	26,796	273,084	425,862	(80.2%)	919.1%
Foreign exchange transactions, net						
	(552)	83,007	(187,042)	(291,683)	--%	--%
Financial transactions, net	134,913	109,803	86,042	134,179	(18.6%)	(21.6%)
Other operating income	16,779	28,433	16,512	25,750	69.5%	(41.9%)
Total other operating income	151,692	138,236	102,554	159,929	(8.9%)	(25.8%)
Total operating revenue	985,160	1,131,851	1,223,188	1,907,507	14.9%	8.1%
Provision for loan losses	(142,956)	(224,667)	(285,953)	(445,931)	57.2%	27.3%

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Operating income, net of provisions	842,204	907,184	937,235	1,461,576	7.7%	3.3%
Operating expenses						
Personnel salaries and expenses	(186,282)	(191,120)	(209,134)	(326,135)	2.6%	9.4%
Administrative and other expenses	(153,401)	(164,609)	(161,977)	(252,596)	7.3%	(1.6%)
Depreciation and amortization	(42,079)	(45,741)	(51,944)	(81,004)	8.7%	13.6%
Other operating expenses	(42,868)	(44,545)	(42,259)	(65,901)	3.9%	(5.1%)
Total operating expenses	(424,630)	(446,015)	(465,314)	(725,636)	5.0%	4.3%
Operating results	417,574	461,169	471,921	735,940	10.4%	2.3%
Other non-operating results						
Income (loss) attributable to investments in other companies	919	(1,438)	851	1,327	--%	--%
Price level restatement	(16,123)	(61,332)	(78,027)	(121,680)	280.4%	27.2%
Total other non-operating results	(15,204)	(62,770)	(77,176)	(120,353)	312.9%	23.0%
Income before taxes	402,370	398,399	394,745	615,587	(1.0%)	(0.9%)
Income tax	(68,088)	(60,075)	(63,728)	(99,381)	(11.8%)	6.1%

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	For the year ended December 31,				% Change	
	2006	2007	2008	2008	2006/2007	2007/2008
	(in millions of constant Ch\$ as of December 31, 2008)			(in thousands of US\$)(1)		
Net income	334,282	338,324	331,017	516,206	1.2%	(2.2%)
Net income attributable to:						
Shareholders	334,106	336,086	328,146	511,729	0.6%	(2.4%)
Minority interest	176	2,238	2,871	4,477	1,171.6%	28.3%

(1) Amounts stated in U.S. dollars at and for the year ended December 31, 2008, have been translated from Chilean pesos at the exchange rate of Ch\$641.25 = US\$1.00 as of December 31, 2008. See “Item 3: A. Selected Financial Data—Exchange Rates” for more information on exchange rate.

2008 compared to 2007. Net income for the year ended December 31, 2008, decreased by 2.2% to Ch\$331,017 million. Net income attributable to shareholders in the same period decreased 2.4% to Ch\$328,146 million.

Total operating revenue increased 8.1% in 2008 compared to 2007 and totaled Ch\$1,223,188 million. Our net interest income increased by 15.6% to Ch\$897,041 million for the year ended December 31, 2008, compared to 2007, and fee income grew by 2.6% to Ch\$223,593 million in 2008 compared to 2007. Net interest revenue growth was led by an increase in net interest revenue from our retail banking, middle-market and global banking and market business segments and the higher inflation rate in 2008 compared to 2007. The average balance of our interest-earning assets increased by 13.5% in 2008 compared to 2007. Our net interest margin increased 10 basis points to 5.7% compared to 5.6% in 2007.

These results were partially offset by a 21.6% decrease in financial transactions, net, which was mainly due to the 88.7% decline in income from proprietary trading in 2008 compared to 2007. This was mainly as a result of the higher interest and inflation rate environment that prevailed throughout most of 2008.

Other operating income decreased 41.9% in 2008 compared to 2007, mainly as a result of lower recoveries of provisions for other contingencies in 2008 compared to 2007. These contingencies are mainly related to non credit risks, including non specific contingencies, tax contingencies and other non credit contingencies or impairments.

Net provision expenses for loan losses totaled Ch\$285,953 million for the year ended December 31, 2008, an increase of 27.3% compared to 2007, primarily due to an increase in charge-offs and a reduction in loan loss recoveries. Charge-offs increased by 22.4% in 2008 compared to 2007. Charge-offs of the consumer loan portfolio increased by 31.5% to Ch\$236,274 million. The rise in inflation has resulted in deterioration in asset quality among individuals due to the negative effects inflation had on purchasing power during 2008.

Despite the rise in provision expense, operating income, net of provisions increased 3.3% in 2008 compared to 2007 and totaled Ch\$937,235 million.

Operating expenses in 2008 increased by 4.3% compared to 2007. The rise in operating expenses was mainly due to the 9.4% increase in personnel salaries and expenses. This growth was driven by a 3.8% rise in average headcount in 2008 compared to 2007, an increase in variable incentives to commercial teams for positive performance in the year, especially in retail banking and real wage growth. The efficiency ratio improved from 39.4% in 2007 to 38.0% in

2008.

Net operating income, that is operating income net of provisions and operating expense, increased 2.3% in 2008 compared to 2007 and totaled Ch\$471,921 million.

These operating results were offset by the 23.0% increase in non-operating losses compared to 2007 and which totaled Ch\$77,176 million in 2008. The loss from price level restatement totaled Ch\$78,027 million in 2008, an increase of 27.2% compared to 2007 due to the higher inflation rates in 2008 compared to 2007.

2007 compared to 2006. Net income for the year ended December 31, 2007, increased by 1.2% to Ch\$338,324 million compared to Ch\$334,282 million for the year ended December 31, 2006. Net income attributable to shareholders totaled Ch\$336,086 million for the year ended December 31, 2007 and increased 0.6% compared to 2006.

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In 2007, total operating revenue increased 14.9% to Ch\$1,131,851 million. Our net interest income increased by 22.0% for the year ended December 31, 2007, compared to 2006, and fee income grew by 10.2% in the same period. Net interest revenue growth was led by an increase in net interest revenue from our retail banking and middle-market segments, the improved funding mix and the higher inflation rate in 2007 compared to 2006. The average balance of our interest-earning assets increased by 2.6% in 2007 compared to 2006. Our net interest margin increased 90 basis points to 5.6% compared to 4.7% in 2006.

This was offset by an 18.6% decrease in the net gains from financial transactions that totaled Ch\$109,803 million for the year ended December 31, 2007. This decline was mainly due to the 80.2% decrease in gains from our market making and proprietary trading results. The Bank's trading positions were negatively affected by the movements of real interest rates, especially in the fourth quarter of 2007.

Other operating income was up 69.5% in 2007 compared to 2006. This variation was mainly due to: (i) a gain of Ch\$826 million recognized from the sale of shares held by the Bank in the Santiago Stock Exchange, (ii) a gain of Ch\$1,439 million from the sale of Bank's shares in Mastercard and (iii) a Ch\$11,056 gain recognized in 2007 from the recovery of provisions for other non-credit contingencies.

Provision for loan losses increased 57.2% in 2007 compared to 2006. This was mainly due to loan growth in higher yielding, but riskier retail segments. At the same time the Bank continued to improve its provisioning model for consumer loans. Specifically, in 2007 the Bank lengthened the time period used for statistically determining the risk level of consumer loans from 12 to 21 months of history. As a result, in 2007 the Bank recognized a one-time provision expense of Ch\$15,728 million.

With these results, operating income net of provisions increased 7.7% in 2007 compared to 2006 and totaled Ch\$907,184 million.

Operating expenses increased 5.0% in 2007 and the efficiency ratio improved to 39.4% in 2007 from 43.1% in 2006. In 2006, operating expenses include a one-time expense of Ch\$10,086 million as a result of our payment of an end of negotiation bonus in conjunction with the signing of the new collective bargaining agreement in the fourth quarter of 2006. Excluding this item, operating expenses in 2007 increased 7.1% driven by the increase in the Bank's headcount, client base and distribution network.

Non-operating results totaled a loss of Ch\$62,770 million in 2007 and this loss increased 312.9% compared to 2006. The loss from price level restatement totaled Ch\$61,332 million in 2007, an increase of 280.4% compared to 2006. The inflation rate used for calculating price level restatement increased in 2007 compared to 2006 (7.44% in 2007 and 2.12% in 2006), resulting in a higher loss from price level restatement.

Income tax expenses declined 11.8% in 2007 compared to 2006 as a result of increased tax deferrals.

Net interest revenue

	Year Ended December 31,			% Change	
	2006	2007	2008	2006/2007	2007/2008
	(in millions of constant Ch\$ as of December 31, 2008, except percentages)				
Total individuals	345,240	452,136	531,820	31.0%	17.6%
SMEs	134,852	160,909	184,149	19.3%	14.4%
Institutional lending	9,876	12,048	12,273	22.0%	1.9%
Total retail	489,968	625,093	728,242	27.6%	16.5%

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Total middle-market	76,660	89,095	98,717	16.2%	10.8%
Global banking & markets	65,372	87,189	117,190	33.4%	34.4%
Other	3,821	(25,619)	(47,108)	(770.5%)	83.9%
Net interest revenue	635,821	775,758	897,041	22.0%	15.6%
Average interest-earning assets	13,476,738	13,833,596	15,698,721	2.6%	13.5%
Average non-interest-bearing demand deposits	2,132,774	2,364,661	2,458,141	10.9%	4.0%
Net interest margin (1)	4.7%	5.6%	5.7%		
Average shareholders' equity and average non-interest-bearing demand deposits to total average interest-earning assets	25.8%	27.5%	24.4%		

(1) Net interest margin is net interest revenue divided by average interest-earning assets.

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2008 compared to 2007. In 2008, net interest revenue increased 15.6% compared to 2007, totaling Ch\$897,401 million. Total interest-earning asset increased 13.5% in the same period. As a result, the Bank's net interest margin increased 10 basis points to 5.7%.

In 2008, the average nominal rate earned reached 14.5% compared to 13.2% in 2007. The average real rate earned over interest-earning assets reached 7.8% in 2008 compared to 6.5% in 2007. The higher inflation rate in 2008 compared to 2007 had a positive effect on the growth rate of net interest revenue and margins. In 2008, the variation of the UF was 9.33% compared to 7.01% in 2007. Our net interest revenue 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 average UF-denominated interest earning assets exceeded our average UF-denominated interest-bearing liabilities by Ch\$2,439,563 million in 2008 compared to Ch\$2,548,209 million in 2007. The higher UF inflation rate in 2008 compared to 2007 compensated for the lower UF-gap. See "Item 5: C. Operating Results—Impact of Inflation" for a quantitative disclosure of the impact of inflation on our result. Going forward, as inflation rates decreases or if the deflationary environment observed since the last quarter of 2008 and the first quarter of 2009 persists, this will place negative pressure on the Bank's margins.

Total loans in 2008 increased by 9.7% compared to 2007. The increase in net interest revenue was also attributable to an increase in loans and net interest revenue from various business segments.

Loans by segment	Year Ended December 31,			% Change	
	2006	2007	2008	2006/2007	2007/2008
	(in millions of constant Ch\$ as of December 31, 2008, except percentages)				
Total individuals	5,293,500	6,213,172	6,870,509	17.4%	10.6%
SMEs	1,963,624	2,196,263	2,428,779	11.8%	10.6%
Institutional lending	238,079	226,549	224,738	(4.8%)	(0.8%)
Total retail	7,495,203	8,635,984	9,524,026	15.2%	10.3%
Total middle-market	2,782,387	2,718,056	2,882,069	(2.3%)	6.0%
Global banking and markets	1,850,750	1,742,388	2,242,389	(5.9%)	28.7%
Other (1)	495,652	301,853	51,890	(39.1%)	(82.8%)
Total loans	12,623,992	13,398,281	14,700,374	6.1%	9.7%

(1) Other loans includes interbank loans and non-segmented loans

Net interest revenue from the retail banking segment increased by 16.5% to Ch\$728,242 million in 2008, with increases of 17.6% in the individuals segment and 14.4% in the small businesses, or SMEs, segment. This rise in net interest income was due to loan growth, especially in the first three quarters of 2008 before the full effects of the global recession were felt in the Chilean economy. Net interest revenue in the retail segment also benefited from higher inflation rates and an increase in loan yields, in anticipation of an expected rise in credit risk levels. Compared to 2007, total loans to retail segments increased by 10.3%, with lending to individuals and SMEs both increasing by 10.6% in 2008.

Net interest revenue from the middle-market segment increased by 10.8%, due to loan growth and higher margins in this segment. Loans in the middle-market segment increased 6.0% in the year.

In the global banking and markets segment, net interest revenue increased 34.4%, primarily due to higher loan growth and higher margins. Loans in the global banking and markets segment increased 28.7% in 2008 compared to 2007. This growth was concentrated in the last quarter of the year when the international credit markets contracted

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as a result of the global financial crisis, resulting in an increase in demand by large Chilean companies for financing from local banks. As foreign banks were negatively affected by liquidity issues in the last part of 2008, many large Chilean companies increased the percentage of financing they obtained from local banks, driving loan growth in this segment. Simultaneously, the Bank increased the interest charged on loans to this segment.

The principal factors negatively affecting the net interest revenue and margin was the increase in short term interest rates throughout most of 2008, as inflation rates increased. As interest-bearing liabilities generally have shorter terms than interest-earning assets, a rise in short term rates has a negative effect on our funding costs. The overnight interbank rate set by the Central Bank increased 224 basis points in 2008 and reached a peak of 8.24%. In 2009, as inflation levels began to descend and economic growth began to contract, the Central Bank reversed its monetary policy with a sharp reduction in rates.

Source: Central Bank of Chile

Other net interest revenue totaled an expense of Ch\$47,109 million. This expense includes the cost of financing the Bank's fixed assets and investment in fixed income for trading. The interest revenue from this portfolio is included as income from mark-to-market and trading.

2007 compared to 2006. In 2007, net interest revenue increased 22.0% compared to 2006, totaling Ch\$775,758 million. During this period, the Bank focused on increasing spreads in various business segments in order to improve profitability. At the same time, an improved funding mix and higher inflation also boosted net interest revenue. As a result, the Bank's net interest margin increased 90 basis points to 5.6%. The average nominal rate earned on loans was 12.5% in 2007 compared to 9.6% in 2006.

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The increase in net interest revenue was primarily attributable to an increase in net interest revenue from various business segments in line with the Bank's strategy of increasing spreads across the board in anticipation of higher future funding costs as rates rise in a higher inflationary environment. During the year the Bank also raised spreads in order to maintain adequate profitability taking into account the higher credit risk involved, especially in the retail segments.

Net interest revenue from the retail banking segment increased by 27.6% to Ch\$625,093 million in 2007, with increases of 31.0% in the individuals segment and 19.3% in the SMEs segment. Loans to higher yielding retail banking segments increased by 15.2% in 2007 compared to 2006.

Net interest revenue from the middle-market segment increased by 16.2%, primarily due to the Bank's focus on improving profitability by rising spreads, albeit with lower loan growth in the year. Loans in the middle-market segment decreased 2.3% in the year.

In the global banking and markets segment, net interest revenue increased by 33.4%, primarily due to the higher short-term interest rate and inflation rate environment, which increased spreads, as loan volumes in this segment decreased by 5.9% in the year.

The higher inflation rate in 2007 compared to 2006 also had a positive effect on the growth rate of net interest revenue and margins. In 2007, the variation of the UF was inflation rate in Chile was 7.0% compared to 2.0% in 2006. Our net interest revenue 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 average UF-denominated interest-earning assets exceeded our average UF-denominated interest-bearing liabilities by Ch\$2,548,209 million in 2007 compared to Ch\$2,796,153 million in 2006. The higher inflation rate offset the lower positive UF gap in the period. See "Item 5: D. Operating Results—Impact of Inflation" for a quantitative disclosure of the impact of inflation on our results.

An improved funding mix also helped to sustain margins despite a higher short-term interest rate environment. The ratio of the average balance of free funds (non-interest-bearing demand deposits and shareholders' equity) to the average balance of interest-earning assets also increased from 25.8% in 2006 to 24.4% in 2007. Therefore, as short-term rates increased and inflation also rose, the return on average free funds expanded.

The principal factors negatively affecting the net interest margin was the increase in 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 funding costs. The higher inflation rate accelerated the pace of short-term interest rate increases in the year. The overnight interbank rate set by the Central Bank increased 100 basis points in 2007. The average 90-day Central Bank rate, a benchmark rate for deposits, increased in nominal terms from 4.83% in 2006 to 5.18% in 2007.

Fee income

The following table sets forth certain components of our income from services (net of fees paid to third parties directly connected to providing those services, principally fees relating to credit card processing and ATM network administration) in the years ended December 31, 2006, 2007 and 2008.

Year ended December 31,			% Change	
2006	2007	2008	2006/2007	2007/2008
(in million of constant Ch\$ as of December 31, 2008, except percentages)				

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Checking accounts and lines of credit	65,422	67,227	64,483	2.8%	(4.1%)
Credit, debit and ATM cards	36,265	38,895	43,772	7.3%	12.5%
Collections	32,680	35,989	39,949	10.1%	11.0%
Asset management	23,396	32,512	28,220	39.0%	(13.2%)
Letters of credit	16,265	15,551	17,092	(4.4%)	9.9%
Insurance brokerage	13,509	13,856	15,284	2.6%	10.3%
Custody and brokerage services	2,115	7,540	6,538	256.5%	(13.3%)
Other fees	7,995	6,287	8,255	(21.4%)	31.3%
Total	197,647	217,857	223,593	10.2%	2.6%

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2008 compared to 2007. Total net fee income increased by 2.6% to Ch\$223,593 million for the year ended December 31, 2008, compared to 2007.

Fees from checking accounts and lines of credit, which includes the maintenance fee for checking accounts and lines of credit and fees charged for the unauthorized overdraft of lines of credit, decreased by 4.1% in 2008 compared to 2007. The total amount of checking account holders increased by 1.7% in 2008 to 574,039. Despite this growth, fee income from lines of credit was negatively affected by the closure of accounts in the SME segment for credit risk reasons. In 2009, regulatory changes may have a negative affect on fees charged for the unauthorized overdraft of lines of credit. These fees represent 39% of fee income included in this item. As of May 2009, this fee can no longer be charged.

Fees from credit, debit and ATM cards increased by 12.5% in 2008 compared to 2007. Fees from credit cards increased by 11.0% to Ch\$29,468 million in 2008 compared to 2007. We were the market leader in bank credit card accounts, with a 33.9% market share at year-end 2008 compared to 36.0% market share as of December 31, 2007. The number of our credit card customer accounts increased by 3.3% to 1,139,342 at December 31, 2008 compared to December 31, 2007. Despite a decrease in our market share of credit card accounts, we experienced a 10.3% real increase in purchases, which is the main driver of fee income from this business through merchant discount fees. This rise in purchases was driven by our marketing efforts across the whole spectrum of retail client segments to increase usage of our cards as a means of payment. Market share in terms of purchases rose to 35.2% in 2008 from 34.0% in 2007. Going forward, lower economic growth and regulatory changes that will prohibit fees charged over purchases of products with a credit card in installments will negatively affect credit card fees. Fees from ATM and debit cards increased by 11.9% to Ch\$14,304 million in 2008 compared to 2007. Purchases using our debit card increased 21.5% in real terms in 2008 and market share reached 24.2%. The Bank's ATM network, the largest in Chile, totaled 1,958 machines, decreasing by 2.3% compared to 2007.

Fees from collections increased by 11.0% for the year ended December 31, 2008, compared to 2007, primarily due to the growth of our retail loan book, especially residential mortgage loans that increased by 9.3% in 2008 compared to 2007. This led to an increase in collection of insurance premiums on these loans on behalf of insurance companies.

Fees from our asset management business declined by 13.2% in 2008 compared to 2007. Total funds under management decreased by 23.3% in 2008 compared to 2007 and totaled Ch\$2,199,222 million (US\$3.5 billion). The instability and decline in the equity markets and the shift from money market funds to bank deposits negatively affected volumes under management and fee income from this business.

The 9.9% increase in fees from letters of credit was mainly due to the rise in business volumes in the middle market and global banking segments and the depreciation of the Chilean peso in the year, as fees from letters of credit are mainly trade related and denominated in foreign currencies.

Insurance brokerage fees increased by 10.3% in 2008 compared to 2007. This was mainly due to greater business volumes in our insurance brokerage subsidiary and higher sale of insurance products through the Bank's website.

Custody and brokerage fees experienced a decrease of 13.3% in 2008 compared to 2007. This was primarily due to the lower stock brokerage fees as equity markets declined in the year.

The 31.3% increase in other fees in 2008 compared to 2007 was mainly due to a rise in fees from purchases in foreign currencies and other fees linked to the growth of our corporate banking business.

The following table sets forth, for the years indicated, a breakdown of our fee income by segment.

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	Year ended December 31,			% Change	% Change
	2006	2007	2008	2006/2007	2007/2008
	(in million of constant Ch\$ as of December 31, 2007, except percentages)				
Total individuals	125,817	144,079	144,182	14.5%	0.1%
SMEs	34,862	43,728	40,657	25.4%	(7.0%)
Institutional lending	1,460	2,373	1,728	62.5%	(27.2%)
Total retail	162,139	190,180	186,567	17.3%	(1.9%)

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	Year ended December 31,			% Change	% Change
	2006	2007	2008	2006/2007	2007/2008
	(in million of constant Ch\$ as of December 31, 2007, except percentages)				
Total middle-market	17,001	17,278	16,041	1.6%	(7.2%)
Global banking and markets	10,466	14,988	11,497	43.2%	(23.3%)
Other	8,041	(4,589)	9,488	--%	--%
Total	197,647	217,857	223,593	10.2%	2.6%

Retail banking fees decreased by 1.9% in 2008 compared to 2007 mainly as a result of the decrease in fees from lines of credit, especially in the SME segment, and asset management fees.

Fees in the middle market decreased by 7.2% and fees from the global banking and markets segment decreased by 3.3% in 2008 compared to 2007. This reflects the decline in fees from our asset management and brokerage services, both of which were negatively affected by the global financial crisis.

2007 compared to 2006. Total net fee income increased by 10.2% for the year ended December 31, 2007 compared to 2006. The positive economic environment and the growth of the Bank's client base led to an overall increase in the usage and penetration of bank products in 2007. The Bank's total retail banking client base increased by 14.1% in 2007, totaling 2.8 million clients. The number of retail clients with a checking account increased by 13.8% in 2007, reaching approximately 565,000. Retail clients (excluding clients of Santander Banefe) who are cross sold, which are defined as clients with checking accounts who also use at least four other banking products, increased by 16.2% at December 31, 2007, compared to December 31, 2006. In Santander Banefe, the number of cross sold clients (clients who also use at least two other banking products) rose by 18.0% at December 31, 2007, compared to December 31, 2006.

Fees from checking accounts and lines of credit increased by 2.8% in 2007 compared to 2006. Our market share in checking accounts increased to 27.9% as of November 2007 compared to 27.1% as of November 2006. In 2007, the Bank opened 34.8% of all new checking accounts in Chile. This was offset by regulatory changes relating to checking account fees. In the beginning of 2007, Chile introduced a regulatory change that prohibited banks from charging certain fees to checking account holders for bad check clearance.

Fees from credit, debit and ATM cards increased by 7.3% in 2007 compared to 2006. We were the market leader in bank credit card accounts, with a 36.0% market share at year-end 2007 compared to 35.8% market share as of December 31, 2006. The number of our credit card customer accounts increased by 16.2% to 1,102,630 at December 31, 2007, compared to December 31, 2006. The transaction volumes of credit cards issued by us, measured in UFs, increased by 12.5% in 2007 compared to 2006. The rise in credit card fees is partially offset by the other credit card expenses reflected in "Other operating losses, net." The rise in ATM fees was mainly driven by the increase in the number of ATMs installed by the Bank. As of December 31, 2007, the Bank had 2,004 ATMs compared to 1,588 ATMs as of December 31, 2006. The rise in ATMs was offset by increased competition in order to obtain favorable ATM locations.

Fees from collections increased by 10.1% for the year ended December 31, 2007, compared to 2006, primarily due to the growth of our retail loan book that has led to an increase in collection of insurance premiums on these loans on behalf of insurance companies.

Fees from our mutual fund asset management subsidiary increased by 39.0%, in line with the 25.8% rise in asset under management.

The 4.4% decrease in fees from letters of credit was mainly due to the appreciation of the Chilean peso in the year as the majority of these fees are trade related and denominated in foreign currencies.

Fees from insurance brokerage increased by 2.6% in 2007 compared to 2006. This was mainly due to greater business volumes in our insurance brokerage subsidiary and offset by greater competitive pressure.

Stock brokerage fees experienced a 258.2% increase in 2007 compared to the corresponding period in 2006, primarily due to the completion of the merger between Santiago Corredores de Bolsa Ltda, a subsidiary of the Bank, and Santander Investment S.A. Corredores de Bolsa, a non-consolidated affiliate of the Bank, in the first half of

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2007. Given the Bank now owns 50.6% of the merged entity and Santander Investment S.A. Corredores de Bolsa had a higher market share in the stock brokerage business than the Bank's subsidiary, fees from stock brokerage increased significantly in this period.

By segment, changes in our fee income also reflect the increase in retail banking products. Retail banking fees increased by 17.3% in 2007 compared to 2006, mainly due to the rise in fees from mutual funds, cards and collection services.

Fees in the middle market segment increased by 1.6% in 2007 compared to 2006, reflecting the rise in asset management fees which was partially offset by the decline in fees from letters of credit. Fees from the global banking and markets segment increased 43.2% mainly due to improvements in segmentation and the consolidation of the stock brokerage business.

Financial transactions, net

The following table sets forth information regarding our income (expenses) from financial transactions in the years ended December 31, 2006, 2007 and 2008.

	Year ended December 31,			% Change	% Change
	2006	2007	2008	2006/2007	2007/2008
	(in millions of constant Ch\$ as of December 31, 2008, except percentages)				
Net gains from trading and mark-to-market	135,465	26,796	273,084	(80.2%)	919.1%
Foreign exchange transactions, net	(552)	83,007	(187,042)	--%	--%
Total financial transactions, net	134,913	109,803	86,042	(18.6%)	(21.6%)

2008 compared to 2007. The net gains from financial transactions, which is the sum of trading activities, mark-to-market adjustments and foreign exchange transactions totaled Ch\$86,042 million for the year ended December 31, 2008, representing a decrease of 21.6% compared to the corresponding period in 2007. These results include the results of our Treasury Department's trading business and financial transactions with customers as well the results of our Financial Management division. Please see Note 5 to our Audited Consolidated Financial Statements for details of total financial transactions, net.

The net results from mark-to-market and trading totaled Ch\$273,084 million in 2008, representing an increase of 919.1% compared to 2007. This greater result was mainly due to the higher gains from the mark-to-market of derivatives for trading that totaled Ch\$178,883 million in 2008, compared to a loss of Ch\$89,751 million in 2007. A derivative financial instrument held for trading purposes must be marked to market and the unrealized gain or loss recognized in the income statement. These derivatives are mainly comprised of foreign currency forwards, interest rate swaps and cross currency swaps (See: Note 13 to the Audited Consolidated Financial Statements). The most important factor that impacted the value of the derivatives held for trading was the depreciation of the Chilean peso in 2008. These results are mainly offset by the translation loss of assets and liabilities denominated in foreign currencies and recorded as loss in the line item foreign exchange transactions (see below). These results were also partially offset by the 12.7% decrease in results from the mark-to-market and realized gains of the Bank's fixed income portfolio held for trading that totaled Ch\$76,829 million in 2008 and also included in this line item. This was negatively affected by the higher inflationary environment and higher interest rates. This line item also includes the gains from the sale of loans previously charged-off. In 2008, this amounted to Ch\$14,370 million compared to Ch\$28,085 million in 2007.

	At December 31,	
	2007	2008
Foreign exchange transactions, net		

	(In million of constant Chilean pesos at December 31, 2008)	
Exchange gains (losses), net	91,033	(402,927)
Derivative instruments in designated hedge	(17,634)	243,979
Exchange rate gain (losses) from assets denominated in foreign currencies	(9,369)	12,684
Exchange rate gain (losses) from liabilities denominated in foreign currencies	18,977	(40,778)
Total foreign exchange transactions, net	83,007	(187,042)

The net results from foreign exchange transactions, net totaled a loss of Ch\$187,042 million, compared to a gain of Ch\$83,007 million in 2007. This was mainly due to the Ch\$402,927 million exchange loss. A significant portion of our assets and liabilities are denominated in foreign currencies, principally U.S. dollars, and we historically have maintained and may continue to maintain material gaps between the balances of such assets and liabilities. Because such assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains and losses realized upon the sale of such assets, are translated to Chilean pesos in preparing our financial statements, our reported income is affected by changes in the value of the Chilean peso relative to foreign currencies (principally the U.S. dollar).

These losses are offset by gains recorded in the line mark-to-market and trading from derivatives held for trading (see above) and a Ch\$243,979 million gain from derivative instruments in designated foreign currency hedges. It is important to point out that 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 and not as foreign exchange transactions. A significant portion of derivatives used to hedge our foreign exchange position are not classified as derivatives for hedging, but for trading, as this type of hedging is not done on a case-by-case basis. Therefore, the Bank cannot classify these derivatives as derivatives for hedging purposes. In order to register a derivative for hedging purposes, the Bank must follow strict guidelines set by the Superintendency of Banks and internal controls, as these derivatives have special accounting procedures (see Item 5: B. Critical Accounting Policies – Derivatives). This distorts the results from mark-to-market and trading and foreign exchange transactions. In order to more easily comprehend the results from financial transactions, net, we present the following table that separates the results by line of business.

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Financial transactions, net	At December 31,		%
	2007	2008	
	(In million of constant Chilean pesos at December 31, 2008)		Change
Santander Global Connect and Market-making	64,502	89,399	38.6%
Proprietary trading	38,029	4,311	(88.7%)
Sale of loans	340	395	16.2%
Sale of charged-off loans	28,085	14,370	(48.8%)
Financial Management (ALCO)	(21,153)	(22,433)	6.1%
Total financial transactions, net	109,803	86,042	(21.6%)

The results from Santander Global Connect (SGC) and market-making mainly include the results from the sale of derivatives to our client base and are a recurring source of income. 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 main product sold by SGC are peso/dollar forwards. In 2008, the results from SGC and market-making increased by 38.6% to Ch\$89,399 million.

The results from proprietary trading were down by 88.7% in 2008 compared to 2007, mainly as a result of the higher interest and inflation rates. The surge in inflation in mid-2008 in Chile had a negative effect on the Bank's proprietary trading positions.

The results from Financial Management (Gestión Financiera) totaled a loss of Ch\$22,433 million in 2008. The area of Financial Management carries out the function of managing the structural interest rate risk, the structural position in inflation indexed assets and liabilities, shareholders' equity and liquidity. The aim of Financial Management is to inject stability and recurrence into the net interest income of commercial activities and to assure the Bank complies with internal and regulatory limits regarding liquidity, regulatory capital, reserve requirements and market risk. The 6.1% increase in the loss recognized by Financial Management was mainly due to the negative carry from its foreign exchange derivatives, which was negatively impacted by the spread differential between local and US\$ short-term rates. Significant portions of the Bank's dollar denominated liabilities are swapped into local currency through a short-term foreign exchange derivative portfolio. This portfolio assumes all the carry cost between Ch\$ pesos and US\$ rates. This carry was significantly higher during 2008 than in 2007. The average spread between the Central Bank reference rate and Fed Funds widened in 2008 to 5.05% compared to (0.25%) in 2007.

2007 compared to 2006. Total financial transactions, net amounted to a gain of Ch\$109,803 million for the year ended December 31, 2007 and decreased by 18.6% compared to 2006. This decline was mainly due to the 80.2% decrease in net gains from trading activities and mark-to-market adjustments. The main reasons for this decline was: (i) lower gains from our market making and proprietary trading results. The Bank's trading positions were negatively affected by the movements of real interest rates, especially in the fourth quarter of 2007. This was partially offset by the results of Santander Global Connect, which includes foreign exchange and derivatives products sold to clients and (ii) a one-time gain of Ch\$14,716 million recognized in 2006 as a result of the adoption of new accounting standards reflecting recognizing financial instruments at fair value, which resulted in a gain from trading activities.

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Other operating income

	Year ended December 31,			% Change	% Change
	2006	2007	2008	2006/2007	2007/2008
	(in millions of constant Ch\$ as of December 31, 2008, except percentages)				
Gain on sales of assets received in lieu of payment	3,878	4,808	2,805	24.0%	(41.7%)
Recovery of charge -off of assets received in lieu of payment	9,418	7,593	5,676	(19.4%)	(25.2%)
Income of asset received in lieu of payment	13,296	12,401	8,481	(6.7%)	(31.6%)
Net results from sale of investment in other companies	699	2,298	4,348	228.8%	89.2%
Operational leases	1,175	1,094	1,051	(6.9%)	(3.9%)
Gain on sale of Bank premises and equipment	664	527	390	(20.6%)	(26.0%)
Recovery of expenses	-	11,056	1,246	--%	(88.7%)
Other	945	1,057	996	11.9%	(5.8%)
Sub-total other income	2,784	13,734	3,683	393.3%	(73.2%)
Total other operating income	16,779	28,433	16,512	69.5%	(41.9%)

2008 compared to 2007. Other operating income totaled a gain of Ch\$16,512 million in 2008 and decreased by 41.9% compared to 2007. Other operating income primarily includes income from repossessed assets, the sale of shares in investments in other companies and the recovery of expenses and non-credit provisions and contingencies. In 2008, the income from repossessed assets totaled Ch\$8,481 million and decreased by 31.6% compared to 2007. Income from the sale of investments in other companies increased by 89.2% mainly as a result of a Ch\$974 million one-time gain from the sale of a share in the Santiago Stock Exchange and a Ch\$3,368 million gain from the sale of shares in Visa Inc. Finally, other income included in this line item decreased by 73.2% to Ch\$3,683 million mainly as a result of lower recoveries of expenses and provisions for other contingencies in 2008 compared to 2007. These contingencies are mainly related to non credit risks, including non specific contingencies, tax contingencies and other non credit contingencies or impairments.

2007 compared to 2006. In 2007, other operating income totaled Ch\$28,433 million and increased by 69.5% compared to 2006. This variation was mainly due to: (i) a gain of Ch\$826 million recognized from the sale of a share the Bank held in the Santiago Stock Exchange, (ii) a gain of Ch\$1,439 million from the sale of shares in Mastercard and (iii) a Ch\$11,056 gain recognized in 2007 from the recovery of provisions for other non-credit contingencies.

Provision for loan losses

Under our loan classification categories, loans are divided into: (i) consumer loans (including loans granted to individuals for the purpose of financing the purchase of consumer goods or payment of services); (ii) residential mortgage loans (including loans granted to individuals for the purchase, construction or improvements of residential real estate, in which the value of the property covers at least 100% of the amount of the loan); and (iii) commercial loans (includes all loans other than consumer loans and residential mortgage loans).

In 2006, we improved our internal provisioning models by not only focusing on non-performance, but introducing statistical models that take into account a borrower's credit history and indebtedness levels. Group ratings that determine loan loss allowances based only on non-performance are being phased out and replaced by statistical

scoring systems. Commencing in December 2006, we no longer analyze large commercial loans on a group basis. All large commercial loans have since been rated on an individual basis. For large commercial loans, leasing and factoring, we assign a risk category level to each borrower and his respective loans. We consider the following risk factors in classifying a borrower's risk category: the borrower's industry or sector, owners or managers, financial condition, payment ability and payment history.

Group assessment for loan loss allowances is permitted for a large number of borrowers whose individual loan amounts are relatively insignificant. Currently, we use group analysis to determine loan loss allowances for certain types of loans, such as loans to small- and mid-sized companies and commercial loans to individuals.

Commencing in 2006, we improved and modified the methodology for analyzing consumer and mortgage loans. All consumer and mortgage loans are assigned a provisioning level on an individual borrower basis using a more automated and sophisticated statistical model which considers a borrower's credit history, including any defaults on obligations to other creditors, as well as the overdue periods with respect to loans granted by us. Once

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the borrower's rating is determined, the allowance for consumer or mortgage loans is calculated based on the risk category and the respective provisioning ratio which is directly related to the aging of the loan. Further enhancements were implemented in 2007. The Bank now differentiates between old and new clients when determining a client's risk profile for consumer loans. All loans are assigned a provision at the moment a loan is granted depending on the risk profile of the client. Secondly, the time period used for statistically considering a consumer loan mature, in order to determine the risk level of consumer loans, was extended from 12 to 21 months of history.

For a detailed description of the models we use to determine loan loss allowances, see "Item 5: F. Selected Statistical Information—Loans by Economic Activity—Classification of Loan Portfolio."

For statistical information with respect to our substandard loans and reserves for probable loan losses, see "Item 5: F. Selected Statistical Information—Analysis of Substandard Loans and Amounts Past Due" and "Item 5: F. Selected Statistical Information—Analysis of Loan Loss Allowances," as well as Note 7 to the Audited Consolidated Financial Statements. The amount of provision charged to income in any period consists of net provisions established for possible loan losses, net of recoveries on loans previously charged off.

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

	Year Ended December 31,			% Change	
	2006	2007	2008	2006/2007	2007/2008
	(in millions of constant Ch\$ as of December 31, 2008, except percentages)				
Provision expenses	(30,167)	(62,250)	(55,718)	106.4%	(10.5%)
Charge-offs	(167,854)	(219,004)	(268,129)	30.5%	22.4%
Recoveries for loans previously charged off	55,065	56,587	37,894	2.8%	(33.0%)
Provision expenses, net	(142,956)	(224,667)	(285,953)	57.2%	27.3%
Year-end loans	12,623,992	13,398,281	14,700,374	6.1%	9.7%
Substandard loans (1)	404,181	474,534	680,348	17.4%	43.4%
Past-due loans	108,286	127,025	160,824	17.3%	26.6%
Loan loss allowance	203,640	250,887	285,505	23.2%	13.8%
Substandard loans / Year-end loans	3.20%	3.54%	4.63%		
Past due loans / Year-end loans	0.86%	0.95%	1.09%		
Expected loan loss ratio (2)	1.61%	1.87%	1.94%		
Coverage ratio (3)	188.06%	197.51%	177.53%		

(1) Substandard loans are all mortgage and consumer loans rated B- or worse and all commercial loans rated C2 or worse. In the new loan rating system, substandard loans include all consumer and mortgage loans rated B- or worse and all commercial loans rated C2 or worse.

(2) Loan loss allowance divided by year end loans.

(3) Loan loss allowance divided by past due loans.

2008 compared to 2007. Net provision expense for loan losses totaled Ch\$285,953 million for the year ended December 31, 2008, an increase of 27.3% compared to 2007, primarily due to an increase in charge-offs and a reduction in loan loss recoveries. Provision expense decreased by 10.5% to Ch\$55,718 million in 2008 compared to 2007. This decrease was mainly due to an extraordinary provision expense of Ch\$15,728 million recognized in 2007 and directly related to the further improvements made to the provisioning model for consumer loans. Excluding this item, provision expense increased by 19.8% in 2008 compared to 2007. This was due to the increase in the Bank's

expected loan loss ratio from 1.87% in 2007 to 1.94% in 2008, in line with the worsening economic environment that resulted in an increase in provisions expense in various business segments. The expected loan loss ratio is calculated according to the guidelines set by the Superintendency of Banks and our Board. This ratio is the main determinant of loan loss allowances. Loan loss allowances must be equal to the loan loss ratio multiplied by total loans growth. Loan growth in the year also resulted in a higher amount of loan loss allowances established. The Bank's provisioning model based on risk profiles requires every loan to have a provision attached according to risk profile or rating. Therefore, as the loan book grows provision expenses increases.

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Charge-offs increased by 22.4% in 2008 compared to 2007, primarily as a result of the growth of our consumer loan portfolio, for which credit risk is higher and loans are requested to be written off within much shorter periods than the rest of the loan portfolio. Charge-offs of the consumer loan portfolio increased by 31.5% to Ch\$236,274 million. The rise in inflation has resulted in deterioration in asset quality among individuals due to the negative effects inflation has on purchasing power. This was partially offset by the 40.8% decrease in charge-offs in the mortgage loan portfolio as the balance of residential mortgage loans portfolio to lower income individuals contracted throughout 2008 as the Bank implemented stricter admission standards. Charge-offs of commercial loans also decreased by 15.2% in 2008.

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

	Year Ended December 31,			% Change	
	2006	2007	2008	2006/2007	2007/2008
	(in millions of constant Ch\$ as of December 31, 2008, except percentages)				
Consumer loans	119,619	179,700	236,274	50.2%	31.5%
Mortgage loans	6,773	5,780	3,423	(14.7%)	(40.8%)
Commercial loans	41,462	33,524	28,432	(19.1%)	(15.2%)
Total charge-offs	167,854	219,004	268,129	30.5%	22.4%

Recoveries on loans previously charged off decreased by 33.0% in 2008 compared to 2007. In 2007, the Bank performed two large sales of loans previously charged off in the year. These sales resulted in a gain of Ch\$28,085 million in 2007 that is recognized as a gain from mark-to-market and trading. This sale also resulted in a reduction in the flow of recoveries in 2008.

Overall asset quality indicators remained healthy in 2008. The ratio of past due loans as a percentage of total loans reached 1.09% compared to 0.95% at year-end 2007. Total substandard loans as a percentage of total loans increased from 3.54% at year-end 2007 to 4.63% at year-end 2008, mainly due to the deterioration of asset quality in the retail business segments. The coverage ratio of past due loans reached 177.53% at year-end 2008 compared to 199.54% at year-end 2007.

The following table sets forth, for the years indicated, the components of our net provision expenses.

	Year Ended December 31,			% Change	
	2006	2007	2008	2006/2007	2007/2008
	(in millions of constant Ch\$ as of December 31, 2008, except percentages)				
Total individuals	(119,042)	(178,046)	(211,875)	49.6%	19.0%
SMEs	(24,381)	(39,949)	(54,360)	63.9%	36.1%
Institutional lending	562	(40)	(290)	--%	625.0%
Total retail	(142,861)	(218,035)	(266,525)	52.6%	22.2%
Total middle-market	(843)	(4,527)	(16,189)	437.0%	257.6%
Global banking and markets	823	(60)	(759)	--%	1,165.0%
Other (1)	(75)	(2,045)	(2,480)	2,626.7%	21.3%
Provision expense, net	(142,956)	(224,667)	(285,953)	57.2%	27.3%

(1)

Consists primarily of additional allowances on loans which are not assigned to any of the above types or segments, if any, and provisions for repossessed assets.

Provision expense increased by 22.2% in the retail banking segment, mainly as a result of the growth of charge-offs in these segments. As previously indicated, the higher inflation in 2008 was the main factor that affected asset quality among individuals. Going forward, despite the lower inflationary environment, the expected rise in unemployment should negatively affect asset quality and provision expense levels among individuals. In order to contain asset quality indicators among individuals, admission standards are being tightened and loan growth to middle and lower income individuals should contract in 2009. Provision expense among SMEs also increased in 2008 as the economy began to be impacted by the global financial slowdown. A similar situation is expected for 2009 despite expected lower loan growth in this segment. Net provision expense in the middle market and the global

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banking and markets segment, albeit still low, picked up in 2008 as the economy began to slowdown, especially in the fourth quarter. The Bank expects this situation to worsen in 2009, as economic growth stalls and the risk of recession increases.

2007 compared to 2006. Net provision expenses for loan losses increased by 57.2% in the year ended December 31, 2007 compared to 2006, primarily due to an increase in provision expense and charge-offs. Provision expense rose by 103.0% in 2007 compared to 2006. This growth in provision expenses was due to:

(i) the Bank recognized an extraordinary provision expense of Ch\$15,728 million directly related to the further improvements made to the provisioning model for consumer loans. Specifically, the time period used for statistically considering a consumer loan mature, in order to determine the risk level of consumer loans, was extended from 12 to 21 months of history. For a detailed description of the models we use to determine loan loss allowances, see “Item 5: F. Selected Statistical Information—Loan by Economic Activity—Classification of Loan Portfolio”;

(ii) the increase in the Bank’s expected loan loss ratio from 1.61% in 2006 to 1.87% in 2007 in line with the increase in retail lending which is higher yielding, but requires higher provision expense. The expected loan loss ratio is calculated according to the guidelines set by the Superintendency of Banks and our Board. This ratio is the main determinant of loan loss allowances. Loan loss allowances must be equal to the loan loss ratio multiplied by total loans; and

(iii) loan growth. The Bank’s provisioning model based on risk profiles requires every loan to have a provision attached according to risk profile or rating. Therefore as the loan book grows, provision expenses increases.

Charge-offs increased by 30.5% in 2007 compared to 2006, primarily as a result of the growth of our consumer loan portfolio, for which credit risk is higher and loans are requested to be written off within much shorter periods than the rest of the loan portfolio. The segment which experienced the largest deterioration in asset quality was the middle income individual segment. This segment has been hit by the rise in inflation, as this affects a larger portion of their income levels (food, schools, health, mortgage, etc.) This was partially offset by the 14.7% decrease in charge-offs in the mortgage loan portfolio and the 19.1% decline in charge-offs in the commercial loan portfolio.

Recoveries on loans previously charged off decreased by 19.1% in 2007 compared to 2006. This decrease was mainly due to two large sales of loans previously charged off in the year. The gain from these sales is recognized as income in the line item gains from mark-to-market and trading.

Provision expense increased by 52.6% in the retail banking segment, mainly as a result of the growth of our retail loan portfolio, for which credit risk is higher and provisions are required to be made within much shorter periods than the rest of the loan portfolio. Net provision expense in the rest of the segments remained relatively stable, reflecting the generally healthy credit quality indicators in those segments.

Operating expenses

The following table sets forth information regarding our operating expenses in the years ended December 31, 2006, 2007 and 2008.

	Year ended December 31,			% Change	
	2006	2007	2008	2006/2007	2007/2008
	(in millions of constant Ch\$ as of December 31, 2008, except percentages)				
Personnel salaries and expenses	(186,282)	(191,120)	(209,134)	2.6%	9.4%

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Administrative expenses	(153,401)	(164,609)	(161,977)	7.3%	(1.6%)
Depreciation and amortization	(42,079)	(45,741)	(51,944)	8.7%	13.6%
Other operating expenses	(42,868)	(44,545)	(42,259)	3.9%	(5.1%)
Total operating expenses	(424,630)	(446,015)	(465,314)	5.0%	4.3%
Efficiency ratio(1)	43.1%	39.4%	38.0%		

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

2008 compared to 2007. Operating expenses in 2008 increased by 4.3% compared to 2007. The efficiency ratio improved from 39.4% in 2007 to 38.0% in 2008. The 9.4% rise in personnel salaries and expenses was mainly due

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to the 3.8% rise in average headcount in 2008 compared to 2007, an increase in variable incentives to commercial teams for positive performance in the year and real wage growth. In 2008, wages were increased in line with inflation through September, but the deflationary environment in the last months of 2008 resulted in a higher wage increase than inflation for the year.

Administrative expenses decreased 1.6% in 2008 compared to 2007, as the Bank slowed the pace of the expansion of the distribution network. As of December 2008, the Bank's distribution network totaled 477 branches and 1,958 ATMs. In 2008, the Bank only opened 13 branches and eliminated 46 ATMs.

Depreciation expense increased by 13.6% in 2008 compared to 2007. Even though the Bank slowed the pace of investment in its distribution network in 2008, the strong investment made in previous years, especially at the end of 2007, led to a higher depreciation expense in 2008.

Other operating expenses totaled Ch\$42,259 million in 2008 and decreased by 5.1% compared to 2007. Other operating expenses include provisions and expenses related to repossessed assets, client expenses mainly related to our credit card business and other expenses such as non-credit charge-offs, the cost of insurance policies (mainly life insurance) over products, tax paid on interest of foreign debt issued by the Bank and provisions for contingencies are mainly related to non credit risks, including non specific contingencies, tax contingencies and other non credit contingencies or impairments. Total expenses related to repossessed asset reached Ch\$9,080 million in 2008 and decreased 27.1% compared to 2007. Other client expenses totaled an expense of Ch\$16,652 million and decreased 9.1% compared to 2007. In 2008, the Bank spent less on promotions and client loyalty program related to its credit card business. This was offset by a 20.1% rise in other expenses, which was mainly due to the 30.9% rise in expenses related to insurance products tied to loan products. Provisions for non-credit contingencies totaled Ch\$1,102 million in 2008 compared to Ch\$1,126 million in 2007. See Note 18 to the Audited Consolidated Financial Statements for details of other operating expenses.

2007 compared to 2006. Operating expenses in 2007 increased by 5.0% compared to 2006. The 2.6% rise in personnel salaries and expenses was mainly due to the 16.6% rise in average headcount in 2007 compared to 2006. This was offset by the end of negotiation bonus paid in conjunction with the signing of the new collective bargaining agreement in the fourth quarter of 2006. This new collective bargaining agreement became effective on March 1, 2007, and will expire on March 1, 2011. As a part of this process, an end of negotiation bonus was paid, which resulted in a one-time cost of Ch\$10,086 million in 2006. Excluding this item personnel expenses increased 8.5% and total operating expenses increased by 7.1%.

Administrative expenses increased by 7.3% in 2007 compared to 2006 mainly as a result of large expenses related to our expansion of the distribution network. This also explains the 8.7% rise in depreciations and amortizations. Our efficiency ratio, despite higher costs, continued to improve and reached 39.4% for the year ended December 31, 2007, compared to 43.1% in 2006.

Other operating expenses in 2007 totaled Ch\$44,545 million and increased by 3.9% compared to 2006. The rise in client service expenses and credit card expenses was mainly due to the strong investments made in the Bank's credit card business and call center in 2007. This was offset by a 44.3% decrease in charge-offs of repossessed assets that totaled Ch\$8,702 million in 2007.

Other non-operating results

The following table sets forth information regarding our operating expenses in the years ended December 31, 2006, 2007 and 2007.

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Year ended December 31, % Change % Change
 2006 2007 2008 2006/2007 2007/2008
 (in millions of constant Ch\$ as of December 31, 2008,
 except percentages)

Income (loss) attributable to investments in other companies	919	(1,438)	851	--%	--%
Price level restatement	(16,123)	(61,332)	(78,027)	280.4%	27.2%
Total non-operating results	(15,204)	(62,770)	(77,176)	312.9%	23.0%

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2008 compared to 2007. In 2008, non-operating results totaled a loss of Ch\$77,176 million, which increased by 23.0% compared to the loss in 2007. The loss from price level restatement totaled Ch\$78,027 million in 2008, an increase of 27.2% compared to the loss in 2007. We must adjust our capital, fixed assets and other assets for the variations in price levels. Because our capital is larger than the sum of our fixed and other assets, price level restatement usually results in a loss and fluctuates with the inflation rate. The inflation rate used for calculating price level restatement was 8.89% in 2008 and 7.44% in 2007. The higher loss from price level restatement is also partially offset by the positive impact of inflation on net interest income. (See “Item 5: D. Operating Results—Impact of Inflation”).

In line with the new accounting standards to be adopted in 2009, the Bank will no longer be required to adjust its capital, fixed assets and other non financial assets for variations in price levels on a monthly basis and, therefore, will no longer recognize a gain or loss from price level restatement.

This was partially offset by the Ch\$851 million gain recognized by the Bank in income attributable to investment in other companies, following a loss of Ch\$1,438 million in 2007. This loss was mainly due to a Ch\$2,728 million loss recognized by Administrador Financiero Transantiago S.A. The Bank owns 20% of this company that is in charge of bus fare clearing and financial management services for Santiago’s new transportation network. In 2008, this company was recapitalized and the net loss recognized by this company was reduced to Ch\$284 million.

2007 compared to 2006. In 2007, non-operating results totaled a loss of Ch\$62,770 million, which increased by 312.9% compared to the loss in 2006. The loss from price level restatement totaled Ch\$61,332 million in 2007, an increase of 280.4% compared to the loss in 2006. The inflation rate used for calculating price level restatement increased in 2007 compared to 2006 (7.44% in 2007 and 2.12% in 2006), resulting in a higher loss from price level restatement. The higher loss from price level restatement is also partially offset by the positive impact of inflation on net interest income.

In 2007, the Bank recognized a net loss of Ch\$1,438 million from income attributable to investment in other companies. As mentioned above, this was due to the negative results of Administrador Financiero Transantiago S.A.

Income tax

2008 compared to 2007. Our income tax expense increased by 6.1% to Ch\$63,728 million in 2008 compared to 2007, primarily due to lower gains from the reversal of deferred taxes in the year. In 2007 the Bank recognized Ch\$12,508 million in deferred tax gains compared to a tax expense of Ch\$576 million from deferred taxes in 2007. The effective tax rate for 2008 was 16.15% in 2008 and 15.07% in 2007. The statutory corporate tax rate was 17% (see Note 21 of our Audited Consolidated Financial Statements).

2007 compared to 2006. Our income tax expense decreased by 11.8% in 2007 compared to 2006, mainly as a result of higher gains from deferred taxes in the year. In 2007 the Bank recognized Ch\$12,508 million in deferred tax gains compared to a tax expense of Ch\$3,748 million from deferred taxes in 2006. The effective tax rate for 2007 was 15.07% and 16.92% in 2006.

E. Liquidity and Capital Resources

Sources of Liquidity

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

borrowings.

The following table sets forth our contractual obligations and commercial commitments by time remaining to maturity. As of the date of the filing of this Annual Report, the Bank does not have significant purchase obligations. At December 31, 2008, the scheduled maturities of our contractual obligations and of other commercial commitments, including accrued interest, were as follows:

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Contractual Obligations	Due within 1 year	Due after 1 year but within 3 years	Due after 3 years but within 6 years	Due after 6 years	Total
(in millions of constant Ch\$ as of December 31, 2008)					
Deposits and other obligations (1)	8,160,035	1,309,234	273,405	13,592	9,756,266
Mortgage finance bonds	54,767	78,845	95,602	115,466	344,680
Subordinated bonds	-	19,420	140,965	527,527	687,912
Bonds	256,582	397,268	335,098	629,832	1,618,780
Chilean Central Bank borrowings:	-	-	-	-	-
Credit lines for renegotiations of Loans	3,012	-	-	-	3,012
Other Central Bank borrowings	269,430	-	-	-	269,430
Borrowings from domestic financial institutions	5,001	-	-	-	5,001
Investments sold under agreements to Repurchase	292,951	853	-	-	293,804
Foreign borrowings	1,107,997	309,055	-	-	1,417,052
Derivatives	484,049	258,434	421,474	305,767	1,469,724
Other obligations	95,921	3,970	2,601	786	103,278
Total of cash obligations	10,729,745	2,377,079	1,269,145	1,592,970	15,968,939

(1) Excludes demand deposit accounts and saving accounts.

Operational Leases

Certain bank property, plants and equipment are leased under various operating leases. Future minimum rental commitments as of December 31, 2008, under non-cancelable leases are as follows:

	As of December 31, 2008 (in millions of constant Ch\$ as of December 31, 2008)
Due within 1 year	9,543
Due after 1 year but within 2 years	7,863
Due after 2 years but within 3 years	5,986
Due after 3 years but within 4 years	4,011
Due after 4 years but within 5 years	2,412
Due after 5 years	3,240
Total	33,055

Other Commercial Commitments

At December 31, 2008, the scheduled maturities of other commercial commitments, including accrued interest, were as follows:

Due within 1	Due after 1	Due after 3	Due after 6	Total 2008
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Other Commercial Commitments	year	year but within 3 years	years but within 6 years	years	
	(in millions of constant Ch\$ as of December 2008)				
Letters of credit issued	179,884	1,400	4	93	181,381
Letters of credit confirmed	122,386	397	-	-	122,783
Available credit lines	4,041,849	-	-	-	4,041,849
Guarantees	482,070	248,182	35,449	1,026	766,727
Other commercial commitments	143,861	27,717	990	-	172,568
Total other commercial commitments	4,970,050	277,696	36,443	1,119	5,285,308

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Capital and Reserves

We currently have regulatory capital in excess of the minimum requirement under the current Chilean regulations. According to the General Banking Law, a bank should have regulatory capital of at least 8% of its risk weighted assets, net of required loan loss allowances, and paid in capital and reserves (i.e., the basic capital, as defined above) of at least 3% of its total assets, net of required loan loss allowances. For these purposes, the regulatory capital of a bank is the sum of (1) the bank's basic capital, (2) subordinated bonds issued by the bank valued at their placement price for an amount up to 50% of its basic capital; provided that the value of the bonds shall decrease by 20% for each year that elapses during the period commencing six years prior to their maturity, and (3) its voluntary allowances for loan losses, for an amount of up to 1.25% of its risk weighted assets. Santander Chile does not have goodwill, but if it did, this value must be deducted from regulatory capital. When calculating risk weighted assets, the Bank also includes off-balance sheet contingent loans. The merger of Old Santander-Chile and Santiago required a special regulatory pre-approval of the Superintendency of Banks, which was granted on May 16, 2002. The resolution granting this pre-approval imposed a regulatory capital to risk weighted assets ratio of 12% for the merged bank. This indicator was reduced to 11% by the Superintendency of Banks effective January 1, 2005. For purposes of weighing the risk of a bank's assets, the General Banking Law considers five different categories of assets, based on the nature of the issuer, the availability of funds, and the nature of the assets and the existence of collateral securing such assets.

Circular No. 3410 issued by the Superintendency of Banks, which became effective on January 1, 2008, prescribed new accounting formats for financial statements. Among the changes introduced was the inclusion of a provision for mandatory dividends in shareholders' equity equivalent to 30% of the period net income attributable to shareholders. Another change is that period net income is included when calculating the Bank's regulatory capital ratio. Previously, period net income was not included as regulatory capital.

The following table sets forth our regulatory capital at the dates indicated. See Note 14 to our Audited Consolidated Financial Statements for a description of the minimum capital requirements.

	As of December 31,	
	2007 (1)	2008
	(in millions of constant Ch\$ as of December 31, 2008, except percentages)	
Base net capital	1,565,885	1,578,045
3% of total assets net of provisions	(611,532)	(659,736)
Excess over minimum required equity	954,353	918,309
Base net capital as a percentage of the total assets, net of provisions	7.68%	7.18%
Regulatory capital	2,069,103	2,166,700
Risk weighted assets	14,071,872	15,704,178
11% of risk-weighted assets	1,547,906	1,727,460
Excess over minimum required equity	521,197	439,240
Regulatory capital as a percentage of risk-weighted assets	14.70%	13.80%

(1) 2007 numbers adjusted for new accounting formats.

The Bank must calculate the credit risk involved on all derivatives contracted OTC with a net asset position and this is included as a risk-weighted assets. On January 30, 2009, the Superintendency of Banks issued Circular No. 3,465 that modified the guidelines for risk-weighting derivatives. If the Bank has a net liability in a derivative position and if this derivative, under certain stress and volatility measures, becomes a net asset position, then the Bank must also include this derivative as a risk-weighted asset. This regulation became effective in April 2009. In 2009, the adoption of

accounting standards in line with International Accounting Standards will also have an impact on the level of the Bank's restated shareholders' equity. The main impacts are the elimination of the price level restatement of capital and the revaluation of fixed assets.

Below is the calculation of the Bank's regulatory capital and risk weighted assets as of April 30, 2009, which includes the effects of the new accounting standards, the new guidelines regarding derivatives, post-annual dividend payment and includes year-to-date 2009 results.

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(Ch\$ million)	April 2009 (in millions of constant Ch\$ as of April 30, 2009, except percentages)
Base net capital	1,455,890
Tier II capital	566,569
Regulatory capital	2,022,459
Risk weighted assets	14,135,123
Tier I ratio	10.3%
BIS ratio	14.3%

In 2010, the Superintendency of Banks and the Chilean Congress are scheduled to approve new capital requirements for Chilean banks in line with Basel II accord, which among other amendments require banks to set aside capital for market and operational risks.

The current economic climate has restricted the access of Chilean banks to foreign borrowings. The providers of this funding were mainly European and U.S. banks, which have restricted their interbank lending. These funds are used to match and finance our foreign trade lending. This has been counterbalanced with local sources of liquidity and the maintenance of overnight dollar deposits in U.S. banks (see Item 5: E. Liquidity and Capital Resources – Financial Investments – Available for Sale). The Chilean Treasury and the Central Bank have also introduced programs that give banks access to their foreign currency liquidity (see Item 5: D. Operating Results – Chilean Economy). In Chile, liquidity constraints have been significantly lower than our foreign sources, but long-term funding spreads have increased, especially in the bond market.

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Financial Investments

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

As of December 31, 2008, our largest investments include the following:

Issuer and Security	Aggregate Book Value (in millions of Ch\$)	Aggregate Market Value
Central Bank Securities	1,723,962	1,743,945
Chilean Treasury Bonds	161,588	164,867
Banco del Estado – Mortgage Finance Bonds	197,523	183,458

a) Held for Trading

	As of December 31, 2007	2008 (in millions of constant Ch\$ as of December 31, 2008)
Chilean Central Bank and Government Securities		
Chilean Central Bank bonds	601,212	786,263
Chilean Central Bank notes	274,357	218,355
Other Chilean Central Bank and Treasury securities	127,663	71,739
Subtotal	1,003,232	1,076,357
Other Chilean Securities		
Deposits in Chilean financial institutions	10,932	-
Mortgage finance bonds	35,621	2,787
Chilean financial institutions bonds	8,430	3,030
Chilean corporate bonds	12,567	24,833
Other Chilean securities	16,706	-
Subtotal	84,256	30,650
Foreign Financial Securities		
Other foreign securities	7,543	-
Subtotal	7,543	-
Investments in mutual funds		
Mutual funds managed by related entities	91,874	54,624
Subtotal	91,874	54,624
Total	1,186,905	1,161,631

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b) Available for sale

	As of December 31, 2007 2008 (in millions of constant Ch\$ as of December 31, 2008)	
Chilean Central Bank and Government Securities		
Chilean Central Bank bonds	307,682	690,123
Chilean Central Bank notes	59,132	49,204
Other Chilean Central Bank and Treasury securities	118,901	93,128
Subtotal	485,715	832,455
Other Chilean Securities		
Deposits in Chilean financial institutions	-	1,305
Mortgage finance bonds	297,281	284,033
Chilean corporate bonds	-	13,522
Subtotal	297,281	298,860
Others Financial Securities		
Central Bank and Government Foreign Securities	65,949	-
Other Foreign securities (1)	-	448,925
Subtotal	65,949	448,925
Total	848,945	1,580,240

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

c) Held-to-maturity

No financial investments were classified as held-to-maturity as of December 31, 2007 and 2008.

The following table sets forth an analysis of our investments at December 31, 2008, by remaining maturity and the weighted average nominal rates of such investments.

	Within one year		After one year but within five years		After five years but within ten years		After ten years		Total	Weighted average Nominal Rate
	Weighted average Nominal Rate	Weighted Nominal	Weighted average Nominal Rate	Weighted Nominal	Weighted average Nominal Rate	Weighted Nominal	Weighted average Nominal Rate	Weighted Nominal	Weighted average Nominal Rate	
(in millions of constant Ch\$ as of December 31, 2008)										
Held for Trading										
Central Bank and Government Securities										
Central Bank bonds	192,292	6.8	512,471	4.7	79,749	4.2	1,751	3.2	786,263	5.1
Central Bank notes	23,947	7.8	165,251	4.7	19,977	3.6	9,180	3.3	218,355	4.8
Other Chilean Central Bank and Treasury securities	4	6.1	38,816	3.0	24,632	5.9	8,287	3.2	71,739	4.9
Subtotal	216,243		716,538		124,358		19,218		1,076,357	
Other Chilean Securities										

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Mortgage finance bonds	7	12.7	542	5.8	516	5.3	1,722	4.7	2,787	6.0
Chilean financial institutions bonds	--	--	--	--	--	--	3,030	6.8	3,030	6.8
Chilean corporate bonds	--	--	24,833	5.2	--	--	--	--	24,833	5.2
Subtotal	7		25,375		516		4,752		30,650	
Investment in mutual funds										
Mutual funds administered by related parties	54,624	7.0	--	--	--	--	--	--	54,624	7.0
Subtotal	54,624		--		--		--		54,624	
Total	270,874		741,913		124,874		23,970		1,161,631	

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	Weighted average		After one year		After five years		After ten years		Weighted average	
	Within one year	Nominal Rate	within five years	Nominal Rate	within ten years	Nominal Rate	ten years	Nominal Rate	Total	Nominal Rate
(in millions of constant Ch\$ as of December 31, 2008)										
Available-for-sale Investments										
Central Bank and Government Securities										
Central Bank Bonds	98,100	10.3	406,933	5.8	185,090	5.0	-	-	690,123	6.2
Central Bank notes	23,326	2.1	24,738	5.0	1,140	3.5	-	-	49,204	3.3
Others securities	27,571	5.8	10,841	5.9	32,637	5.9	22,079	3.2	93,128	5.3
Subtotal	148,997		442,512		218,867		22,079		832,455	
Other Chilean Securities										
Deposits in Chilean Financial Institutions	-	-	1,305	0.7	-	-	-	-	1,305	0.7
Mortgage Finance Bonds	89	6.8	2,843	4.5	18,757	5.4	262,344	4.8	284,033	4.9
Chilean Corporate Bonds	-	-	13,522	5.4	-	-	-	-	13,522	5.4
Subtotal	89		17,670		18,757		262,344		298,860	
Other Financial Securities										
Other foreign securities	448,925	0.5	-	-	-	-	-	-	448,925	0.5
Subtotal	448,925		-		-		-		448,925	
Total	598,011		460,182		237,624		284,423		1,580,240	

Credit Risk Ratings

The Bank also has credit ratings from three international agencies.

Moody's	Rating
Long-term foreign currency bank deposits	A1 (Outlook positive)
Senior bonds	Aa2 (Outlook negative)
Subordinated debt	Aa3 (Outlook negative)
Bank Deposits in Local Currency	Aa2 (Outlook negative)
Bank financial strength	B- (Outlook negative)
Short-term deposits	P-1 Stable

Standard & Poor's	Rating
Long-term Foreign Issuer Credit	A+
Long-term Local Issuer Credit	A+
Short-term Foreign Issuer Credit	A-1
Short-term Local Issuer Credit	A-1
Outlook	Stable

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

Our foreign currency deposit ratings are equivalent to the Chilean sovereign ratings. In the case of Moody's, our senior and subordinated debt denominated in foreign currency exceed the sovereign ceilings. In May

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2009, Moody's placed our foreign currency senior and subordinated bond ratings, local currency deposit ratings and Bank Financial Strength Rating under review for possible downgrade, following a similar action on the ratings of our parent company, Banco Santander Spain. On June 15, 2009, Moody's downgraded the credit risk ratings of 25 Spanish banks, but maintained the rating of our parent company, but with negative outlook. Any adverse revisions to our parent company's ratings and/or Chile's credit ratings for domestic and international debt by international rating agencies may adversely affect our ratings. Our ratings may also be negatively affected by a worsening of our financial condition, especially in terms of asset quality indicators.

Working Capital

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

Liquidity Management

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

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

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

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

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

Cash Flow

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

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	Year ended December 31,		
	2006	2007	2008
	(in millions of constant Ch\$ as of December 31, 2008)		
Net cash provided by operating activities	643,209	746,836	776,314

Cash provided by operating activities totaled Ch\$776,314 million in 2008 as a result of higher business activity gross of provision for loan losses and price level restatement. The Ch\$746,836 million and Ch\$643,209 million in cash provided by operating activities in 2007 and 2006, respectively was mainly due to an increase in business activity gross of provisions and price level restatement.

	Year ended December 31,		
	2006	2007	2008
	(in millions of constant Ch\$ as of December 31, 2008)		
Net cash provided by (used in) investing activities	(1,707,362)	(1,796,235)	(2,660,853)

Net cash used in investing activities in 2008 totaled Ch\$2,660,853 million. The largest consumption of cash involved the disbursement of loans and the purchase of financial investments in 2008. In 2007, the consumption of cash for investing totaled Ch\$1,796,235 million due to loan growth and the purchase of financial investments. In 2006, loan growth consumed cash, but the Bank sold in that period financial investments that financed part of this outflow of cash.

	Year ended December 31,		
	2006	2007	2008
	(in millions of constant Ch\$ as of December 31, 2008)		
Net cash provided by (used in) financing activities	729,525	1,160,299	1,525,005

In 2008, the net cash from financing activities totaled Ch\$1,525,005 million and the main sources of these funds were deposits and bond issues. In 2007, the main sources of cash for financing the Bank's asset growth were time deposits and bond issuances. In 2006, the main source of funding was deposits as the Bank prep-paid long-term funding in that year.

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Deposits and Other Borrowings

The following table sets forth our average daily balance of liabilities for the years ended December 31, 2006, 2007 and 2008, in each case together with the related average nominal interest rates paid thereon.

	Year ended December 31,								
	2006			2007			2008		
	Average Balance	% of Total Average Liabilities	Average Nominal Rate	Average Balance	% of Total Average Liabilities	Average Nominal Rate	Average Balance	% of Total Average Liabilities	Average Nominal Rate
(in millions of constant Ch\$ as of December 31, 2008, except percentages)									
Savings accounts	123,833	0.8%	1.3%	106,574	0.7%	6.2%	100,520	1.5%	8.5%
Time deposits	7,489,585	46.0%	5.5%	7,863,868	45.2%	8.7%	8,343,001	45.4%	9.8%
Central Bank borrowings	98,392	0.6%	5.1%	125,364	0.7%	5.7%	58,546	0.3%	8.6%
Repurchase agreements	638,822	3.9%	5.0%	649,128	3.7%	6.6%	377,410	2.1%	10.6%
Mortgage finance bonds	676,690	4.2%	7.5%	515,187	3.0%	12.4%	372,493	2.0%	15.0%
Other interest bearing liabilities	2,524,616	15.5%	6.4%	2,457,565	14.1%	10.0%	3,345,953	18.2%	14.3%
Subtotal interest bearing liabilities	11,551,938	71.0%	5.7%	11,717,686	67.4%	9.0%	12,597,923	68.5%	11.1%
Non-interest bearing liabilities									
Non-interest bearing deposits	2,132,774	13.1%		2,364,661	13.6%		2,458,141	13.4%	
Derivatives	160,982	1.0%		519,562	3.0%		1,196,600	6.5%	
Other non-interest bearing liabilities	1,077,205	6.6%		1,359,034	7.8%		762,506	4.1%	
Shareholders' equity	1,345,585	8.3%		1,434,298	8.2%		1,377,107	7.5%	
Subtotal non-interest bearing liabilities	4,716,546	29.0%		5,677,555	32.6%		5,794,354	31.5%	
Total liabilities	16,268,484	100.0%		17,395,241	100.0%		18,392,277	100.0%	

Our most important source of funding is our time deposits. Average time deposits represented 45.4% of our average total liabilities and shareholders' equity in 2008. Our current funding strategy is to continue to utilize all sources of

funding in accordance with their costs, their availability and our general asset and liability management strategy. Special emphasis is being placed on lengthening the maturities of time deposits with institutional clients and increasing in general our deposits from retail customers. We also intend to continue to broaden our customer deposit base and to emphasize core deposit funding. We have also followed the strategy in 2008 of increasing senior and subordinated bonds to increase the duration of liabilities and fund the growth of the mortgage portfolio. We believe that broadening our deposit base by increasing the number of account holders has created a more stable funding source.

Composition of Deposits and Other Commitments

The following table sets forth the composition of our deposits and similar commitments at December 31, 2006, 2007 and 2008.

	At December 31,		
	2006	2007	2008
	(in millions of constant Ch\$ as of December 31, 2008)		
Checking accounts	1,811,292	2,161,368	2,270,592
Other demand liabilities	831,094	959,215	472,819
Savings accounts	109,813	105,792	102,951
Time deposits	7,413,761	8,483,320	9,476,026
Other commitments (1)	61,350	73,677	132,603
Total	10,227,310	11,783,372	12,454,991

(1) Includes primarily leasing accounts payable relating to purchases of equipment.

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Maturity of Deposits

The following table sets forth information regarding the currency and maturity of our deposits at December 31, 2008, expressed in percentages of our total deposits in each currency category. UF-denominated deposits are similar to peso-denominated deposits in all respects, except that the principal is readjusted periodically based on variations in the Chilean consumer price index.

	Ch\$	UF	Foreign Currencies	Total
Demand deposits	0.1	0.0	10.4	1.8
Savings accounts	0.0	3.1	0.0	1.1
Time deposits:				
Maturing within 3 months	63.5	31.4	67.8	53.4
Maturing after 3 but within 6 months	18.0	7.0	9.4	12.8
Maturing after 6 but within 12 months	12.4	18.6	12.3	14.5
Maturing after 12 months	6.0	39.9	0.1	16.4
Total time deposits	99.9	96.9	89.6	97.1
Total deposits	100.0	100.0	100.0	100.0

The following table sets forth information regarding the maturity of our outstanding time deposits in excess of US\$100,000 at December 31, 2008.

	Ch\$	UF	Foreign Currencies	Total
	(in millions of constant Ch\$ as of December 31, 2008)			
Time deposits:				
Maturing within 3 months	1,689,768	58,548	781,466	2,529,782
Maturing after 3 but within 6 months	923,002	223,395	189,295	1,335,692
Maturing after 6 but within 12 months	416,697	391,591	311,099	1,119,387
Maturing after 12 months	1,315,877	2,006,399	98,892	3,421,168
Total time deposits	4,345,344	2,679,933	1,380,752	8,406,029

Short-term Borrowings

The principal categories of our short-term borrowings are amounts borrowed under foreign trade lines of credit, domestic interbank loans, Central Bank borrowings and repurchase agreements. The table below presents the amounts outstanding at each year-end indicated and the weighted-average nominal interest rate for each such year by type of short-term borrowing.

	As of December 31,					
	2006		2007		2008	
	Weighted- Average Nominal Interest	Rate	Weighted- Average Nominal Interest	Rate	Weighted- Average Nominal Interest	Rate
	Balance	Rate	Balance	Rate	Balance	Rate
	(in millions of constant Ch\$ as of December 31, 2008, except for rate data)					
	23,316	4.9%	181,063	6.5%	292,951	6.3%

Balances under repurchase agreements						
Central Bank borrowings	157,257	5.1%	155,027	5.6%	269,430	8.5%
Domestic interbank borrowings	-	-	-	-	5,001	8.1%
Borrowings under foreign trade credit lines						
	839,974	7.7%	663,005	13.4%	1,107,997	1.9%
Total short-term borrowings	1,020,547	6.6%	999,095	10.9%	1,675,379	3.7%

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

	For the year Ended December 31,					
	2006		2007		2008	
	Average Balance	Average Nominal Interest Rate	Average Balance	Average Nominal Interest Rate	Average Balance	Average Nominal Interest Rate
	(in millions of constant Ch\$ as of December 31, 2008, except for rate data)					
Investment under repurchase agreements	638,822	4.9%	649,128	6.5%	377,410	9.9%
Central Bank borrowings	98,392	5.1%	125,364	5.6%	58,546	8.5%
Domestic interbank borrowings	57,669	5.1%	-	-	43,341	8.1%
Borrowings under foreign trade credit lines	1,340,181	5.4%	1,192,559	13.4%	1,276,543	3.9%
Total short-term borrowings	2,135,064	6.9%	1,967,051	10.6%	1,775,840	7.6%

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

	Maximum 2006 Month-End Balance	Maximum 2007 Month-End Balance	Maximum 2008 Month-End Balance
	(in millions of constant Ch\$ as of December 31, 2008)		
Investment under repurchase agreements	511,406	219,522	366,244
Central Bank borrowings	356,312	465,579	277,584
Domestic interbank borrowings	4,419	5,251	154,101
Borrowings under foreign trade credit lines	2,055,140	1,550,122	1,751,620
Total short-term borrowings	2,927,277	2,240,474	2,549,549

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Total Borrowings

Our long-term and short-term borrowings are summarized below. Borrowings are generally classified as short-term when they have original maturities of less than one year or are due on demand. All other borrowings are classified as long-term, including the amounts due within one year on such borrowings. The following table sets forth, at the dates indicated, the components of our borrowings.

	December 31, 2008		
	Long-term	Short-term	Total
	(in millions of constant Ch\$ as of December 31, 2008)		
Central Bank borrowings	-	269,430	269,430
Credit loans for renegotiations of loans	-	3,012	3,012
Investment under agreements to repurchase	853	292,951	293,804
Mortgage finance bonds	289,913	54,767	344,680
Other borrowings: bonds	1,362,198	256,582	1,618,780
Subordinated bonds	687,912	-	687,912
Borrowings from domestic financial institutions	-	5,001	5,001
Foreign borrowings	309,055	1,107,997	1,417,052
Other obligations	7,357	95,921	103,278
Total borrowings	2,657,288	2,085,661	4,742,949

	December 31, 2007		
	Long-term	Short-term	Total
	(in millions of constant Ch\$ as of December 31, 2008)		
Central Bank borrowings	-	155,027	155,027
Credit loans for renegotiations of loans (a)	-	4,325	4,325
Investment under agreements to repurchase	-	181,063	181,063
Mortgage finance bonds (b)	407,625	62,533	470,158
Other borrowings: bonds (c)	1,333,910	-	1,333,910
Subordinated bonds (d)	542,507	-	542,507
Borrowings from domestic financial institutions	-	-	-
Foreign borrowings (e)	529,855	663,004	1,192,859
Other obligations (f)	11,356	149,657	161,013
Total borrowings	2,825,253	1,215,609	4,040,862

(a) Credit lines for renegotiations of loans

Central Bank borrowings include credit lines for the renegotiations of loans and other Central Bank borrowings. These credit lines were provided by the Central Bank for the renegotiations of loans due to the need to refinance debts as a result of the economic recession and crisis of the banking system in the early 1980's. The lines for the renegotiations, which are considered long-term, are related with mortgage loans linked to the UF index and bore a real annual interest rate of 3.0% and 3.0% as of December 31, 2007 and 2008, respectively. The following table sets forth, at the dates indicated, our credit lines for renegotiations of loans.

At December 31,
2007 2008

(in millions of constant
Ch\$ as of
December 31, 2008)
4,325 3,012

Total credit lines for renegotiations of loans

The maturities of the outstanding amounts due under these credit lines, which are considered long-term, are as follows:

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	At December 31, 2008 (in millions of constant Ch\$ as of December 31, 2008)
Due within 1 year	3,012
Total	3,012

(b) Mortgage finance bonds

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

	At December 31, 2008 (in millions of constant Ch\$ as of December 31, 2008)
Due within 1 year	54,767
Due after 1 year but within 2 years	41,211
Due after 2 years but within 3 years	37,635
Due after 3 years but within 4 years	31,284
Due after 4 years but within 5 years	33,655
Due after 5 years	146,128
Total mortgage finance bonds	344,680

(c) Bonds

The following table sets forth, at the dates indicated, our issued bonds. The bonds are denominated principally in UF or U.S. dollars, and are principally used to fund the Bank's mortgage portfolio. The U.S. dollar-denominated bonds bear an annual average rate interest rate of 5.75% and 6.08% at December 31, 2007 and 2008, respectively. The UF-denominated bonds bear an annual average interest rate of 4.05% and 4.02%.

	At December 31, 2007 2008 (in millions of constant Ch\$ as of December 31, 2008)	
Santander bonds denominated in U.S. dollars	216,962	256,582
Santander bonds denominated in UF	1,116,948	1,362,198
Total bonds	1,333,910	1,618,780

The maturities of these bonds are as follows:

	As of December 31, 2008 (in millions of constant Ch\$ as of December 31, 2008)
Due within 1 year	256,582
Due after 1 year but within 2 years	170,358
Due after 2 years but within 3 years	226,910
Due after 3 years but within 4 years	8,805
Due after 4 years but within 5 years	259,768
Due after 5 years	696,357
Total bonds	1,618,780

During 2008, the Bank issued senior bonds in the local market for a total of UF 12.6 million (Ch\$270,753 million as of December 31, 2008 or US\$558 million). The following are details of the bonds issued.

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Senior bonds 2008

Series	Amount	Maturity	Interest rate (%)
Y	UF 4,000,000	6 years	3.50% per year, simple
Y1	UF 3,000,000	5 years	3.50% per year, simple
Y2	UF 3,000,000	25 years	Bullet
Y3	UF 2,000,000	10 years	3.80% per year, compounded
F2	UF 621,000	9 years	4.20% per year, compounded
	UF 12,621,000		

(d) Subordinated bonds

The following table sets forth, at the dates indicated, the balances of our subordinated bonds. The following table sets forth, at the dates indicated, our issued subordinated bonds. The bonds are denominated principally in UF or U.S. dollars, and are principally used to fund the Bank's mortgage portfolio and can be considered in the Bank's regulatory capital. The US\$ denominated subordinated bonds bear an annual average rate interest rate of 6.93% and 6.93% at December 31, 2007 and 2008, respectively. The UF-denominated bonds bear an annual average interest rate of 5.50% and 5.34%.

	As of December 31,	
	2007	2008
	(in millions of constant Ch\$ as of December 31, 2008)	
Subordinated bonds denominated in U.S. dollars	287,116	364,410
Subordinated bonds linked to the UF	255,391	323,502
Total subordinated bonds	542,507	687,912

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

	As of December 31, 2008 (in millions of constant Ch\$ as of December 31, 2008)
Due within 1 year	-
Due after 1 year but within 2 years	-
Due after 2 years but within 3 years	19,420
Due after 3 years but within 4 years	141,187
Due after 4 years but within 5 years	-
Due after 5 years	527,305
Total subordinated bonds	687,912

On July 17, 1997, the former Banco Santander issued subordinated bonds denominated in U.S dollars in an aggregate principal amount of US\$300 million. The bonds carry a nominal interest rate of 7.0% per annum, with semi-annual interest payments and one repayment of principal after a term of 10 year. These were paid in full in 2008.

On January 16, 2003, the Bank completed the voluntary exchange for its new subordinated bonds, which will mature in 2012. A total of US\$221,961,000 in principal of the Santiago bonds was offered and redeemed by the Bank. The bonds carry a nominal interest rate of 7.375% per annum, with semi-annual interest payments and repayment of principal after a term of 10 years.

On December 9, 2004, the Bank issued subordinated bonds denominated in U.S. dollars in an aggregate principal amount of US\$300 million. These bonds carry a nominal interest rate of 5.375% per annum, with semi-annual interest payments and repayment of principal after a term of 10 years.

In 2006, the Bank issued subordinated bonds denominated in UF in an aggregate principal amount of UF5,000,000, which bear an average annual rate of 4.4%.

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In 2007, the Bank issued subordinated bonds denominated in UF in an aggregate principal amount of UF4,000,000, which bear an average annual rate of 4.0%.

In 2008, the Bank issued subordinated bonds in the local market for a total of UF 3.75 million (Ch\$80,447 million or US\$128 million as of December 31, 2008). The table below sets forth details of the bonds issued.

Subordinated bonds

Series	Amount	Maturity	Interest rate (%)
G1	UF 3,000,000	25 years	3.90% per year, simple
G2	UF 750,000	25 years	4.80% per year, simple
	UF 3,750,000		

(e) Foreign borrowings

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

	As of December 31, 2008 (in millions of constant Ch\$ as of December 31, 2008)
Due within 1 year	1,107,997
Due after 1 year but within 2 years	143,555
Due after 2 years but within 3 years	165,500
Total foreign borrowings	1,417,052

The foreign borrowings are denominated principally in U.S. dollars, and are principally used to fund the Bank's foreign trade loans, and bear an annual average interest rate of 1.3% and 3.9% at December 31, 2007 and 2008, respectively. As a result of the global financial crisis, foreign borrowings from correspondent banks have tightened significantly. To offset this, in 2008, the Bank increased overnight deposits in U.S. dollars in its financial investments funded with the inflow of local currency deposits. See Item 5.E: Liquidity and Capital Resources – Financial Investments.

(f) Other obligations

Other obligations are summarized as follows.

As of December 31, 2008 (in millions of constant Ch\$ as of December 31, 2008)
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Due within 1 year	54,903
Due after 1 year but within 2 years	2,150
Due after 2 years but within 3 years	1,820
Due after 3 years but within 4 years	1,088
Due after 4 years but within 5 years	808
Due after 5 years	1,491
Total long term obligations	62,260
Amounts due to credit card operators	41,018
Total short-term obligations	41,018
Total other obligations	103,278

Other Off-Balance Sheet Arrangements and Commitments

We are party to transactions with off-balance sheet risk in the normal course of our business. These transactions expose us to credit risk in addition to amounts recognized in the consolidated financial statements.

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In 2008, as part of the gradual process of adopting international accounting standards, the Bank reclassified its contingent loans as off-balance sheet items. Contingent loans consist of guarantees granted by us in Chilean peso, UF and foreign currencies (principally U.S. dollars), as well as open and unused letters of credit. The total amount of contingent loans held off-balance sheet as of December 31, 2006, 2007 and 2008 was Ch\$1,196,456, Ch\$1,293,604 and Ch\$1,240,690 million, respectively. Contingent loans are considered in the calculation of risk weighted assets and capital requirements as well as for credit risk reserve requirements.

Other off-balance sheet arrangements include commitments to extend credit such as overdraft protection and credit card lines of credit. Such commitments are agreements to lend to a customer at a future date, subject to the customer compliance with the contractual terms. The aggregate amount of these commitments was Ch\$4,041,849 million at December 31, 2008, which will be financed with our deposit base. Since a substantial portion of these commitments is expected to expire without being drawn upon, the total amount of commitments does not necessarily represent our actual future cash requirements. We use the same credit policies in making commitments to extend credit as we do for granting loans. In the opinion of our management, our outstanding commitments do not represent an unusual credit risk.

From time to time, the Bank enters into agreements to securitize certain assets by selling those assets to unconsolidated and unaffiliated entities, which then sell debt securities secured by those assets. These sales are non recourse to the Bank. However, in the past, the Bank has occasionally purchased a subordinated bond issued by the unconsolidated entity. At December 31, 2008, we did not hold any of these subordinated bonds in our investment portfolio.

Asset and Liability Management

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

Capital Expenditures

The following table reflects capital expenditures in each of the three years ended December 31, 2006, 2007 and 2008:

	For the Year Ended December 31, 2006 2007 2008 (in millions of constant Ch\$ as of December 31, 2008)		
Land and Buildings	11,860	14,016	10,311
Machinery and Equipment	9,094	9,269	5,739
Furniture and Fixtures	4,802	5,430	1,574
Vehicles	978	425	589
Other	2,654	3,661	459
Total	29,388	32,801	18,672

The decrease in capital expenditures in 2008 compared to 2007 was mainly due to the lower investment in branches and ATMs.

We do not have any material commitments for capital expenditures for the future.

F. Selected Statistical Information

The following information is included for analytical purposes and should be read in conjunction with our financial statements as well as the discussion in “Item 5: Operating and Financial Review and Prospects.” Pursuant to Chilean GAAP, the financial data in the following tables for all periods through December 31, 2007, have been restated in constant Chilean pesos as of December 31, 2008. The UF is linked to, and is adjusted daily, to reflect changes in the previous month’s Chilean consumer price index. See Note 1.c to our Audited Consolidated Financial Statements.

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

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

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

Where:

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

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

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

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

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

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

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

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

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

The foreign exchange gains or losses on foreign currency-denominated assets and liabilities have not been included in interest revenue or expense. Similarly, interest on the available for sale investment portfolio does not include trading or mark-to-market gains or losses on these investments. Interest is not recognized during periods in which loans are

past due. However, interest received on past due loans includes interest on such loans from the original maturity date. Non-performing loans that are overdue for 90 days or less have been included in each of the various categories of loans, and therefore affect the various averages. Non-performing loans consist of loans as to

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which either principal or interest is overdue (i.e., non accrual loans) and restructured loans earning no interest. Non-performing loans that are overdue for 90 days or more are shown as a separate category of loans (“Past due loans”). Interest and/or indexation readjustments received on all non-performing U.S. dollar-denominated loans during the periods are included as interest revenue. However, all peso-denominated loans that are classified as non-performing do not accrue interest or indexation adjustments as interest revenue.

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

The average balances for 2006 and 2007 have been reclassified for comparative purposes in line with the changes made to the financial statements for those years under the new accounting formats adopted in 2008. See Item 5B: Critical Accounting Policies.

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The following tables show, by currency of denomination, average balances and, where applicable, interest amounts and real rates for our assets and liabilities for the years ended December 31, 2006, 2007 and 2008.

	Year ended December 31,											
	2006				2007				2008			
	Average		Average		Average		Average		Average		Average	
	Balance	Interest Earned	Real Rate	Nominal Rate	Balance	Interest Earned	Real Rate	Nominal Rate	Balance	Interest Earned	Real Rate	Nominal Rate
(in millions of constant Ch\$ as of December 31, 2008, except for rate data)												
ASSETS												
INTEREST-EARNING ASSETS												
Deposits in Central Bank												
Ch\$	72,095	4,224	(2.8%)	5.9%	68,628	9,614	4.7%	14.0%	114,052	9,515	(0.5%)	8.3%
UF	-	-	-	-	-	-	-	-	-	-	-	-
Foreign currencies	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal	72,095	4,224	(2.8%)	5.9%	68,628	9,614	4.7%	14.0%	114,052	9,515	(0.5%)	8.3%
Interbank deposits												
Ch\$	26,474	1,457	(3.1%)	5.5%	-	-	-	-	-	-	-	-