BANCO SANTANDER CHILE
Form 20-F
May 14, 2015

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, 2014
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number: 1-14554

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

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

Chile
(Jurisdiction of incorporation or organization)

Bandera 140
Santiago, Chile
Telephone: 011-562-320-2000
(Address of principal executive offices)

Robert Moreno Heimlich
Tel: 562-2320-8284, Fax: 562-696-1679, email:rmorenoh@santander.cl
Bandera 140, 19th Floor, Santiago, Chile

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

Title of each class	Name of each exchange on which registered
	New York Stock Exchange

American Depositary Shares (“ADS”), each representing the right to receive 400 Shares of Common Stock without par value	
Shares of Common Stock, without par value*	New York Stock Exchange

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

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

None
(Title of Class)

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

None
(Title of Class)

The number of outstanding shares of each class of common stock of Banco Santander-Chile at December 31, 2014, 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 Other

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

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

Item 17 Item 18

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

Yes No

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

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

- asset growth and alternative sources of funding

- growth of our fee-based business
  - financing plans
  - impact of competition
  - impact of regulation
- exposure to market risks including:
  - interest rate risk

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- foreign exchange risk
- equity price risk
- projected capital expenditures
- liquidity
- trends affecting:
- our financial condition
- our results of operation

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

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

- changes in capital markets in general that may affect policies or attitudes towards lending to Chile or Chilean companies;
- changes in economic conditions;
- the monetary and interest rate policies of Central Bank (as defined below);
- inflation;
- deflation;
- unemployment;
- increases in defaults by our customers and in impairment losses;
- decreases in deposits;
- customer loss or revenue loss;
- unanticipated turbulence in interest rates;
- movements in foreign exchange rates;

- movements in equity prices or other rates or prices;
- the effects of non-linear market behavior that cannot be captured by linear statistical models, such as the VaR model we use;
- changes in Chilean and foreign laws and regulations;
- changes in taxes;
- competition, changes in competition and pricing environments;

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- our inability to hedge certain risks economically;
- the adequacy of loss allowances;
- technological changes;
- changes in consumer spending and saving habits;
- changes in demographics, consumer spending, investment or saving habits;
- increased costs;
- unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms;
- changes in, or failure to comply with, banking regulations;
- acquisitions or restructurings of businesses that may not perform in accordance with our expectations;
- our ability to successfully market and sell additional services to our existing customers;
- disruptions in client service;
- damage to our reputation;
- natural disasters;
- implementation of new technologies;
- the Group's exposure to operational losses (e.g., failed internal or external processes, people and systems); and
- an inaccurate or ineffective client segmentation model.

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

CERTAIN TERMS AND CONVENTIONS

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

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

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

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

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

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

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

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

PRESENTATION OF FINANCIAL INFORMATION

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

As required by local regulations, our locally filed consolidated financial statements have been prepared in accordance with Chilean accounting principles issued by the SBIF (“Chilean Bank GAAP”). Therefore, our locally filed consolidated financial statements have been adjusted to IFRS in order to comply with the requirements of the Securities and Exchange Commission (the “SEC”). Chilean Bank GAAP principles are substantially similar to IFRS but there are some exceptions. For further details and a discussion of the main differences between Chilean Bank GAAP and IFRS, see to “Item 5. Operating and Financial Review and Prospects—A. Accounting Standards Applied in 2014.”

This Annual Report contains our consolidated financial statements as of December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012 (the “Audited Consolidated Financial Statements”). Such Audited Consolidated Financial Statements have been prepared in accordance with IFRS as issued by the IASB, and have been audited by Deloitte Auditores y Consultores Limitada, independent registered public accountants. See page F-2 of the Audited Consolidated Financial Statements for the 2014 report prepared by Deloitte Auditores y Consultores Limitada. The Audited Consolidated Financial Statements have been prepared from accounting records maintained by the Bank and its subsidiaries.

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

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

Functional and Presentation Currency

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

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

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Loans

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

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

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

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

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

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

Effect of Rounding

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

Economic and Market Data

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

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.

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Unless otherwise indicated, all U.S. dollar amounts at any year end, for any period have been translated from Chilean pesos based on the interbank market rate published by Reuters at 1:30 pm on the last business day of the period. On December 31, 2013 and 2014 the exchange rate in the Informal Exchange Market as published by Reuters at 1:30 pm on these days was Ch$524.20 and Ch$608.33 respectively, or 0.08% and 0.16% more, respectively, than the observed exchange rate published by the Central Bank for such date of Ch$523.76 and Ch$607.38, respectively, per U.S.$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for the Chilean peso. For more information on the observed exchange rate, see "Item 3. Key Information—A. Selected Financial Data—Exchange Rates" of the Annual Report.

As of December 31, 2013 and 2014, one UF was equivalent to Ch$ 23,309.56 and Ch$24,627.10, respectively. The U.S. dollar equivalent of one UF was U.S.$40.55 as of December 31, 2014, using the observed exchange rate reported by the Central Bank as of December 30, 2014 of Ch$ 607.38 per U.S.$1.00.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following table presents selected historical financial information for Santander-Chile as of the dates and for each of the periods indicated. Financial information for Santander-Chile as of and for the years ended December 31, 2014, 2013, 2012, 2011, and 2010 has been derived from our audited consolidated financial statements prepared in accordance with IFRS. These consolidated financial statements differ in some respects from our locally filed financial statements at and for the years ended December 31, 2014, 2013, 2012, 2011, and 2010 prepared in accordance with Chilean Bank GAAP.

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

	As of and for the years ended December 31,					
	2014	2014	2013	2012	2011	2010
	In U.S.$ thousands(1)	In Ch$ millions (2)				
CONSOLIDATED STATEMENT OF INCOME DATA (IFRS)						
Net interest income	2,165,115	1,317,104	1,076,762	1,042,734	972,300	939,719
Net fee and commission income	373,617	227,283	229,836	270,572	277,836	263,582
Financial transactions, net	185,039	112,565	124,437	82,299	94,197	95,988
Other operating income	10,759	6,545	88,155	13,105	18,749	43,608
Net operating profit before loan losses	2,734,530	1,663,497	1,519,190	1,408,710	1,363,082	1,342,897
Provision for loan losses	(583,405)	(354,903)	(371,462)	(403,692)	(316,137)	(253,915)
Net operating profit	2,151,125	1,308,594	1,147,728	1,005,018	1,046,945	1,088,982
Total operating expenses	(1,124,092)	(683,819)	(610,191)	(599,379)	(564,655)	(497,338)
Operating income	1,027,033	624,775	537,537	405,639	482,290	591,644
Income from investments in other companies	3,559	2,165	1,422	267	2,140	1,171
Income before tax	1,030,592	626,940	538,959	405,906	484,430	592,815
Income tax expense	(83,918)	(51,050)	(94,530)	(44,473)	(77,308)	(85,343)
Net income for the year	946,674	575,910	444,429	361,433	407,122	507,472
Net income for the period attributable to:						

Equity holders of the Bank	936,844	569,910	442,294	356,808	402,191	505,393
Non-controlling interests	9,830	5,980	2,135	4,625	4,931	2,079
Net income attributable to Equity holders of the Bank per share	4.97	3.02	2.35	1.89	2.13	2.68
Net income attributable to Equity holders of the Bank per ADS (3)	1.99	1,208.00	938.83	757.37	2,217.48	2,786.48
Weighted-average shares outstanding (in millions)	188,446.1	188,446.1	188,446.1	188,446.1	188,446.1	188,446.1
Weighted-average ADS outstanding (in millions) (3)	471.1	471.1	471.1	471.1	181.4	181.4
CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA (IFRS)						
Cash and deposits in banks	2,644,762	1,608,888	1,571,810	1,250,414	2,793,701	1,762,198
Cash items in process of collection	873,495	531,373	604,077	520,267	276,454	374,368
Trading investments	1,273,675	774,815	287,567	338,287	409,763	379,670
Investments under resale agreements	-	-	17,469	6,993	12,928	170,985
Financial derivative contracts	4,483,690	2,727,563	1,494,018	1,293,212	1,601,896	1,624,378
Interbank loans, net	19,631	11,942	124,954	90,414	87,677	69,672
Loans and accounts receivable from customers, net	36,487,416	22,196,390	20,320,874	18,326,190	16,858,637	15,232,163
Available for sale investments	2,714,970	1,651,598	1,700,993	1,826,158	1,661,311	1,473,980
Investments in associates and other companies	29,448	17,914	9,681	7,614	8,728	7,275
Intangible assets	67,370	40,983	66,703	87,347	80,739	77,990
Property, plant, and equipment	347,773	211,561	180,215	162,214	153,059	154,985

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	2014	2014	2013	2012	2011	2010
	As of and for the years ended December 31,					
	In U.S.$ thousands(1)	In Ch$ millions (2)				
Current taxes	3,684	2,241	1,643	10,227	37,253	12,499
Deferred taxes	447,319	272,118	227,285	181,875	136,521	100,470
Other assets	1,525,424	927,961	514,938	657,890	550,326	650,081
TOTAL ASSETS	50,918,657	30,975,347	27,122,227	24,759,102	24,668,993	22,090,714
Deposits and other demand liabilities	10,652,930	6,480,497	5,620,763	4,970,019	4,413,815	4,236,434
Cash items in process of being cleared	462,346	281,259	276,379	284,953	89,486	300,125
Obligations under repurchase agreements	644,594	392,126	208,972	304,117	544,381	294,725
Time deposits and other time liabilities	17,118,899	10,413,940	9,675,272	9,112,213	8,921,114	7,258,757
Financial derivative contracts	4,210,517	2,561,384	1,291,785	1,146,161	1,292,402	1,643,979
Interbank borrowings	2,024,561	1,231,601	1,682,377	1,438,003	1,920,092	1,584,057
Issued debt instruments	9,509,825	5,785,112	5,198,658	4,571,289	4,623,239	4,190,888
Other financial liabilities	337,194	205,125	189,781	192,611	176,599	166,289
Current taxes	1,771	1,077	50,242	525	1,498	1,293
Deferred taxes	12,544	7,631	26,753	9,544	5,315	5,441
Provisions	470,090	285,970	217,310	191,892	187,557	209,421
Other liabilities	1,075,990	654,557	311,479	341,274	398,977	261,328
TOTAL LIABILITIES	46,521,261	28,300,279	24,749,771	22,562,601	22,574,475	20,152,737
Capital	1,465,164	891,303	891,303	891,303	891,303	891,303
Reserves	2,149,756	1,307,761	1,130,991	975,460	802,528	51,539
Valuation adjustments	42,082	25,600	(5,964)	(3,781)	2,832	(5,180)
Retained earnings	686,011	417,321	327,622	299,254	364,054	968,506
Equity attributable to the Bank's shareholders	4,343,013	2,641,985	2,343,952	2,162,236	2,060,717	1,906,168
Non-controlling interest	54,383	33,083	28,504	34,265	33,801	31,809
TOTAL EQUITY	4,397,396	2,675,068	2,372,456	2,196,501	2,094,518	1,937,977
TOTAL LIABILITIES AND EQUITY	50,918,657	30,975,347	27,122,227	24,759,102	24,668,933	22,090,714

	2014	2013	2012	2011	2010
	As of and for the years ended December 31,				
CONSOLIDATED RATIOS (IFRS)					
Profitability and performance:					
Net interest margin (5)	4.9 %	4.6 %	4.8 %	4.8 %	5.4 %
Return on average total assets (6)	1.8 %	1.6 %	1.4 %	1.7 %	2.4 %
Return on average equity (7)	21.4 %	18.9 %	16.5 %	20.4 %	29.0 %
Capital:					
Average equity as a percentage of average total assets (8)	8.2 %	8.7 %	8.7 %	8.3 %	8.4 %
Total liabilities as a multiple of equity (9)	10.6	10.4	10.3	10.8	10.4
Credit Quality:					

Non-performing loans as a percentage of total loans (10)	2.8	%	2.9	%	3.2	%	2.9	%	2.7	%
Allowance for loan losses as percentage of total loans	2.9	%	2.9	%	2.9	%	2.8	%	2.7	%
Operating Ratios:										
Operating expenses /operating revenue (11)	41.1	%	40.2	%	42.5	%	41.4	%	37.0	%
Operating expenses /average total assets	2.1	%	2.3	%	2.4	%	2.3	%	2.2	%
OTHER DATA										
CPI Inflation Rate (12)	4.7	%	3.0	%	1.5	%	4.4	%	3.0	%
Revaluation (devaluation) rate (Ch$/U.S.$) at year end (12)	16.0	%	9.4	%	(8.2	%)	11.3	%	(7.5	%)
Number of employees at period end	11,478		11,516		11,713		11,566		11,001	
Number of branches and offices at period end	474		493		504		499		504	

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(1) Amounts stated in U.S. dollars at and for the year ended December 31, 2014 have been translated from Chilean pesos at the interbank market exchange rate of Ch$608.33 = U.S.$1.00 as of December 31, 2014 based on the interbank market rate published by Reuters at 1:30 pm on the last business day of the period.

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

(3) On October 22, 2012 the Bank performed an ADR split: for each old ADR, an ADR holder received 2.5975 new ADRs, and the ratio of ADS to shares became 1 ADS = 400 shares. For the years 2010-2011,1 ADS = 1,039 shares of common stock.

(4) Total equity includes equity attributable to Equity holders of the Bank plus non-controlling interests.

(5) Net interest income divided by average interest earning assets (as presented in "Item 5. Operating and Financial Review and Prospects— F. Selected Statistical Information").

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

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

(8) This ratio is calculated using total average equity (as presented in "Item 5. Operating and Financial Review and Prospects—F. Selected Statistical Information") including non-controlling interest.

(9) Total liabilities divided by equity.

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

(11) The efficiency ratio is equal to operating expenses over operating income. Operating expenses includes personnel salaries and expenses, administrative expenses, depreciation and amortization, impairment and other operating expenses. Operating income includes net interest income, net fee and commission income, net income from financial operations (net trading income), foreign exchange profit (loss), net and other operating income.

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

Exchange Rates

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

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

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

Purchases and sales of foreign currencies may be legally carried out in the Informal Exchange Market. The Informal Exchange Market reflects transactions carried out at informal exchange rates by entities not expressly authorized to operate in the Formal Exchange Market. There are no limits imposed on the extent to which the rate of exchange in the Informal Exchange Market can fluctuate above or below the Observed Exchange Rate. In recent years, the variation between the Observed Exchange Rate and the Informal Exchange Rate has not been significant. On December 31, 2013 and 2014 the exchange rate in the Informal Exchange Market as published by Reuters at 1:30 pm on these days was Ch$524.20 and Ch$608.33 respectively, or 0.08% and 0.16% more, respectively, than the Central Bank's published observed exchange rate for such date of Ch$523.76 and Ch$607.38, respectively, per U.S.$1.00.

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

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Year	Daily Observed Exchange Rate Ch$ Per U.S.$(1)			
	Low(2)	High(2)	Average(3)	Period End
2010	468.37	549.17	510.38	468.37
2011	455.91	533.74	483.36	521.46
2012	469.65	519.69	494.99	478.60
2013	466.50	533.95	495.09	523.76
2014	524.61	621.41	570.01	607.38

Month	Daily Observed Exchange Rate Ch$ Per U.S.$(1)			
	Low(2)	High(2)	Average(3)	Period End
October 2014	576.65	599.22	589.98	576.65
November 2014	576.50	600.37	592.46	598.94
December 2014	605.46	621.41	612.92	607.38
January 2015	606.75	629.09	620.91	626.48
February 2015	616.86	632.19	623.62	617.67
March 2015	617.38	642.18	628.50	626.87
April 2015	606.39	626.58	614.73	606.82
May 2015 (through May 11)	605.77	614.48	610.48	605.77

Source: Central Bank.

(1) Nominal figures.

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

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

Dividends

Under the current General Banking Law, a Chilean bank may only pay a single dividend per year (i.e., interim dividends are not permitted). Santander-Chile’s annual dividend is proposed by its Board of Directors and is approved by the shareholders at the annual ordinary shareholders’ meeting held the year following that in which the dividend is generated. For example, the 2014 dividend must be proposed and approved during the first four months of 2015. Following shareholder approval, the proposed dividend is declared and paid. Historically, the dividend for a particular year has been declared and paid no later than one month following the shareholders’ meeting. Dividends are paid to shareholders of record on the fifth day preceding the date set for payment of the dividend. The applicable record dates for the payment of dividends to holders of ADSs will, to the extent practicable, be the same.

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

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

Under the Foreign Investment Contract (as defined herein), the Depositary, on behalf of ADS holders, is granted access to the Formal Exchange Market to convert cash dividends from Chilean pesos to U.S. dollars and to pay such U.S. dollars to ADS holders outside Chile, net of taxes, and no separate registration by ADS holders is required. In the past, Chilean law required that holders of shares of Chilean companies who were not residents of Chile to register as foreign investors under one of the foreign investment regimes contemplated by Chilean law in

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order to have dividends, sale proceeds or other amounts with respect to their shares remitted outside Chile through the Formal Exchange Market. On April 19, 2001, the Central Bank deregulated the Exchange Market and eliminated the need to obtain approval from the Central Bank in order to remit dividends, but at the same time this eliminated the possibility of accessing the Formal Exchange Market. These changes do not affect the current Foreign Investment Contract, which was signed prior to April 19, 2001, which grants access to the Formal Exchange Market with prior approval of the Central Bank. See "Item 10. Additional Information—D. Exchange Controls."

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

Year	Dividend Ch$ mn (1)	Per share Ch$/share (2)	Per ADR Ch$/ADR (3)	% over earnings (4)	% over earnings (5)
2011	286,294	1.52	1,578.48	60	57
2012	261,051	1.39	1,439.10	60	65
2013	232,780	1.24	494.10	60	65
2014	265,156	1.41	562.83	60	60
2015(6)	330,198	1.75	700.89	60	58

(1) Millions of nominal pesos.

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

(3) Calculated on the basis of 1,039 shares per ADS for the periods for 2011 and 2012. For 2013, 2014 and 2015, it is calculated on the basis of 400 shares per ADS.

(4) Calculated by dividing dividend paid in the year by net income attributable to shareholders for the previous year under Chilean GAAP.

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

(6) Dividend proposed by the Board for shareholders' approval on April 28, 2015.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

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

Risks Associated with Our Business

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

In the recent past, financial systems worldwide have experienced difficult credit and liquidity conditions and disruptions leading to less liquidity, greater volatility, general widening of spreads and, in some cases, lack of price transparency on interbank lending rates. Global economic conditions deteriorated significantly between 2007 and 2009, and many countries fell into recession. Although macroeconomic conditions have slightly improved in the past three years, global imbalances and risks remain. Many major financial institutions, including some of the world’s largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies experienced, and some continue to experience, significant difficulties. Around the world, there have also

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been runs on deposits at several financial institutions, numerous institutions have sought additional capital or have been assisted by governments, and many lenders and institutional investors have reduced or ceased providing funding to borrowers (including to other financial institutions).

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

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

- Increased regulation of our industry. Compliance with such regulation will increase our costs and may affect the pricing for our products and services and limit our ability to pursue business opportunities.
- Reduced demand for our products and services.
- Inability of our borrowers to timely or fully comply with their existing obligations.
- The process we use to estimate losses inherent in our credit exposure requires complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans. The degree of uncertainty concerning economic conditions may adversely affect the accuracy of our estimates, which may, in turn, impact the reliability of the process and the sufficiency of our loan loss allowances.
- The value and liquidity of the portfolio of investment securities that we hold may be adversely affected.
- Any worsening of global economic conditions may delay the recovery of the international financial industry and impact our financial condition and results of operations.
- The recoverability of our retail loans in particular may be increasingly vulnerable to macroeconomic shocks that could negatively impact the household income of our retail customers and result in increased loan losses.

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

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

In addition, our ratings may be adversely affected by any downgrade in the ratings of our parent company, Santander Spain. The long-term debt of Santander Spain is currently rated investment grade by the major rating agencies—Baa1 by Moody’s Investors Service España, S.A., (“Moody’s”) BBB+ by Standard & Poor’s Ratings Services (“S&P”) and A- by

Fitch Ratings Ltd. ("Fitch")—all of which have a stable outlook due to the gradual economic improvement in Spain.

Any downgrade in our debt credit ratings would likely increase our borrowing costs and require us to post additional collateral or take other actions under some of our derivative contracts, and could limit our access to capital markets and adversely affect our commercial business. For example, a ratings downgrade could adversely affect our ability to sell or market certain of our products, engage in certain longer-term and derivatives transactions and retain our customers, particularly customers who need a minimum rating threshold in order to invest. In

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addition, under the terms of certain of our derivative contracts, we may be required to maintain a minimum credit rating or terminate such contracts. Any of these results of a ratings downgrade, in turn, could reduce our liquidity and have an adverse effect on us, including our operating results and financial condition.

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

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

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

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

The Chilean market for financial services is highly competitive. We compete with other private sector Chilean and non-Chilean banks, with Banco del Estado, the principal government-owned sector bank, with department stores and with larger supermarket chains that make consumer loans and sell other financial products to a large portion of the Chilean population. The lower to middle-income segments of the Chilean population and the small- and mid- sized corporate segments have become the target markets of several banks and competition in these segments may increase. We also face competition from non-bank (such as department stores, insurance companies, cajas de compensación and cooperativas) and non-finance competitors (principally department stores and larger supermarket chains) with respect to some of our credit products, such as credit cards, consumer loans and insurance brokerage. In addition, we face competition from non-bank finance competitors, such as leasing, factoring and automobile finance companies, with respect to credit products, and from mutual funds, pension funds and insurance companies with respect to savings products. Increasing competition could require that we increase our rates offered on deposits or lower the rates we charge on loans, which could also have a material adverse effect on us, including our profitability. It may also negatively affect our business results and prospects by, among other things, limiting our ability to increase our customer base and expand our operations and increasing competition for investment opportunities.

The increase in competition within the Chilean banking industry in recent years has led to consolidation in the industry. We expect the trends of increased competition and consolidation to continue and to result in the formation of large new financial groups with which we must now compete. There can be no assurance that this increased competition will not adversely affect our growth prospects, and therefore our operations.

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

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

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

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

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

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

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

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

The fees and commissions that we earn from the different banking and other financial services that we provide represent a significant source of our revenues. Market downturns have led, and are likely to continue to lead, to a decline in the volume of transactions that we execute for our customers and, therefore, to a decline in our non-interest revenues. In addition, because the fees that we charge for managing our clients' portfolios are in many cases based on the value or performance of those portfolios, a market downturn that reduces the value of our clients' portfolios or increases the amount of withdrawals would reduce the revenues we receive from our asset management, private banking and custody businesses and adversely affect our results of operations. Moreover, our customers may further significantly decrease their risk tolerance to non-deposit investments such as stocks, bonds and mutual funds, which would adversely affect us, including our fee and commission income.

Even in the absence of a market downturn, below-market performance by the mutual funds we broker may result in increased withdrawals and reduced inflows, which would reduce the revenue we receive from the asset management business we broker and adversely affect our results of operations.

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

In the recent past, financial markets have been subject to significant stress resulting in steep falls in perceived or actual financial asset values, particularly due to volatility in global financial markets and the resulting widening of credit spreads. We have material exposures to securities and other investments that are recorded at fair value and are therefore exposed to potential negative fair value adjustments. Asset valuations in future periods, reflecting then-

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prevailing market conditions, may result in negative changes in the fair values of our financial assets and these may also translate into increased impairments. In addition, the value ultimately realized by us on disposal may be lower than the current fair value. Any of these factors could require us to record negative fair value adjustments, which may have a material adverse effect on our operating results, financial condition or prospects.

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

If we are unable to effectively control the level of non-performing or poor credit quality loans in the future, or if our loan loss reserves are insufficient to cover future loan losses, this could have a material adverse effect on us.

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

As of December 31, 2014, our non-performing loans were Ch$644,327 million, and the ratio of our non-performing loans to total loans was 2.81%. As of December 31, 2014, our allowance for loan losses was Ch$684,317 million, and the ratio of our allowance for loan losses to total loans was 2.99%. For additional information on our asset quality, see "Item 5. Operating and Financial Review and Prospects— F. Selected Statistical Information–Classification of Loan Portfolio Based on the Borrower's Payment Performance."

Our current allowance for loan losses may not be adequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of our total loan portfolio. Our allowance for loan losses is based on our current assessment of and expectations concerning various factors affecting us, including the quality of our loan portfolio. These factors include, among other things, our borrowers' financial condition, repayment abilities and repayment intentions, the realizable value of any collateral, the prospects for support from any guarantor, Chile's economy, government macroeconomic policies, interest rates and the legal and regulatory environment. As the recent global financial crisis has demonstrated, many of these factors are beyond our control. In addition, as these factors evolve, the models we use to determine the appropriate level of allowance for loan losses and other assets require recalibration, which can lead to increased provision expense. See "Item 5. Operating and Financial Review and Prospects—C. Operating Results–Results of Operations for the Years ended December 31, 2014, 2013 and 2012—Provision for loan losses, net of recoveries."

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

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

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

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

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

A substantial number of our customers consist of individuals (51.7% of the value of the total loan portfolio as of December 31, 2014, if interbank loans are included) and, to a lesser extent, small- and mid-sized companies (those with annual revenues of less than U.S.$2.0 million), which comprised approximately 14.7% of the value of the total loan portfolio as of December 31, 2014. As part of our business strategy, we seek to increase lending and other services to small companies and individuals. Small companies and lower- to middle-income individuals are, however, more likely to be adversely affected by downturns in the Chilean economy than large corporations and higher-income individuals. In addition, as of December 31, 2014, our residential mortgage loan portfolio totaled Ch$6,632,031 million, representing 28.9% of our total loans. See "Note 9—Loans and Accounts Receivables from Customers" in our Audited Consolidated Financial Statements for a description and presentation of our residential mortgage loan portfolio. If the economy and real estate market in Chile experience a significant downturn, this could materially adversely affect the liquidity, businesses and financial conditions of our customers, which may in turn cause us to experience higher levels of past-due loans, thereby resulting in higher provisions for loan losses and subsequent charge-offs. This may materially and adversely affect our asset quality, results of operations and financial condition.

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

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

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

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

- net interest income;
- the volume of loans originated;

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- the market value of our securities holdings; and
- gains from sales of loans and securities.

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

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

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

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

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

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

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

The management of risk is an integral part of our activities. We seek to monitor and manage our risk exposure through a variety of separate but complementary financial, credit, market, operational, compliance and legal reporting systems.

While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, such techniques and strategies may not be fully effective in mitigating our risk exposure in all economic market environments or against all types of risk, including risks that we fail to identify or anticipate.

Some of our qualitative tools and metrics for managing risk are based upon our use of observed historical market behavior. We apply statistical and other tools to these observations to arrive at quantifications of our risk exposures. These qualitative tools and metrics may fail to predict future risk exposures. These risk exposures could, for example, arise from factors we did not anticipate or correctly evaluate in our statistical models. This would limit our ability to manage our risks. Our losses thus could be significantly greater than the historical measures indicate. In addition, our quantified modeling does not take all risks into account. Our more qualitative approach to managing

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those risks could prove insufficient, exposing us to material unanticipated losses. If existing or potential customers believe our risk management is inadequate, they could take their business elsewhere. This could harm our reputation as well as our revenues and profits.

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

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

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

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

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

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

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

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

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

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

We anticipate that our customers will continue, in the near future, to make short-term deposits (particularly demand deposits and short-term time deposits), and we intend to maintain our emphasis on the use of banking deposits as a source of funds. As of December 31, 2014, 98.9% of our customer deposits had remaining maturities of one year or less, or were payable on demand. A significant portion of our assets have longer maturities, resulting in a mismatch between the maturities of liabilities and the maturities of assets. Historically, one of our principal sources of funds has been time deposits. Time deposits represented 33.6% and 35.7% of our total liabilities and equity as of December 31, 2014 and 2013, respectively. The Chilean time deposit market is concentrated given the importance in size of various large institutional investors such as pension funds and corporations relative to the total size of the economy. As of December 31, 2014, the Bank’s top 20 time deposits represented 28.3% of total time deposits, or 10.3% of total liabilities and equity, and totaled U.S.$4.8 billion. No assurance can be given that future economic stability in the Chilean market will not negatively affect our ability to continue funding our business or to maintain our current levels of funding without incurring increased funding costs, a reduction in the term of funding instruments or the liquidation of certain assets. If this were to happen, we could be materially adversely affected.

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

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

Chilean banks are required by the General Banking Law to maintain regulatory capital of at least 8% of risk-weighted assets, net of required loan loss allowance and deductions, and paid-in capital and reserves (“basic capital”) of at least 3% of total assets, net of required loan loss allowances. As we are the result of the merger between two predecessors with a relevant market share in the Chilean market, we are currently required to maintain a minimum regulatory capital to risk-weighted assets ratio of 11%. As of December 31, 2014, the ratio of our regulatory capital to risk-weighted assets, net of loan loss allowance and deductions, was 14.00%. Certain developments could affect our ability to continue to satisfy the current capital adequacy requirements applicable to us, including:

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

- changes in the guidelines regarding the calculation of the capital adequacy ratios of banks in Chile.

Chilean banks are gradually being required to adopt the guidelines set forth under the Basel III Capital Accord with adjustments incorporated by the SBIF once these changes are approved by the Chilean Congress in 2015 or

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2016. Following this approval, Chilean banks will most likely have to fully comply with Basel III requirements by 2018 or 2019. This could result in a different level of minimum capital required to be maintained by us. According to initial estimates of the impact of market risk on regulatory capital, published by the SBIF for informational purposes only, our ratio of regulatory capital to risk-weighted assets, net of loan loss allowance and deductions, including an initial estimate of the adjustments for market risk was 12.54% as of December 31, 2014. No assurance can be given that the adoption of the Basel III capital requirements will not have a material impact on our capitalization ratio.

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

The SBIF and the Central Bank published new liquidity standards in 2015 and ratios that must be implemented and calculated by all banks. These will eventually replace the current regulatory limits imposed by the SBIF and the Central Bank described above. These new liquidity standards are in line with those established in Basel III. The most important liquidity ratios that will eventually be adopted by Chilean banks are:

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

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

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

Beginning on August 1, 2015, banks must report these ratios to the Central Bank and the SBIF. The evolution of these indicators will be monitored for a 12 month period and adjustments to the required ratios could be made. The final limits and results should begin to be published in the second half of 2016. The initial limits banks must meet to meet in order to comply with these new ratios have not been published yet. For this reason, we cannot yet determine the effect that the implementation of these models will have on our business. Such effect could be material and adverse if it materially increases the liquidity we are required to maintain.

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

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

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

Modifications to reserve requirements may affect our business.

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

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

Effective management of our capital position is important to our ability to operate our business, to continue to grow organically and to pursue our business strategy. However, in response to the global financial crisis, a number of changes to the regulatory capital framework have been adopted or continue to be considered. As these and other changes are implemented or future changes are considered or adopted that limit our ability to manage our balance sheet and capital resources effectively or to access funding on commercially acceptable terms, we may experience a material adverse effect on our financial condition and regulatory capital position.

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

Chilean regulations impose a series of restrictions on how Chilean pension fund management companies (Administradora de Fondos de Pensión, or "AFPs") may allocate their assets. In the particular case of financial issuers' there are three restrictions, each involving different assets and different limits determined by the amount of assets in each fund and the market and book value of the issuer's equity. As a consequence, limits vary within funds of AFPs and issuers. As of December 31, 2014, the AFP system had US$3,465 million invested in the Bank via equity, deposits and fixed income. According to the latest information published in November 2014, the AFPs still had the possibility of being able to invest another 7.0% of their assets in deposits and fixed income securities of the Bank and 0.43% in equity of the Bank, or US$12,553 million in total of the AFPs' assets under management at that time. If the exposure of any AFP to Santander-Chile exceeds the regulatory limits, we would need to seek alternative sources of funding, which could be more expensive and, as a consequence, may have a material adverse effect on our financial condition and results of operations.

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

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

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

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

Changes in accounting standards could impact reported earnings.

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

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

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

If the judgment, estimates and assumptions we use in preparing our tax returns are subsequently found to be incorrect, there could be a material effect on our results of operations.

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

Disclosure controls and procedures over financial reporting are designed to reasonably assure that information required to be disclosed by the company in reports filed or submitted under the Securities Exchange Act is accumulated and communicated to management, and recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Any disclosure controls and procedures over financial reporting or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

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

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

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

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

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

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

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

We take protective measures and continuously monitor and develop our systems to protect our technology infrastructure and data from misappropriation or corruption, but our systems, software and networks nevertheless may be vulnerable to unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. An interception, misuse or mishandling of personal, confidential or proprietary information sent to or received from a client, vendor, service provider, counterparty or third party could result in legal liability, regulatory action and reputational harm. There can be no assurance that we will not suffer material losses from operational risk in the future, including relating to cyber-attacks or other such security breaches. Further, as cyber-attacks continue to evolve, we may incur significant costs in its attempt to modify or enhance our protective measures or investigate or remediate any vulnerability. Any material disruption or slowdown of our systems could cause information, including data related to customer requests, to be lost or to be delivered to our clients with delays or errors, which could reduce demand for our services and products and could materially and adversely affect us.

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

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

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

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

We rely on third parties for important products and services.

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

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

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

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

We could suffer significant reputational harm if we fail to properly identify and manage potential conflicts of interest. Management of potential conflicts of interest has become increasingly complex as we expand our business activities through more numerous transactions, obligations and interests with and among our clients. The failure to adequately address or the perceived failure to adequately address, conflicts of interest could affect the willingness of clients to deal with us, or give rise to litigation or enforcement actions against us. Therefore, there can be no assurance that conflicts of interest will not arise in the future that could cause material harm to us.

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

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

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

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

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

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

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

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

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

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

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

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

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

We are from time to time subject to certain claims and parties to certain legal proceedings incidental to the normal course of our business, including in connection with conflicts of interest, lending activities, relationships with our employees and other commercial or tax matters. In view of the inherent difficulty of predicting the outcome of legal matters, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories, involve a large number of parties or are in the early stages of discovery, we cannot state with confidence what the eventual outcome of these pending matters will be or what the eventual loss, fines or penalties related to each pending matter may be. We believe that we have made adequate reserves related to the costs anticipated to be incurred in connection with these various claims and legal proceedings. See note 20 of our Consolidated Financial Statements. However, the amount of these provisions is substantially less than the total amount of the claims asserted against us and in light of the uncertainties involved in such claims and proceedings, there is no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued by us. As a result, the outcome of a particular matter may be material to our operating results for a particular period, depending upon, among other factors, the size of the loss or liability imposed and our level of income for that period.

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

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

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

We are subject to counterparty risk in our banking business.

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

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

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

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

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

Large-denominations of funding from time deposits from institutional investors may, under some circumstances, be a less stable source of funding than savings and bonds, such as during periods of significant changes in market interest rates for these types of deposit products and any resulting increased competition for such funds. As of December 31, 2014 short-term funding from institutional investors totaled US$3.1 billion or 6.7% of total liabilities and equity. The liquidity crisis triggered by the U.S. subprime market impacted global markets and affected sources of funding, including time deposits. Although our results of operations and financial position have not suffered a significant impact as a consequence of the recent credit market instability in the U.S., future market instability in the U.S. or in European markets, specifically the Spanish market, may negatively affect our ability to continue funding our business or maintain our current levels of funding without incurring higher funding costs or having to liquidate certain assets.

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

We allocate management and planning resources to develop strategic plans for organic growth, and to identify possible acquisitions and disposals and areas for restructuring our businesses. From time to time, we evaluate acquisition and partnership opportunities that we believe offer additional value to our shareholders and are consistent with our business strategy. However, we may not be able to identify suitable acquisition or partnership candidates, and our ability to benefit from any such acquisitions and partnerships will depend in part on our successful integration of those businesses. We can give no assurances that our expectations with regards to

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integration and synergies will materialize. We also cannot provide assurance that we will, in all cases, be able to manage our growth effectively or deliver our strategic growth objectives. Challenges that may result from our strategic growth decisions include our ability to:

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

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

Risks Relating to Chile

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

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

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

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

1. The statutory corporate tax rate increased from 20% to 21% in 2014 and 22.5% in 2015.
2. By the end of 2016, national pensions that are Chilean taxpayers must opt between two new tax systems for a period of five years. In one called sistema de renta atribuida (SRA, or attributable income system) the statutory income tax rate will rise to 24% in 2016 and 25% in 2017 and onward with personal taxes paid on an accrued basis.
3. In the other system called sistema integrado parcial (SIP or partially integrated system), the statutory tax rate will rise to 25.5% in 2016 and 27% in 2017 and onward with personal taxes paid on a dividend basis, therefore retaining some benefits for shareholders of companies that reinvest profits.

4. The Taxable Profits Fund (FUT), a mechanism that gives shareholders tax exemptions on reinvested profits, will be eliminated in fiscal 2018. After that, shareholders will have to pay taxes on their total profit under one of the two systems described above.

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

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

7. Increase in stamp tax from 0.45% to 0.8%.

8. Decree Law 600 to be eliminated by 2016, which could adversely affect foreign investment.

9. Lowering of VAT exemption for construction of houses up to 2,000 UF to UF225 per dwelling.

10. Charge VAT tax on real estate transactions beginning in 2016. VAT tax is 20% in Chile.

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

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

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

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

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

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

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

No assurance can be given that our growth, asset quality and profitability will not be affected by volatile macroeconomic and political conditions in Chile.

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

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

We are exposed to risks related to the weakness and volatility of the economic and political situation in Asia, the United States, Europe (including Spain, where Santander Spain, our controlling shareholder, is based), Brazil, Argentina and other nations. Even though the world economy and the financial and capital markets have been recovering from the 2008 crisis throughout 2010 and early 2011, the conditions of the global markets again deteriorated in 2011 and continued through 2012. European countries encountered serious fiscal problems, including high debt levels that impaired growth and increased the risk of sovereign default. Also in 2011, the United States faced fiscal difficulties, which culminated in the downgrade of the U.S. long-term sovereign credit rating by S&P.

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Ongoing political debates in 2012 with respect to how the United States government would address the so-called “fiscal cliff” contributed to economic uncertainty. In 2012, spillovers from the crisis in Europe weighed negatively on activity and confidence and the global recovery slowed. In 2013, a general recovery was observed in the Eurozone and US economies. Although economic conditions in Europe and the United States may differ significantly from economic conditions in Chile, investors’ reactions to developments in these other countries may have an adverse effect on the market value of securities of Chilean issuers. In particular, investor perceptions of the risks associated with our securities may be affected by perception of risk conditions in Spain.

If these nations’ economic conditions deteriorate, the economy in Chile, as both a neighboring country and a trading partner, could also be affected and could experience slower growth than in recent years, with possible adverse impact on our borrowers and counterparties. If this were to occur, we would potentially need to increase our allowances for loan losses, thus affecting our financial results, our results of operations and the price of our securities. As of December 31, 2014, approximately 3.4% of our assets were held abroad. There can be no assurance that the ongoing effects of the global financial crisis will not negatively impact growth, consumption, unemployment, investment and the price of exports in Chile. Crises and political uncertainties in other Latin American countries could also have an adverse effect on Chile, the price of our securities or our business.

Chile has considerable economic ties with China. In 2014, 24.4% of Chile’s exports went to China, mainly copper. China’s economy has grown at a strong pace in recent times, but a slowdown in economic activity in China may affect Chile’s GDP and export growth as well as the price of copper, which is Chile’s main export.

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

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

High levels of inflation in Chile could adversely affect the Chilean economy and have an adverse effect on our business, financial condition and results of operations. Extended periods of deflation could also have an adverse effect on our business, financial condition and results of operations. In 2009, Chile experienced deflation of 1.4% as the global economy contracted. In 2014, CPI inflation was 4.4% compared to 1.8% in 2013.

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

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

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

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

Year	Exchange rate (Ch$) at year end	Devaluation (Appreciation) (%)
2010	468.37	(7.5)
2011	521.46	11.3
2012	478.60	(8.2)
2013	523.76	9.4
2014	607.38	16.0
2015 (until May 12, 2015)	606.92	(0.1)

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.

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

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

As a result of the recent global financial crisis, there has been an increase in government regulation of the financial services industry in many countries. Such regulation may also be increased in Chile, including the imposition of higher capital requirements, heightened disclosure standards and restrictions on certain types of transaction structures. In addition, novel regulatory proposals abound in the current environment. If enacted, new regulations could require us to inject further capital into our business as well as in businesses we acquire, restrict the type or volume of transactions we enter into, or set limits on or require the modification of rates or fees that we charge on certain loans or other products, any of which could lower the return on our investments, assets and equity. Changes in regulations may also cause us to face increased compliance costs. As some of the banking laws and regulations have been recently adopted, the manner in which those laws and related regulations are applied to the operations of financial institutions is still evolving. Moreover, to the extent these recently adopted regulations are implemented inconsistently in the various jurisdictions in which we operate, it may face higher compliance costs. No assurance can be given generally that laws or regulations will be adopted, enforced or interpreted in a manner that will not have a material adverse effect on our business and results of operations.

In addition, extensive legislation affecting the financial services industry has recently been adopted in regions that directly or indirectly affect our business, including Spain, the United States and the European Union and other jurisdictions, and regulations are in the process of being implemented.

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

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

On November 20, 2013, the Chilean Congress approved new legislation to reduce the maximum rates that can be charged on loans. This new legislation is aimed at loans of less than UF 200 (U.S.$8,097) and with a term of more than 90 days, and thus includes consumer loans in installments, lines of credit and credit card lines. Previously, the maximum interest rate for loans of less than UF 200 and with a term of more than 90 days was calculated as the average rate of all transactions undertaken within the banking industry over the previous month of loans of less than UF 200 and with a term of more than 90 days, multiplied by a factor of 1.5. The average and maximum rates are published daily by the SBIF. On December 13, 2013, the SBIF published the new maximum rates for loans between UF 0 and UF 50 (US$2,024). The new maximum rate was 47.91%, compared to 53.85% as of September 30, 2013. Throughout 2014, further reductions were gradually implemented. The objective is to lower the maximum rate to a level equal to the average interest rate for loans between UF 200 (US$8,097) to UF 5,000 (US$202,416) plus 21%, unless the flow of new loans in the industry decreases by 10%-20%, in which case the reduction will be partially or completely suspended until the next period. As of December 31, 2014, the maximum rate for loans between UF 0 and UF 50 (US$2,024) was 38.63%. We estimate that by year-end 2015 the maximum rate will reach the 37% level the authorities are seeking for loans of this size.

On December 13, 2013, the SBIF published the new maximum rates for loans between UF 50 (US$2,024) and UF 200 (US$8,097). The new maximum rate was 45.91%, compared to 53.85% as of September 30, 2013. Throughout 2014, further reductions were gradually implemented. The objective is to lower the maximum rate to a level equal to the average interest rate for loans between UF 200 (US$8,097) to UF 5,000 (US$202,416) plus 14%, unless the flow of new loans in the industry decreases by 10%-20%, in which case the reduction will be partially or completely suspended until the next period. We estimate that it will take an additional 14 months for the maximum rate to reach the 31% level the authorities are seeking for loans of this size. As of December 31, 2014, the maximum rate for loans between UF 50 and UF 200 (US$8,097) was 36.63%.

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

In July 2012, new regulations regarding the selling of mandatory insurance for loans introduced that will increase competition and that could lower our fees from collecting these premiums. This had a negative impact on fees in 2013 in an amount we estimated to be approximately Ch$6 billion. In 2014, we again auctioned our mortgage P&L insurance provider and prices fell once more. This had an impact of Ch$6.8 billion in 2014.

We estimate that in 2015, maximum rate regulation and regulation on fees could affect our income by Ch$89 billion. This estimate is only preliminary, as it is difficult to estimate the speed of implementation of the reduction and the effect on loan volumes

In line with the future adoption of Basel III regulations in Chile, the SBIF has recently proposed to increase the minimum regulatory capital ratio from 8% to 10%, which would require an amendment to the General Banking Law. Although we currently have a regulatory capital ratio of 14.0% as of December 31, 2014, this change could require us to inject additional capital to our business in the future. According to initial estimates of the impact of market risk on regulatory capital, published for informational purposes only by the SBIF, our ratio of regulatory capital to risk-weighted assets, net of loan loss allowance and deductions, including an initial estimate of the adjustments for market risk was 12.54% as of December 31, 2014. No assurance can be given that these changes will not have a material impact on our capitalization ratio.

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

As of December 31, 2014 on a consolidated basis, we had 11,478 employees, of which 72.1% were unionized. In March 2014, a new collective bargaining agreement was signed with the main unions, which became effective on January 1, 2014, and which will expire on December 31, 2018. We generally apply the terms of our collective bargaining agreement to unionized and non-unionized employees. We have traditionally had good relations with our employees and their unions, but we cannot assure you that in the future, a strengthening of cross-industry labor movements will not materially and adversely affect our business, financial condition or results of operations.

Congress is currently discussing a new labor law which should be passed in 2015. The main points included in this law are:

- Expands the scope of collective bargaining. Currently some groups of workers are excluded from the collective bargaining process.
- Gives union has sole collective bargaining rights. The ability of non-union groups to negotiate a collective bargaining agreement is eliminated.
- Expands workers ability to switch unions and gives workers the same rights under a collective bargaining agreement if they affiliate themselves post-negotiations.
- Expand the right to greater information of unions including the wages of each worker included in a collective bargaining agreement.
- Simplifies the standard collective bargaining process.
- Collective bargaining agreements must last maximum three years instead of four.
- Eliminate the ability of the employer to replace workers on strike and establishes minimum service guidelines that workers must respect.
- Establishes the current collective bargaining agreement as the bargaining floor for future collective bargaining agreements.
- Amplifies the matters that can be negotiated in collective bargaining.
- Greater hours for training of union representatives.
- Strengthen the participation of women in unions.

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

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

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

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

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

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

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

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

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

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

It may also be difficult for ADS holders to enforce in the United States or in Chilean courts money judgments obtained in United States courts against us or our directors and executive officers based on civil

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

Risks Relating to Our Controlling Shareholder and our ADSs

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

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

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

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

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

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

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

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

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

Our ADSs are listed and traded on the NYSE. Our common stock is listed and traded on the Santiago Stock Exchange, the Chile Electronic Stock Exchange and the Valparaiso Stock Exchange, which we refer to collectively as the Chilean Stock Exchanges, although the trading market for the common stock is small by international standards. At December 31, 2014, we had 188,446,126,794 shares of common stock outstanding. The Chilean securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. According to Article 14 of the Ley de Mercado de Valores, Ley No. 18,045, or the Chilean Securities Market Law, the Superintendencia de Valores y Seguros, or the Superintendency of Securities and Insurance, may suspend the offer, quotation or trading of shares of any company listed on one or more Chilean Stock Exchanges for up to 30 days if, in its opinion, such suspension is necessary to protect investors or is justified for reasons of public interest. Such suspension may be extended for up to 120 days. If, at the expiration of the extension, the circumstances giving rise to the original suspension have not changed, the Superintendency of Securities and Insurance will then cancel the relevant listing in the registry of securities. In addition, the Santiago Stock Exchange may inquire as to any movement in the price of any securities in excess of 10% and suspend trading in such securities for a day if it deems necessary.

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

You may be unable to exercise preemptive rights.

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

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

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

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

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

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

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

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

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

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

- as an ADS holder, we will not treat you as one of our direct shareholders and you may not be able to exercise shareholder rights;

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

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

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Overview

We are the largest bank in Chile in terms of total assets and equity. As of December 31, 2014, we had total assets of Ch$ 30,975,347 million (U.S.$50,919 million), outstanding loans and interbank loans, net of allowances for loan losses of Ch$22,196,390 (U.S.$36,487million), total deposits of Ch$16,894,437 million (U.S.$27,772 million) and equity of Ch$ 2,675,068 million (U.S.$4,397 million). As of December 31, 2014, we employed 11,478 people and had the largest private branch network in Chile, with 474 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

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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 SBIF on October 27, 1977. Santiago's by-laws were approved by Resolution No. 103 of the SBIF on September 22, 1977. In January 1997, Santiago merged with Banco O'Higgins, with Santiago being the surviving entity. In 1999, Santiago became a controlled subsidiary of Santander Spain. As of June 30, 2002, Santiago was the second-largest private sector bank in Chile in terms of total assets, deposits, loans and shareholders' equity.

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

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

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

Relationship with Santander Spain

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

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

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

B. Organizational Structure

Santander Spain controls Santander-Chile through its holdings in Teatinos Siglo XXI Inversiones Ltda. and Santander Chile Holding S.A. which are controlled subsidiaries. Santander Spain control over 67.18% of our shares and actual participation when excluding non-controlling interests participating in Santander Chile Holding S.A. of 67.01%.

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

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The chart below sets forth the names and areas of responsibility of our senior managers as of April 2015.

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C. Business Overview

We have 474 total branches, 273 of which are operated under the Santander brand name, with the remaining branches under certain specialty brand names, including 67 under the Santander Banefe brand name, 51 under the Select brand name, 5 specialized branches for the Middle Market, and 78 as auxiliary and payment centers. We provide a full range of financial services to corporate and individual customers. We divide our clients into the following groups: (i) Individuals and Small and mid-sized, (ii) Companies and Institutions, (iii) Global Banking and Markets and (iv) Corporate Activities (“Other”).

We have the following operating segments within each group:

(i) Individuals and Small and mid-sized (“SMEs”)

- Santander Banefe serves individuals with monthly incomes from Ch$150,000 pesos (US$247) to Ch$400,000 pesos (US$658). This operating segment provides customers with a variety of services, including consumer loans, credit cards, auto loans, mortgage loans, debit cards, savings products, mutual funds and insurance brokerage.

- Commercial Banking serves individuals with monthly incomes over Ch$400,000 pesos (US$658). This operating segment provides customers with a variety of services, including consumer loans, credit cards, auto loans, commercial loans, foreign exchange, mortgage loans, debit cards, checking accounts, savings products, mutual funds, stock brokerage and insurance brokerage.

- SMEs serves companies with annual sales less than Ch$1,200 million (US$2.0 million). This operating segment provides customers with a variety of products and services, including commercial loans, government-guaranteed loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, savings products, mutual funds and insurance brokerage.

(ii) Companies and Institutions

- Middle Market serves companies with annual sales in excess of Ch$1,200 million (US$2.0 million) but not more than Ch$10,000 million (US$16.4 million) are included in this segment. The companies within this operating segment have access to many products including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, transactional services, treasury services, financial consulting, savings products, mutual funds and insurance brokerage

- Real Estate includes companies in the real estate industry who sell properties to third parties and have annual sales exceeding Ch$800 million (US$1.3 million). These clients are offered not only traditional banking services but also specialized assistance in financing projects, chiefly residential, with the aim of expanding sales of mortgage loans.

- Large Corporations is made up of companies with annual sales exceeding Ch$10,000 million (US$16.4 million). The companies within this segment have access to many products including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, transactional services, treasury services, financial consulting, investment, savings products, mutual funds, and insurance.

- Institutions serves institutions such as universities and local and regional governments. The institutions within this segment have access to many products including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, transactional services, treasury services, savings products, mutual funds and insurance.

(iii) Global Banking and Markets

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

- Treasury provides sophisticated financial products, mainly to companies in the Wholesale Banking area and the Companies segment. These include products such as short-term financing and fund raising, brokerage services, derivatives, securitization and other tailor-made products. Treasury may broker transactions and also manages the Bank's investment portfolio.

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(iv) Corporate Activities ("Other")

This segment includes Financial Management, which develops global management functions, involving the parent company's structural interest risk and liquidity risk. Liquidity risk is managed mainly through debt issuances. This segment also manages the Bank's personal funds, capital allocation by unit, and the financing of investments made. The foregoing usually results in a negative contribution to income.

In addition, this segment encompasses all the intra-segment income and all the activities not assigned to a given segment or product with customers.

The segments' accounting policies are those described in the summary of accounting policies. The Bank earns most of its income in the form of interest income, fee and commission income and income from financial operations. To evaluate a segment's financial performance and make decisions regarding the resources to be assigned to segments, the Chief Operating Decision Maker (CODM) bases his assessment on the segment's interest income, fee and commission income, and expenses.

The table below sets forth our lines of business and certain statistical information relating to each of them for the year ended December 31, 2014. Please see "Note 3—Business Segments" to our Audited Consolidated Financial Statements for details of revenue by business segment in the last three years.

	As of December 31, 2014						
	Loans and accounts receivable from customers (1) MCh$	Net interest income MCh$	Net fee and commission income MCh$	Financial transactions, net (2) MCh$	Provision for loan losses MCh$	Support expenses(3) MCh$	Segment's net contribution MCh$
Individuals and SMEs							
Santander Banefe	752,267	91,979	21,257	1,352	(46,410)	(44,657)	23,521
Commercial Banking	11,083,815	519,541	128,891	10,577	(119,886)	(350,964)	188,159
Small and mid-sized (SMEs)	3,354,840	269,483	47,011	6,529	(160,581)	(83,985)	78,457
Subtotal	15,190,922	881,003	197,159	18,458	(326,877)	(479,606)	290,137
Companies and Institutions							
Middle market	1,888,557	80,497	13,460	8,420	(21,690)	(31,225)	49,462
Large Corporations	2,138,226	72,303	8,798	6,734	(9,374)	(18,416)	60,045
Real estate	1,027,191	32,899	4,700	533	3,048	(5,995)	35,185
Institutions	390,895	33,608	2,447	655	697	(13,587)	23,820
Subtotal	5,444,869	219,307	29,405	16,342	(27,319)	(69,223)	168,512
Subtotal Commercial Banking	20,635,791	1,100,310	226,564	34,800	(354,196)	(548,829)	458,649
Global Banking and Markets							
Corporate	2,201,913	72,747	21,188	(7,155)	(701)	(21,045)	65,034
Treasury	-	14,990	764	54,011	-	(20,899)	48,866
Subtotal	2,201,913	87,737	21,952	46,856	(701)	(41,944)	113,900
Other	54,945	129,057	(21,233)	30,909	(6)	2,564	141,291

Total	22,892,649	1,317,104	227,283	112,565	(354,903)	(588,209)	713,840
Other operating income							6,545
Other operating expenses and impairment							(95,610)
Income from investments in associates and other companies							2,165
Income tax expense							(51,050)
Net income for the year							575,890

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

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

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

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Operations through Subsidiaries

Today, the General Banking Law permits us to directly provide the leasing and financial advisory services that we could formerly offer only through our subsidiaries, to offer investment advisory services outside of Chile and to undertake activities that we could not formerly offer directly or through subsidiaries, such as factoring, securitization, foreign investment funds, custody and transport of securities and insurance brokerage services. For the twelve–month period ended December 31, 2014, our subsidiaries collectively accounted for 1.6% of our total consolidated assets.

		Percent ownership share As of December 31,								
		2014			2013			2012		
Name of the Subsidiary	Main activity	Direct %	Indirect %	Total %	Direct %	Indirect %	Total %	Direct %	Indirect %	Total %
Santander Corredora de Seguros Limitada	Insurance brokerage	99.75	0.01	99.76	99.75	0.01	99.76	99.75	0.01	99.76
Santander S.A. Corredores de Bolsa	Financial instruments brokerage	50.59	0.41	51.00	50.59	0.41	51.00	50.59	0.41	51.00
Santander Asset Management S.A. Administradora General de Fondos (*)	Third-party funds administration	–	–	–	–	–	–	99.96	0.02	99.98
Santander Agente de Valores Limitada	Securities brokerage	99.03	–	99.03	99.03	–	99.03	99.03	–	99.03
Santander S.A. Sociedad Securitizadora	Purchase of credits and issuance of debt instruments	99.64	–	99.64	99.64	–	99.64	99.64	–	99.64
Santander Servicios de Recaudación y Pagos Limitada (**)	Support society, making and receiving payments	–	–	–	99.90	0.10	100.00	99.90	0.10	100.00

(*) Santander Asset Management S.A. Administradora General de Fondos was sold in December 2013.

(**) From May 1, 2014, this entity was absorbed by the Bank, with authorization for this transaction obtained from the SBIF on March 26, 2014.

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

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

- Multinegocios S.A. (management of sales force).

- Servicios Administrativos y Financieros Limitada (management of sales force)

- Multiservicios de Negocios Limitada (call center)

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

- Servicios de Cobranza Fiscalex Limitada (collection services). As of August 1, 2014, Servicios de Cobranza Fiscalex Limitada was absorbed by Santander Gestión de Recaudación y Cobranza Limitada. See Note 02 d) of the Audited Consolidated Financial Statements.

Competition

Overview

The Chilean financial services market consists of a variety of largely distinct sectors. The most important sector, commercial banking, includes a number of privately-owned banks and one public–sector bank, Banco del Estado (which operates within the same legal and regulatory framework as the private sector banks). The private-sector banks include local banks and a number of foreign-owned banks operating in Chile. The Chilean banking system is comprised of 24 banks, including one public-sector bank. The five largest banks accounted for 75.9% of all outstanding loans by Chilean financial institutions as of December 31, 2014 (excluding Corpbanca's subsidiary in Colombia).

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

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

The following tables set out certain statistics comparing our market position to that of our peer group, defined as the five largest banks in Chile in terms of total loans as of December 31, 2014.

	As of December 31, 2014, unless otherwise noted		
	Market Share		Rank
Commercial loans	16.1	%	2
Consumer loans	22.8	%	1
Residential mortgage loans	20.6	%	1
Total loans	18.7	%	1
Deposits	16.0	%	2
Credit card accounts	19.4	%	2
Checking accounts(1)	21.0	%	2
Branches	20.0	%	1

Source: SBIF, excludes Corpbanca Colombia.

(1) As of November 2014, the latest data available.

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Loans

As of December 31, 2014, our loan portfolio was the largest among Chilean banks. Our loan portfolio, including interbank loans, represented 18.7% of the market for loans in the Chilean financial system as of such date. The following table sets forth our and our peer group's market shares in terms of loans (excluding Corpbanca Colombia).

	As of December 31, 2014		
Loans	Ch$ million	U.S.$ million	Market Share
Santander-Chile	22,892,649	$37,632	18.7 %
Banco de Chile	22,481,721	$36,956	18.4 %
Banco del Estado	17,053,330	$28,033	13.9 %
Banco de Crédito e Inversiones	16,103,283	$26,471	13.1 %
Corpbanca	9,062,010	$14,897	7.4 %
BBVA, Chile	8,383,434	$13,781	6.8 %
Others	26,514,248	$43,585	21.7 %
Chilean financial system	122,490,675	$201,355	100.0 %

Source: SBIF.

Deposits

We had a 16.8% market share in deposits, ranking second among banks in Chile as of December 31, 2014. Deposit market share is based on total time and demand deposits as of the respective dates. The following table sets forth our and our peer group's market shares in terms of deposits (excluding Corpbanca Colombia).

	As of December 31, 2014		
Deposits	Ch$ million	U.S.$ million	Market Share
Santander-Chile	16,894,437	$27,772	16.8 %
Banco de Chile	16,655,619	$27,379	16.6 %
Banco del Estado	19,295,095	$31,718	19.2 %
Banco de Crédito e Inversiones	12,821,049	$21,076	12.8 %
Corpbanca	6,931,517	$11,394	6.9 %
BBVA, Chile	6,316,699	$10,384	6.3 %
Others	21,468,356	$35,291	21.4 %
Chilean financial system	100,382,772	$165,014	100.0 %

Source: SBIF.

Total equity

With Ch$2,642,979 million (U.S.$4,345 million) in equity in Chilean Bank GAAP as of December 31, 2014, 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.

	As of December 31, 2014		
Total Equity	Ch$ million	U.S.$ million	Market Share

Santander-Chile	2,642,979	$4,345	18.3	%
Banco de Chile	2,535,156	$4,167	17.6	%
Banco del Estado	1,242,499	$2,042	8.6	%
Banco de Crédito e Inversiones	1,800,964	$2,961	12.5	%
Corpbanca	1,767,740	$2,906	12.3	%
BBVA, Chile	715,544	$1,176	5.0	%
Others	3,710,540	$6,100	25.7	%
Chilean financial system	14,415,422	$23,697	100.0	%

Source: SBIF.

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Efficiency

As of December 31, 2014, we were the most efficient bank in our peer group. The following table sets forth our and our peer group's efficiency ratio (defined as operating expenses as a percentage of operating revenue, which is the aggregate of net interest income, fees and income from services (net), net gains from mark–to–market and trading, exchange differences (net) and other operating income (net)) in 2014.

Efficiency ratio as defined by the SBIF	As of December 31, 2014	
Santander-Chile	41.1	%
Banco de Chile	43.3	%
Banco del Estado	58.1	%
Banco de Crédito e Inversiones	46.0	%
BBVA, Chile	65.4	%
Corpbanca	52.0	%
Chilean financial system	49.3	%

Source: SBIF.

Net income for the period attributable to shareholders

In 2014, we were the second largest bank in Chile in terms of net income attributable to shareholders of Ch$550,331 million (U.S.$905 million) measured under Chilean Bank GAAP. The following table sets forth our and our peer group's net income.

	As of December 31, 2014			
Net income for the year (1)	Ch$ million	U.S.$ million	Market Share	
Santander-Chile	550,331	905	22.7	%
Banco de Chile	591,080	972	24.4	%
Banco de Crédito e Inversiones	342,972	564	14.1	%
Corpbanca	226,260	372	9.3	%
BBVA, Chile	73,328	121	3.0	%
Banco del Estado	165,659	272	6.8	%
Others	476,127	783	19.6	%
Chilean financial system	2,425,757	3,655	100.0	%

Source: SBIF.

(1) Net income attributable to shareholders in local Chilean Bank GAAP.

Return on equity

As of December 31, 2014, we were the second most profitable bank in our peer group (as measured by return on period-end equity under Chilean Bank GAAP) and the most capitalized bank as measured by the Chilean BIS ratio. The following table sets forth our and our peer group's return on average equity and BIS ratio.

	Return on period-end equity as of December 31, 2014		BIS Ratio as of December 31, 2014	
Santander-Chile	21.5	%	14.0	%
Banco de Chile	23.3	%	13.3	%
Banco del Estado	14.1	%	11.5	%
Banco de Crédito e Inversiones	19.0	%	13.8	%
BBVA, Chile	10.2	%	11.5	%
Corpbanca	15.0	%	12.4	%
Chilean Financial System	17.2	%	13.4	%

Source: SBIF.

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Asset Quality

As of December 31, 2014, we had the second-highest non-performing loan to loan ratio in our peer group. The following table sets forth our and our peer group's non-performing loan ratio as defined by the SBIF as of December 31, 2014.

	Non-performing loans / total loans(1) as of December 31, 2014
Santander-Chile	2.81
Banco de Chile	1.21
Banco del Estado	3.44
Banco de Crédito e Inversiones	2.24
BBVA, Chile	1.58
Corpbanca	1.48
Chilean financial system	2.10

Source: SBIF.

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

Regulation and Supervision

General

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

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

The Central Bank

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

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

The SBIF

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

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

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

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

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

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

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

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

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

- a bank is required to inform the SBIF of the identity of any person owning, directly or indirectly, 5.0% or more of such banks' shares;
- holders of ADSs must disclose to the Depositary the identity of beneficial owners of ADSs registered under such holders' names;
- the Depositary is required to notify the bank as to the identity of beneficial owners of ADSs which such Depositary has registered and the bank, in turn, is required to notify the SBIF as to the identity of the beneficial owners of the

ADSs representing 5.0% or more of such banks' shares; and

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

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Limitations on Types of Activities

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

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

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

Deposit Insurance

The Chilean government guarantees up to 90.0% of the principal amount of certain time and demand deposits and savings accounts held by natural persons with a maximum value of UF120 per person (Ch$2,955,252 or U.S.$4,858 as of December 31, 2014) per calendar year in the entire financial system.

Reserve Requirements

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

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

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

Minimum Capital

Under the General Banking Law, a bank is required to have a minimum of UF800,000 (approximately Ch$19,702 million or U.S.$32.4 million as of December 31, 2014) of paid-in capital and reserves, calculated in accordance with Chilean GAAP, 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, as calculated in accordance with Chilean GAAP.

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Regulatory capital is defined as the aggregate of:

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

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

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

Capital Adequacy Requirements

According to the General Banking Law, each bank should have regulatory capital of at least 8.0% of its risk-weighted assets, net of required allowances. The calculation of risk weighted assets is based on a five-category risk classification system for bank assets that is based on the Basel Committee recommendations. The SBIF is expected to implement in 2015 the application of the third pillar of Basel II in Chile, which includes the implementation of capital limits with market risk and operational risk-weighted assets. These changes must be approved by the Chilean Congress, as it involves a modification to the General Banking Law.

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

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

Lending Limits

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

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

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

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

- 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.

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Allowance for Loan Losses

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

On December 30, 2014, the SBIF published new guidelines for provisioning a bank's residential mortgage loan portfolio. The regulations include:

- an expected loss model to calculate allowances for housing mortgage loans that explicitly considers loan delinquency and loan / collateral (LTV) ratios, in order to promote active management of credit risk; and

- proposal for a new way of evaluating collateral in the context of determining provisions, which would specify certain required conditions that would need to be met by an asset in order for it to be eligible to be used as collateral for mitigating credit risk, as well as more specific requirements of how collateral would be valued for purposes of setting loan loss levels.

These above changes will be implemented in January 2016. We also expect the SBIF in 2015 and 2016 to publish new expected loss models for small and mid-sized companies and consumer loans.

Differences between IFRS and Chilean Bank GAAP

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

Suspension of Income Recognition on Accrual Basis

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

Charge-offs and Accounts Receivable

The Compendium requires companies to establish deadlines for the charge-off of loans and accounts receivable. IFRS does not require any such deadline for charge-offs. A charge-off due to impairment would be recorded, if and only if, all efforts at collection of the loan or account receivable had been exhausted. We do not believe that this difference materially impacts our financial statements.

Assets Received in Lieu of Payment

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

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Goodwill and Intangible Assets

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

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

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

- The use of independent experts' valuations is not mandatory.

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

Fair Value Option with Respect to Financial Assets and Liabilities

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

IFRS allows an entity to designate a financial asset or liability (or a group of financial assets or liabilities, or both), on initial recognition as one to be measured at fair value, with changes in fair value to be recognized in profit or loss. Once this option has been taken, it is irrevocable. The fair value option is not applicable to investments in capital instruments which do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

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

Loan loss allowances

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

On December 29, 2009, the SBIF issued Circular No. 3,489, which incorporates changes to several provisions of the Compendium. Among other changes, it states that effective January 2010, companies must complement the basis on which insolvency provisions related to contingent operations are determined, including unrestricted lines of credit, other contingent loans, and other loan commitments. In addition, companies should also apply the changes in risk exposure applicable to contingent loans, found in Chapter B-3 of the Compendium. According to specific instructions from the SBIF in Letter to Management No. 10 dated December 21, 2010, the SBIF stated that it would not be necessary to calculate the adjustment retrospectively for 2009. On June 10, 2010, the SBIF issued Circular No. 3,502 which, among other things, requires that Banks maintain a 0.5% minimum provision for the non-impaired part of the loan portfolio analyzed on an individual basis. In addition, on December 21, 2010, in the Letter to Management No. 9, the SBIF specified that the accounting treatment for the effects originating from the application of this minimum provision is to record it in the income for the period. However, the Bank reverses this minimum provision for purposes of its IFRS consolidated financial statements.

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

Capital Markets

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

Legal Provisions Regarding Banking Institutions with Economic Difficulties

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

Dissolution and Liquidation of Banks

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

Obligations Denominated in Foreign Currencies

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

Loans and Investments in Foreign Securities

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

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Table 1

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

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

Table 2

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

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

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

Table 3

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

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

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

New Regulations for "Mortgage Bonds"

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

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U.S. Banking Regulation - Volcker Rule

On July 21, 2010, the United States enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which provides a broad framework for significant regulatory changes that extend to almost every area of U.S. financial regulation. Within the Dodd-Frank Act, the Volcker Rule prohibits "banking entities" from engaging in certain forms of proprietary trading or from sponsoring or investing in certain covered funds, in each case subject to certain limited exceptions. The Volcker Rule became effective on July 21, 2012 and on December 10, 2013, U.S. regulators issued final rules implementing the Volcker Rule. The final rules also limit the ability of banking entities and their affiliates to enter into certain transactions with such funds with which they or their affiliates have certain relationships. The final rules contain exclusions and certain exemptions for market-making, hedging, underwriting, trading in U.S. government and agency obligations as well as certain foreign government obligations, trading solely outside the United States, and also permits certain ownership interests in certain types of funds to be retained. The final rules implementing the Volcker Rule extended the period for all banking entities to conform with the Volcker Rule and implement a compliance program until July 21, 2015, and additional extensions are possible. Banking entities such as Santander Spain must bring their activities and investments worldwide into compliance with the requirements of the Volcker Rule by the end of the conformance period. Santander Spain is assessing how the final rules implementing the Volcker Rule will affect its businesses, including Santander-Chile, and is developing and implementing plans to bring affected businesses into compliance.

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

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

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

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

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

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

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

(a) Santander UK holds frozen savings and current accounts for three customers resident in the U.K. who are currently designated by the U.S. for terrorism. The accounts held by each customer were blocked after the customer's designation and have remained blocked and dormant throughout 2014. No revenue has been generated by Santander UK on these accounts. The bank account held for one of these customers was closed in the fourth quarter of 2014.

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(b) An Iranian national, resident in the U.K., who is currently designated by the U.S. under the Iranian Financial Sanctions Regulations and the Non-Proliferation of Weapons of Mass Destruction ("NPWMD") designation, holds a mortgage with Santander UK that was issued prior to any such designation. No further drawdown has been made (or would be allowed) under this mortgage although we continue to receive repayment instalments. In 2014, total revenue in connection with the mortgage was approximately £2,580 while net profits were negligible relative to the overall profits of Santander UK. Santander UK does not intend to enter into any new relationships with this customer, and any disbursements will only be made in accordance with applicable sanctions. The same Iranian national also holds two investment accounts with Santander Asset Management UK Limited. The accounts have remained frozen during 2014. The investment returns are being automatically reinvested, and no disbursements have been made to the customer. Total revenue for the Group in connection with the investment accounts was approximately £250 while net profits in 2014 were negligible relative to the overall profits of Santander Spain.

(c) In addition, during the third quarter 2014, Santander UK has identified two additional customers. A U.K. national designated by the U.S. under the NPWMD sanctions program held a business account. No transactions were made and the account was closed in the fourth quarter of 2014. No revenue or profit has been generated. A second U.K. national designated by the U.S. for terrorism held a personal current account and a personal credit card account, both of which were closed in the third quarter. Although transactions took place on the current account during the third quarter of 2014, revenue and profits generated were negligible. No transactions took place on the credit card.

In addition, the Santander Group has certain legacy export credits and performance guarantees with Bank Mellat, which are included in the U.S. Department of the Treasury's Office of Foreign Assets Control's Specially Designated Nationals and Blocked Persons List. The Bank entered into two bilateral credit facilities in February 2000 in an aggregate principal amount of €25.9 million. Both credit facilities matured in 2012. In addition, in 2005 Santander Spain participated in a syndicated credit facility for Bank Mellat of €15.5 million, which matures on July 6, 2015. As of December 31, 2014, the Santander Group was owed €2.3 million under this credit facility.

Santander Spain has not been receiving payments from Bank Mellat under any of these credit facilities in recent years. Santander Spain has been and expects to continue to be repaid any amounts due by official export credit agencies, which insure between 95% and 99% of the outstanding amounts under these credit facilities. No funds have been extended by Santander under these facilities since they were granted.

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

In the aggregate, all of the transactions described above resulted in approximately €41,000 gross revenues and approximately €80,500 net loss to the Santander Group in the year ended December 31, 2014, all of which resulted from the performance of export credit agencies rather than any Iranian entity. The Santander Group has undertaken significant steps to withdraw from the Iranian market such as closing its representative office in Iran and ceasing all banking activities therein, including correspondent relationships, deposit taking from Iranian entities and issuing export letters of credit, except for the legacy transactions described above. The Santander Group is not contractually permitted to cancel these arrangements without either (i) paying the guaranteed amount—which payment would be frozen as explained above (in the case of the performance guarantees), or (ii) forfeiting the outstanding amounts due to it (in the case of the export credits). As such, the Santander Group intends to continue to provide the guarantees and hold these assets in accordance with company policy and applicable laws.

D. Property, Plant and Equipment

We are domiciled in Chile and own our principal executive offices located at Bandera 140, Santiago, Chile. We also own twelve other buildings in the vicinity of our headquarters, and we rent six other buildings. At December 31, 2014, we owned the locations at which 24.7% of our branches were located. The remaining branches operate at rented locations. We believe that our existing physical facilities are adequate for our needs.

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Main properties as of December 31, 2014	Number
Central Offices	
Owned	4
Rented	6
Total	10
Branches(1)	
Owned	115
Rented	359
Total	474
Other property(2)	
Owned	49
Rented	6
Total	55

(1) Some branches are located inside central office buildings and other properties. Including these branches, the total number of branches is 474. Special payment centers are included in Other property.

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

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

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

The main software systems that we use are:

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

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Accounting Standards Applied in 2014

Santander-Chile is a Chilean bank and maintains its financial books and records in Chilean pesos and prepares its consolidated financial statements in accordance with IFRS-IASB in order to comply with requirements of the SEC. As required by the General Banking Law, which subjects Chilean banks to the regulatory supervision of the SBIF, and which mandates that Chilean banks abide by the accounting standards stipulated by the SBIF, our locally-

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filed consolidated financial statements have been prepared in accordance with Chilean Bank GAAP as issued by the SBIF. The accounting principles issued by the SBIF are substantially similar to IFRS but there are some exceptions, as described further below. Therefore, our locally-filed consolidated financial statements have been adjusted according to IFRS as issued by the IASB.

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

B. Critical Accounting Policies

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

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

Allowance for loan losses

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

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

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

Derivative activities

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

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

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

- When a hedge of net investment in a foreign operation exists, as defined in IAS 21, it is accounted for similarly to a cash flow hedge. Any ineffective portion of the fair value movement on the hedging instrument is recognized in the income statement.

C. Operating Results

Chilean Economy

All of our operations and substantially all of our customers are located in Chile. Accordingly, our financial condition and results of operations are substantially dependent upon economic conditions prevailing in Chile. In 2014, the Chilean economy grew approximately 1.9% compared to 4.1% in 2013 and 5.5% in 2012. In the same period, internal demand decreased 0.6% compared to an increase of 3.4% in 2013. This reduction in internal demand was led by a 6.1% fall in investment in 2014. The reduction of investments was mainly due to a fall in investments in the mining sector due to concerns regarding China's economic growth. At the same time, the temporary political uncertainty caused by the discussion in Congress of the tax and labor reform also cooled investment rates.

As of December 2014, the unemployment rate was 6.0% compared to 5.7% in 2013 and 6.1% in 2012. The exchange rate depreciated in 2014 by 16.0%. As a result of this depreciation of the peso, CPI inflation reached 4.7% in 2014 compared to 3.0% in 2013 and 1.5% in 2012. Despite the higher inflation rate, the Central Bank commenced a process of lowering interest rates as the economy began to show signs of deceleration, especially in investment levels. At year-end 2013, the policy rate was 4.5% and was reduced to 3% by year-end 2014. Going forward, economic activity is expected to continue to increase, but with continued uncertainty regarding growth in China, which impacts Chile's mining sector, and internal political issues.

The growth of the Chilean banking sector evolved in line with overall economic developments, with an increase in the volume of loans and deposits. Total loans as of December 31, 2014 in the Chilean financial system were Ch$122,490,675 million (US$201 billion), excluding Corpbanca's banking operations in Colombia, an increase of 11.1% in the last twelve months. Total customer deposits (defined as time deposits plus checking accounts), excluding Corpbanca's operations in Colombia, totaled Ch$100,382,772 million (US$165 billion) as of December 31, 2014, an increase of 8.9% in the last twelve months. The non-performing loan (defined as loans with an installment that is at least 90 days past-due) to total loans ratio has remained constant at 2.1% and 2.2% in 2014 and 2013.

Impact of inflation

Our assets and liabilities are denominated in Chilean pesos, Unidades de Fomento (UF) and foreign currencies. The Bank no longer recognizes inflation accounting and has eliminated price-level restatement in line with IFRS, but inflation impacts our results of operations as some loan and deposit products are contracted in UF. The UF is revalued in monthly cycles. Each day in the period beginning on the tenth day of the current month through the ninth day of the succeeding month, the nominal peso value of the UF is indexed up (or down in the event of deflation) in order to reflect a proportionate amount of the change in the Chilean Consumer Price Index during the prior calendar month. One UF equaled Ch$24,627.10 at December 31, 2014, Ch$23,309.56 at December 31, 2013 and Ch$22,840.75 at December 31, 2012. High levels of inflation in Chile could adversely affect the Chilean economy and could have an adverse effect on our business, financial condition and results of operations. Negative inflation rates also negatively impact our results. Inflation measured as the annual variation of the UF was 5.7% in 2014, 2.1% in 2013, and 2.5% in 2012. There can be no assurance that Chilean inflation will not change significantly from the current level. Although we currently benefit from moderate levels of inflation, due to the current structure of our assets and liabilities (i.e., a significant portion of our loans are indexed to the inflation rate, but there are no corresponding features in deposits or other funding sources that would increase the size of our funding base), there can be no assurance that our business, financial condition and result of operations in the future will not be adversely affected by changing levels of inflation. In summary:

- UF-denominated assets and liabilities. The effect of any changes in the nominal peso value of our UF-denominated interest earning assets and interest bearing liabilities is reflected in our results of operations as an increase (or decrease, in the event of deflation) in interest income and expense, respectively. Our net

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interest income will be positively affected by an inflationary environment to the extent that our average UF-denominated interest earning assets exceed our average UF-denominated interest bearing liabilities. Our net interest income will be negatively affected in a deflationary environment if our average UF-denominated interest earning assets exceed our average UF-denominated interest bearing liabilities. Our net interest income will be negatively affected by inflation in any period in which our average UF-denominated interest bearing liabilities exceed our average UF-denominated interest earning assets.

- Inflation and interest rate hedge. A key component of our asset and liability policy is the management of interest rate risk. The Bank's assets generally have a longer maturity than our liabilities. As the Bank's mortgage portfolio grows, the maturity gap tends to rise as these loans, which are contracted in UF, have a longer maturity than the average maturity of our funding base. As most of our long term financial instruments and mortgage loans are contracted in UF and most of our deposits are in nominal pesos, the rise in mortgage lending increases the Bank's exposure to inflation and to interest rate risk. The size of this gap is limited by internal and regulatory guidelines in order to avoid excessive potential losses due to strong shifts in interest rates. In order to keep this duration gap below regulatory limits, the Bank issues long term bonds denominated in UF or interest rate swaps. The financial cost of the bonds and the efficient part of these hedges is recorded as net interest income. In 2014, the loss from the swaps taken in order to hedge mainly for inflation and interest rate risk and included in net interest income totaled a loss of Ch$130,254 million compared to a loss of Ch$67,239 million in 2013 and a loss of Ch$57,118 million in 2012. The average gap between our total assets and total liabilities linked to the inflation, including hedging was Ch$4,168,678 million in 2014, Ch$3,581,959 million in 2013 and Ch$3,034,112 million in 2012.

- The financial impact of the gap between our assets and liabilities denominated in UFs including hedges was Ch$229,946 million in 2014, Ch$71,842 million in 2013 and Ch$71,238 million in 2012. The higher gain in 2014 can be explained by the greater UF inflation in 2014 compared to previous periods and the greater UF gap in 2014.

Impact of inflation on net interest income	As of December 31, 2014	2013	2012	% Change 2014/2013	% Change 2013/2012
	(In millions of Ch$)				
Results from UF GAP (1)	229,946	71,842	71,238	220.1 %	0.8 %
Annual UF inflation	5.7 %	2.1 %	2.5 %		

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

- Peso-denominated assets and liabilities. Interest rates prevailing in Chile during any period primarily reflect the inflation rate during the period and the expectations of future inflation. The sensitivity of our peso-denominated interest earning assets and interest bearing liabilities to changes to such prevailing rates varies. See "Item 5. Operating and Financial Review and Prospects—C. Operating Results—Interest Rates." We maintain a substantial amount of non-interest bearing peso-denominated demand deposits. Because such deposits are not sensitive to inflation, any decline in the rate of inflation would adversely affect our net interest margin on inflation indexed assets funded with such deposits, and any increase in the rate of inflation would increase the net interest margin on such assets. The ratio of the average of such demand deposits and average shareholder's equity to average interest-earning assets was 30.2%, 30.0% and 29.4% for the years ended December 31, 2014, 2013, and 2012, respectively.

Interest Rates

Interest rates earned and paid on our assets and liabilities reflect, to a certain degree, inflation, expectations regarding inflation, changes in short term interest rates set by the Central Bank and movements in long term real rates. The

Central Bank manages short term interest rates based on its objectives of balancing low inflation and economic growth. Because our liabilities are generally re-priced sooner than our assets, changes in the rate of inflation or short term rates in the economy are reflected in the rates of interest paid by us on our liabilities before such changes are reflected in the rates of interest earned by us on our assets. Therefore, when short term interest rates fall, our net interest margin is positively impacted, but when short term rates increase, our interest margin is negatively affected. At the same time, our net interest margin tends to be adversely affected in the short term by a decrease in inflation rates since generally our UF-denominated assets exceed our UF-denominated liabilities. See

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"Item 5. Operating and Financial Review and Prospects—C. Operating Results—Impact of Inflation—Peso-denominated assets and liabilities." An increase in long term rates has a positive effect on our net interest margin, because our interest earning assets generally have longer terms than our interest bearing liabilities. In addition, because our peso-denominated liabilities have relatively short re-pricing periods, they are generally more responsive to changes in inflation or short term rates than our UF-denominated liabilities. As a result, during periods when or expected inflation exceeds the previous period's inflation, customers often switch funds from UF-denominated deposits to peso-denominated deposits, which generally bear higher interest rates, thereby adversely affecting our net interest margin.

Foreign Exchange Fluctuations

The Chilean government's economic policies and any future changes in the value of the Chilean peso against the U.S. dollar could adversely affect our financial condition and results of operations. The Chilean peso has been subject to significant devaluation in the past and may be subject to significant fluctuations in the future. The Central Bank exchange rate depreciated 16.0% in 2014, which led to a pickup in CPI inflation in 2014. See "Item 3. Key Information—A. Selected Financial Data—Exchange Rates." A significant portion of our assets and liabilities are denominated in foreign currencies, principally the U.S. dollar, and we historically have maintained and may continue to maintain material gaps between the balances of such assets and liabilities. Our current strategy is not to maintain a significant difference between the balances of our assets and liabilities in foreign currencies. In 2014, 2013 and 2012, the Bank, in its spot position, held more liabilities than assets in foreign currencies, mainly the U.S. dollar, as a result of an ample supply of U.S. dollar deposits from companies that receive export revenues, foreign correspondent bank loans and bonds issued abroad. This difference is usually hedged using forwards and cross-currency swaps. Including derivatives, the Bank seeks to run no foreign currency risk in its non-trading balance sheet. Because such assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains and losses realized upon the sale of such assets, are translated to Chilean pesos in preparing our financial statements, our reported income is affected by changes in the value of the Chilean peso relative to foreign currencies (principally the U.S. dollar). The translation gain or loss over assets and liabilities (excluding derivatives held for trading) is included as foreign exchange transactions in the income statement. The translation and mark-to-market of foreign currency derivatives held for trading is recognized as a gain or loss in the net results from mark-to-market and trading. See "Item 11. Quantitative and Qualitative Disclosures About Market Risk—E. Market Risks—Foreign exchange fluctuations" for more detail on the Bank's exposure to foreign currency.

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

We also set an absolute limit on the size of Santander-Chile's consolidated net foreign currency trading position. At December 31, 2013, the Bank's consolidated net foreign currency position was equal to US$200 million. As the Bank's non-trading portfolio has no net exposure to foreign currency risk, the Bank's total exposure to foreign currency is reflected in the trading portfolio exposure to foreign currency. The Bank's average exposure to foreign currency was US$1.5 million in 2013. See "Item 11. Quantitative and Qualitative Disclosures About Market Risk—Volume limits." The limit on the size of the net foreign currency position is determined by the Asset and Liability Committee and is calculated and monitored by our Market Risk and Control Department.

Segmentation criteria

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

Results of Operations for the Years Ended December 31, 2014, 2013 and 2012

The following discussion is based upon and should be read in conjunction with the Audited Consolidated Financial Statements. The Audited Consolidated Financial Statements have been prepared in accordance with IFRS

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as issued by the IASB. The following table sets forth the principal components of our net income for the years ended December 31, 2014, 2013 and 2012.

CONSOLIDATED INCOME STATEMENT DATA	2014 (ThU.S.$)(1)	2014	2013 (Ch$ million)	2012	% Change 2014 / 2013	% Change 2013 / 2012
IFRS:						
Interest income and expense						
Interest income	3,660,872	2,227,018	1,871,204	1,890,953	19.0 %	(1.0 %)
Interest expense	(1,495,757)	(909,914)	(794,442)	(848,219)	14.5 %	(6.3 %)
Net interest income	2,165,115	1,317,104	1,076,762	1,042,734	22.3 %	3.3 %
Fees and income from services						
Fees and commission income	602,845	366,729	346,120	360,427	6.0 %	(4.0 %)
Fees and commission expense	(229,228)	(139,446)	(116,284)	(97,391)	19.9 %	29.4 %
Total net fees and commission income	373,617	227,283	229,836	270,572	(1.1 %)	(15.1 %)
Financial transactions, net						
Net income from financial operations	(262,435)	(159,647)	(20,289)	(64,079)	686.9 %	(68.3 %)
Foreign exchange profit (loss), net	447,474	272,212	144,726	146,378	88.1 %	(1.1 %)
Financial transactions, net	185,039	112,565	124,437	82,299	(9.5 %)	51.2 %
Other operating income	10,759	6,545	88,155	13,105	(92.6 %)	572.7 %
Net operating profit before loan losses	2,734,530	1,663,497	1,519,190	1,408,710	9.5 %	7.8 %
Provision for loan losses	(583,405)	(354,903)	(371,462)	(403,692)	(4.5 %)	(8.0 %)
Net operating profit	2,151,125	1,308,594	1,147,728	1,005,018	14.0 %	14.2 %
Operating expenses						
Personnel salaries and expenses	(557,079)	(338,888)	(308,344)	(299,904)	9.9 %	2.8 %
Administrative expenses	(337,233)	(205,149)	(188,191)	(183,379)	9.0 %	2.6 %
Depreciation and amortization	(72,612)	(44,172)	(61,074)	(56,369)	(27.7 %)	8.3 %
Impairment	(60,270)	(36,664)	(244)	(90)	14,926.2 %	171.1 %
Other operating expenses	(96,898)	(58,946)	(52,338)	(59,637)	12.6 %	(12.2 %)
Total operating expenses	(1,124,092)	(683,819)	(610,191)	(599,379)	12.1 %	1.8 %
Net Operating income	1,027,033	624,775	537,537	405,639	16.2 %	32.5 %
Income from investments in other companies	3,559	2,165	1,422	267	52.3 %	432.6 %
Income before tax	1,030,592	626,940	538,959	405,906	16.3 %	32.8 %
Income tax	(83,918)	(51,050)	(94,530)	(44,473)	(46.0 %)	112.6 %
Consolidated Net income for the period	946,674	575,890	444,429	361,433	29.6 %	23.0 %
Net income for the period attributable to:						
Equity holders of the Bank	936,844	569,910	442,294	356,808	28.9 %	24.0 %
Non-controlling interests	9,830	5,980	2,135	4,625	180.1 %	(53.8 %)

(1)

Amounts stated in U.S. dollars at and for the year ended December 31, 2014 have been translated from Chilean pesos at the exchange rate of Ch$608.33 = U.S.$1.00 as of December 31, 2013. See “Item 3. Key Information—A. Selected Financial Data—Exchange Rates” for more information on exchange rate.

Results of operations for the years ended December 31, 2014 and 2013. Consolidated net income for the year ended December 31, 2014 increased 29.6% to Ch$575,890 million. Our return on annualized average equity was 21.0% in 2014 compared to 18.9% in 2013.

In 2014, net operating profit before loan losses was Ch$1,663,497 million, an increase of 9.5% compared to 2013. Our net interest income increased 22.3% to Ch$1,317,104 million in 2014 compared to 2013. The average balance of our interest-earning assets increased by 15.0% in 2014 compared to 2013. Our net interest margin increased to 4.92% in 2014 compared to 4.63% in 2013. Net interest margins were positively affected by the increase of the average nominal rate we earned on our interest earning assets. This was mainly due to a rise in the UF inflation rate in 2014 compared to 2013 and higher loan yields in Companies and institutions and Global banking and markets. This was only partially offset by the negative impact of maximum rate regulation on consumer loan yields, a lower interest rate environment and loan growth focused in lower yielding, but less risky segments.

Net fees and commission income decreased 1.1% to Ch$227,283 million in the twelve-month period ended December 31, 2014 compared to the same period in 2013. In 2014, the Bank continued to experience positive client base and product growth. These positive commercial efforts continued to be offset by regulations that lowered fees from brokering mandatory insurance for mortgage loans (mainly fire and earthquake insurance) and the difficulties in increasing fees following stricter regulations issued by the SERNAC Financiero, the newly formed consumer protection agency for financial services.

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Total financial transactions, net, which is the sum of net income from financial operations and foreign exchange profit (loss), totaled Ch$112,565 million in the year ended December 31, 2014, a decrease of 9.5% compared to the same period in 2013. These results include the results of our Treasury Division's trading business and financial transactions with customers, as well the results of our non-client treasury operations, mainly the Financial Management Division. The positive results from our client Treasury business, which increased 6.0% compared to 2013 and totaled Ch$83,837 million, were offset by a 36.6% decrease in results from non-client treasury income, which totaled a gain of Ch$28,728 million in 2014. The fall in results from non-client treasury income was mainly due to lower gains obtained from short-term interest rate differential between the U.S. dollar and Chilean peso. The Bank has a greater spot position in liabilities denominated in foreign currency as compared to assets. These principally U.S. dollar-denominated liabilities are hedged through derivatives, leaving minimal foreign currency exposure, but this does result in a short-term interest rate differential between the U.S. dollar and Chilean peso, which produces the financial result discussed here. This result is positive when interest rates in the United States are trending up and local rates are falling and is negative when the opposite occurs. In 2014 and 2013, local rates went down relative to U.S. rates, but this impact was more significant in 2013 when the end of quantitative easing was announced.

Other operating income totaled a gain of Ch$6,545 million in the year ended December 31, 2014, a 92.6% decrease compared to 2013. The main reasons for this decrease was the gain of Ch$78,122 million recognized from the sale of our asset management subsidiary, Santander Asset Management S.A. Administradora General de Fondos in 2013.

Provisions for loan losses, net of recoveries totaled Ch$354,903 million in 2014 and decreased 4.5% compared to the amount of provisions recorded in 2013. This rise was mainly due to the ongoing improvement performed on the allowances models for commercial loans analyzed on a group basis. The model was calibrated with the aim of improving the prediction of client behavior and maintaining statistical and management standards. Part of these improvements consisted of the advancement of the models' governance allowing technical and decisional approvals at different points of the approval process, more robust statistical processes and more historical information, allowing stronger parameters of the Probability of Non-Performance (PNP) and the Severity (SEV) involved in the provision calculation. These changes resulted in an increase in provisions for commercial loans of Ch$45,141 million in 2014. Additionally, the lower economic growth in 2014 resulted in a rise in charge-off of loans analyzed on an individual basis that totaled Ch$10,811 million in 2014 and rose 33.9% compared to 2013.

This was offset by better asset quality in consumer and mortgage lending. Provisions established for the Bank's consumer loans decreased by 19.0% to Ch$180,666 million in 2014 compared to 2013. During the second half of 2014, the Bank updated its allowances model for consumer loans. The models were calibrated with the aim of improving the prediction of client behavior and maintaining statistical and management standards. This resulted in the release of consumer provisions of Ch$26,563 million in 2014. The non-performing ratio for consumer loans declined from 2.6% in 2013 to 2.5% in 2014 and the impaired mortgage loans ratio also improved from 9.7% in 2013 to 9.3% in 2014.

Provisions for mortgage loans decreased 44.9% in 2014 compared to 2013. The non-performing ratio for mortgage loans declined from 2.8% in 2013 to 2.7% in 2014 and the impaired mortgage loans ratio also improved from 5.7% in 2013 to 5.6% in 2014.

Recoveries on loans previously charged-off increased 6.7% in 2014 compared to 2013. This was due to higher recoveries of charged-off commercial loans, a result of higher recovery of charge-offs in the SME segment.

As a result of the factors mentioned above, net operating profit increased 14.0% in 2014 compared to 2013 and totaled Ch$1,308,594 million.

Operating expenses increased 12.1% compared to 2013. The efficiency ratio was 41.1% in 2014 compared to 40.2% in 2013. The 9.9% increase in personnel salaries and expenses was mainly due to higher salaries and bonuses. Total salary expenses and bonuses increased 9.4% in 2014 compared to 2013, totaling Ch$290,509 million.

Administrative expenses increased 9.0% in the year ended December 31, 2014 compared to the corresponding period in 2013. The increase in administrative expenses was mainly due to the 13.9% increase in maintenance, repair of property, plant and equipment, which totaled Ch$17,498 million and the 7.6% rise in security services expenses that totaled Ch$17,089 million. In 2014, the Bank continued to refurbish branches, open new Santander Select branches and close Santander Banefe branches.

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Depreciation and amortization expense decreased 27.7%, mainly due to the lower depreciation and amortization of intangible assets. In 2014, the Bank, following an extensive analysis of it intangible assets, performed an extraordinary charge-off of those intangible assets, mainly software, that were obsolete or were not contributing to the Bank's business or earnings.

Impairment charges increased 14,926.2% in 2014 compared to 2013 and totaled Ch$36,664 million. The Bank, in its strategic objectives, initiated a plan to transform its business and operating model with a better focus on the client. Therefore, there have arisen a number of new requirements for the Bank to adapt to changing customer demands and establish new ways to interact with customers. In conjunction with this change in strategic focus, we tested a number of applications that were in use or in development for impairment. Following the testing, in accordance with IAS 36, the Bank has recognized an impairment of Ch$36,556 million in 2014.

Other operating expenses were Ch$58,946 million in 2014, a 12.6% increase compared to 2013. This increase was mainly due to higher provisions for contingencies that totaled Ch$13,080 million in 2014 compared to Ch$5,805 million in 2013. Compared to 2013, the rise in provision for contingencies was due to Ch$5 billion for future severance payments and Ch$2.4 billion for future costs related to chip technology for cards. This reflects the pending expense for customers that have yet to change their debit or credit card with the new chip technology, which is an on-going process. See "Note 33—Other operating income and expenses" and "Note 20-Provisions" to our Audited Consolidated Financial Statements for more detail on Other operating expenses.

Total income tax expense in 2014 totaled Ch$51,050 million a 46.0% decrease compared to 2013. The Bank paid an effective tax rate of 8.1% in 2014 compared to 17.5% in 2013. The Chilean Government enacted in 2014 a reform to the corporate tax structure. The statutory corporate tax rate increased from 20% to 21% in 2014 and will rise to 22.5% in 2015. By the end of 2016 a corporation's shareholders must opt between two new tax systems for a minimum period of five years. In one, the statutory income tax rate will rise to 24% in 2016 and 25% in 2017 and onward. In the other system, the statutory tax rate will rise to 25.5% in 2016 and 27% in 2017 and onward.

The lower effective tax rate was mainly due to the fact that income tax expenses in 2014 included a one-time non-cash gain of Ch$39,262 million from the re-adjustments made to the Bank's deferred tax asset base following passage of the new tax law. The Bank has more deferred tax assets than liabilities. This gain arises from the difference between the Bank's accounting and tax books regarding how provisions and charge-offs are recognized. When the statutory rates were modified, the Bank's net deferred tax assets increased as the future tax rates used to calculate this asset were gradually increased from 20% to 27%. Also, higher CPI inflation resulted in a greater revaluation of our capital, which resulted in a lower effective tax rate.

Results of operations for the years ended December 31, 2013 and 2012. Net income for the year ended December 31, 2013 increased 23.0% to Ch$444,429 million. Our return on annualized average equity was 18.9% in 2013 compared to 16.5% in 2012.

In 2013, net operating profit before loan losses was Ch$1,519,190 million, an increase of 7.8% compared to 2012. Our net interest income increased 3.3% to Ch$1,076,762 million in 2013 from Ch$1,042,734 million in 2012. The average balance of our interest-earning assets increased by 7.6% in 2013 compared to 2012. Our net interest margin decreased to 4.63% in 2013 from 4.82% in 2012. Net interest margins were negatively affected by the fall in the average nominal rate we earned on our interest earning assets. This was mainly due to: (i) a switch in the loan mix away from higher yielding, but riskier segments such as Banefe, a lower interest rate environment and a decline in the UF inflation rate in 2013 compared to 2012.

Net fees and commission income decreased 15.1% to Ch$229,836 million in the year ended December 31, 2013 compared to the same period in 2012. Fees in 2013 were negatively affected by new regulations that lowered brokerage fees from mandatory insurance for mortgage loans and the difficulties in increasing fees following stricter regulations issued by the SERNAC Financiero, the newly formed consumer protection agency for financial services.

Results of financial transactions, net, which is the sum of net profit from financial operations and net foreign exchange gains (loss), totaled Ch$124,437 million in the year ended December 31, 2013, an increase of 51.2% compared to the same period in 2012. These results include the results of our Treasury Division's trading business and financial transactions with customers as well the results of our Financial Management Division. Client treasury services decreased 9.8% in 2013 compared to 2012 and represented the majority of our financial transaction income. In 2013, the results from Santander Global Connect decreased 14.9% compared to 2012. In the first half of 2013, demand for hedging and derivative products on behalf of our clients was low given the low volatility of the exchange rate. Once the U.S. federal reserve announced the tapering of quantitative easing, the volatility of the exchange rate increased and business volumes recovered. The results from market-making with client services decreased 2.1% in 2013, mainly due to lower business volumes of tailor-made treasury services sold to specific corporate clients, especially in the first half of the year. The results from non-client treasury income totaled a gain of Ch$45,319 million in 2013 compared to a loss of Ch$5,395 million in 2012. In 2013, the net results of our Financial Management Division were positive, since the Bank has a greater spot position in liabilities denominated in foreign currency than assets. These principally U.S. dollar-denominated liabilities are hedged through derivatives (short term foreign currency swaps) with minimal foreign currency exposure, but this does result in the existence of a short-term interest rate differential between U.S. dollars and Chilean pesos, which produces a financial result registered in financial transactions, net. This result is positive when interest rates in the US are trending up and local rates are falling and vice versa. In 2013, local rates, especially in the second half of the year decreased relative to US rates

Other operating income totaled a gain of Ch$88,155 million in the year ended December 31, 2013, a 572.7% increase from the corresponding period in 2012. The main reasons for this increase was the gain of Ch$78,122 million recognized from the sale of our asset management subsidiary, Santander Asset Management S.A. Administradora General de Fondos.

Provisions for loan losses, net of recoveries totaled Ch$371,462 million in 2013 and decreased 8.0% compared to the amount of provisions recorded in 2012. This decline was mainly due to the 20.4% decrease in net provision expense from consumer loans. In June 2012, the Bank updated its allowance model for consumer loans, which mainly impacted the provisions established for renegotiated loans, and resulted in a provision of Ch$24,753 million. Excluding this effect, provisions for consumer loans decreased 12.7% in 2013 compared to 2012. In 2013, the Bank in order to lower credit risk in its consumer loan book modified its strategy by focusing growth in less risky segments to individuals in Commercial banking and by decreasing consumer loans in Santander Banefe. As a result of this shift in strategy, impaired consumer loans decreased 11.1% and non-performing consumer loans decreased 21.1% in 2013 compared to 2012.

As a result of the factors mentioned above, net operating profit increased 14.2% in 2013 compared to 2012 and totaled Ch$1,147,728 million.

Operating expenses increased 1.8% compared to 2012. The efficiency ratio was 40.2% in 2013 compared to 42.5% in 2012. The 2.8% increase in personnel salaries and expenses was mainly due to higher salaries. Total salary expenses, including bonuses increased 4.0% in 2013 compared to 2012, totaling Ch$265,500 million.

Administrative expenses increased 2.6% in 2013 compared to 2012. The increase in administrative expenses was mainly due to: (i) the 33.1% increase in security and valuable transport services which increased from Ch$11,929 million in 2012 to Ch$15,879 million in 2013. In 2013 the Bank had to increase the expenditure dedicated to securing and protecting ATM machines given the increase in theft and more regulations regarding ATM security, (ii) the 17.2% increase in expenses relating to IT and communication systems from Ch$24,873 million in 2013 to Ch$29,144 million in 2012, in line with the Bank’s improvements of its CRM systems, phone banking and internet banking services; (iii) the 15.0% increase in expenses relating to outsourced computer services related to various IT upgrades, (iv) a 7.1% rise in branch rental expenses due to the greater number of branches rented following the sale of branches in 2012 and 2011 and (v) a 7.5% rise in expenses relating to the maintenance and repair of property as the Bank refurbished branches and introduced its new brand Santander Select and transformed 44 branches into this new format for mid-higher income clients.

Other operating expenses were Ch$52,338 million in 2013, a 12.2% decrease compared to 2012. This decrease was mainly due to lower provisions and expenses for repossessed assets that totaled Ch$4,824 million in 2013 compared to Ch$10,176 million in 2012. This was offset by higher customer service expenses that includes costs related to our call center and higher other costs, which increased due to the Ch$2,283 million in expenses recorded in 2013 from the costs incurred in adopting chip technology for our ATM and credit cards.

Our income tax expense increased by 112.6% in the year ended December 31, 2013 compared to the same period in 2012. The effective tax rate was 17.5% in 2013 compared to 11.0% in 2012. The higher effective tax rate

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in 2013 compared to 2012 was due to the fact that in September 2012, the statutory tax rate was increased from 18.5% to 20.0% and this created an income tax reversal of Ch$16,221 million in 2012, corresponding to the adjustment of deferred tax assets to the higher statutory rate.

Net interest income

	Year ended December 31,			% Change	
	2014	2013	2012	2014/2013	2013/2012
	(in millions of Ch$, except percentages)				
Individuals (Commercial banking)	519,541	506,192	499,422	2.6 %	1.4 %
Individuals (Santander Banefe)	91,979	99,182	123,043	(7.3 %)	(19.4 %)
Small and mid-sized companies	269,483	260,856	233,622	3.3 %	11.7 %
Companies and institutions	219,307	193,749	176,649	13.2 %	9.7 %
Total commercial banking	1,100,310	1,059,979	1,032,736	3.8 %	2.6 %
Global banking & markets	87,737	72,932	50,477	20.3 %	44.5 %
Other (1)	129,057	(56,149)	(40,479)	-- %	38.7 %
Net interest income	1,317,104	1,076,762	1,042,734	22.3 %	3.3 %
Average interest-earning assets	26,759,696	23,267,735	21,620,090	15.0 %	7.6 %
Average non-interest-bearing demand deposits	5,386,272	4,620,849	4,177,432	16.6 %	10.6 %
Net interest margin (2)	4.92 %	4.63 %	4.82 %		
Average shareholders' equity and average non-interest-bearing demand deposits to total average interest-earning assets	30.2 %	30.0 %	29.4 %		

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

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

For the years ended December 31, 2014 and 2013. Our net interest income totaled Ch$1,317,104 million in the year ended December 31, 2014, an increase of 22.3% from Ch$1,076,762 million in 2013. Average interest earning assets increased 15.0% in the same period, driven mainly by lending to Individuals in commercial banking to companies and institutions and to a lesser extent loan growth in small and mid-sized companies and Santander Banefe. Net interest margin in 2014 was 4.92% compared to 4.63% in 2013. Net interest margins were positively affected by the increase of the average nominal rate we earned on our interest earning assets. This was mainly due to a rise in the UF inflation rate in 2014 compared to 2013 and higher loan yields in Companies and institutions and Global banking and markets. As financing sources from abroad became more expensive for Chilean companies, this permitted higher loan yields locally. This was only partially offset by the negative impacts of maximum rate regulation on consumer loan yields, a lower interest rate environment and loan growth focused in lower yielding, but less risky segments.

Average nominal interest rate earned on interest earning assets	2014	2013	2012
Ch$	10.3 %	11.7 %	12.2 %
UF	9.3 %	6.5 %	7.1 %

Foreign currencies	1.5	%	1.7	%	2.0	%
Total	8.3	%	8.0	%	8.8	%

The average rate paid on our interest bearing liabilities increased from 4.6% in 2013 to 4.7% in 2014. This was mainly due to a higher rate paid on UF denominated liabilities as a result of the higher UF inflation in the year. The Bank's funding mix also improved in 2014. The ratio of average shareholders' equity and average non-interest bearing demand deposits to total average interest earning assets increased from 30.0% in 2013 to 30.2% in 2014. Average non-interest bearing demand deposits increased 16.6% in 2014 compared to 2013.

Average nominal interest rate paid on interest bearing liabilities	2014		2013		2012	
Ch$	6.0	%	6.0	%	6.2	%
UF	8.4	%	5.9	%	6.6	%
Foreign currencies	0.7	%	1.9	%	2.7	%
Total	4.7	%	4.6	%	5.3	%

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The changes in net interest income by segment in 2014 as compared to 2013 were as follows:

- Net interest income from Individuals in Commercial banking increased 2.6%, mainly as a result of the 14.1% increase in loan volumes in this segment. The Bank focused growth in the high end of this segment in order to focus on margins net of risks, especially considering that in 2014 the new maximum rate legislation was going to begin to affect the low end of the consumer market. The Bank's strategy was to focus on lower yielding loans, but with lower risk in order to maximize margins net of provisions.

- Net interest income from Individuals in Santander Banefe decreased 7.2% in 2014. Loans in this segment grew only 3.4% as the Bank focused growth in the higher income levels in this segment to increase profitability net of provisions, especially considering that in 2014 the new maximum rate legislation was going to begin to affect the profitability of this segment.

- Net interest income from Small and mid-sized companies increased 3.3% in 2014, mainly as a result of the 4.1% increase in loans to this sub-segment and an improved funding mix.

- Net interest income from Companies and institutions increased 13.2% in 2014, mainly as a result of the 8.2% increase in loans to this sub-segment and an improved funding mix. This segment was of significant strategic focus in 2014 as the Bank increased business volumes in this segment both in lending and non-lending while maintaining positive asset quality indicators in this segment.

- Net interest income from the Global banking and markets segment increased 20.3% in 2014 despite a 0.8% decrease in loan volumes. Yields on emerging market debt in 2014 increased as the U.S. Federal Reserve Bank commenced its program of tapering of quantitative easing. This led to greater loan yields in this segment. This segment also saw an improvement in cash management services that improved the funding mix.

- Other net interest income consists mainly of net interest income from the available for sale investment portfolio and deposits in the Central Bank and the financial cost of supporting our cash position and investment portfolio for trading, the interest income from which is recognized as net income from financial operations and not interest income. The result of the Bank's inflation gap is also included in this line. The net interest income included as "other" totaled a gain of Ch$129,057 million in 2014 compared to a loss of Ch$56,149 million in 2013. The financial impact of the gap between our assets and liabilities denominated in UFs including hedges was Ch$229,946 million in 2014, Ch$71,842 million in 2013 and Ch$71,238 million in 2012. The higher gain in 2014 can be explained by the greater UF inflation in 2014 compared to previous periods and the greater UF gap in 2014.

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

	Year ended December 31,			% Change	
	2014	2013	2012	2014/2013	2013/2012
	(in millions of Ch$, except percentages)				
Individuals (Commercial banking)	11,083,815	9,710,249	8,941,860	14.1 %	8.6 %
Individuals (Santander Banefe)	752,267	727,452	730,362	3.4 %	(0.4 %)
Small and mid-sized companies	3,354,840	3,223,215	2,890,251	4.1 %	11.5 %
Companies and institutions	5,444,869	5,031,752	4,414,211	8.2 %	14.0 %
Global banking & markets	2,201,913	2,219,045	1,863,595	(0.8 %)	19.1 %
Other (1)	54,945	149,048	126,373	63.1 %	17.9 %
Total loans	22,892,649	21,060,761	18,966,652	8.7 %	11.0 %

(1) Includes interbank loans.

For the years ended December 31, 2013 and 2012. Our net interest income totaled Ch$1,076,762 million in the year ended December 31, 2013, an increase of 3.3% from Ch$1,042,734 million in 2012. Average interest earning assets increased 7.6% in the same period, driven mainly by lending to Individuals in commercial banking, Companies, SME and Global banking & markets. Net interest margin in 2013 was 4.63% compared to 4.82% in 2012. Net interest margins were negatively affected by the decrease of the average nominal rate we earned on our

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interest earning assets. This was mainly due to: (i) a switch in the loan mix away from higher yielding, but riskier segments such as Banefe, (ii) a lower interest rate environment and (iii) a decline in the UF inflation rate in 2013 compared to 2012.

The average rate paid on our interest bearing liabilities decreased from 5.3% in 2012 to 4.6% in 2013. This was mainly due to a lower rate paid on UF denominated liabilities as a result of the lower UF inflation in the year. The Bank's funding mix also improved in 2013. The ratio of average shareholders' equity and average non-interest bearing demand deposits to total average interest earning assets increased from 29.4% in 2012 to 30.0% in 2013. Average non-interest bearing demand deposits increased 10.6% in 2013 compared to 2012.

The changes in net interest income by segment in 2013 as compared to 2012 were as follows:

- Net interest income from Individuals in Commercial banking increased 1.4%, mainly as a result of the 8.6% increase in loan volumes in this segment. The Bank focused growth in the high end of this segment in order to focus on margins net of risks, especially considering that in 2014 the new maximum rate legislation was going to begin to affect the low end of the consumer market.

- Net interest income from Individuals in Santander Banefe decreased 19.4% in 2013. Loans in this segment grew just 0.4% as the Bank focused growth in the higher income levels in this segment to increase profitability net of provisions, especially considering that in 2014 the new maximum rate legislation was going to begin to affect the profitability of this segment.

- Net interest income from Small and mid-sized companies increased 11.7% in 2013, mainly as a result of the 11.5% increase in loans to this sub-segment and an improved funding mix.

- Net interest income from Companies and institutions increased 9.7% in 2013, mainly as a result of the 14.0% increase in loans to this sub-segment due to the positive evolution of the Chilean economy. This was partially offset by increased competition in this sub-segment, which lowered loan yields, but this sub-segment has a less risky loan profile, which was a focus of the Bank in 2013.

- Loans in the Global banking and markets segment increased 19.1% in 2013, which led to a 44.5% increase in net interest income in this segment. Yields on emerging market debt in 2013 increased as the U.S. Federal Reserve Bank commenced its program of tapering of quantitative easing. This led to greater domestic demand for financing on behalf of large corporations and higher loan yields.

- Other net interest income consists mainly of net interest income from the available for sale investment portfolio and deposits in the Central Bank and the financial cost of supporting our cash position and investment portfolio for trading, the interest income from which is recognized as net income from financial operations and not interest income. The result of the Bank's inflation gap is also included in this line. The net interest income included as "other" totaled a loss of Ch$56,149 million in 2013 compared to a loss of Ch$40,479 million in 2012. The lower UF inflation rate negatively affected net interest income from this segment. At the same time, in 2013, the Bank continued to reduce its excess cash position and to lend more, which resulted in lower financial investment income.

Fee and commission income

For the years ended December 31, 2014 and 2013. Net fees and commission income decreased 1.1% to Ch$227,283 million in the twelve-month period ended December 31, 2014 compared to the same period in 2013. In 2014, the Bank continued to experience positive client base and product growth. These positive commercial efforts continued to be offset by regulations that lowered fees from collecting mandatory insurance for mortgage loans (mainly fire and earthquake insurance) and the difficulties in increasing fees following stricter regulations issued by the SERNAC Financiero, the newly formed consumer protection agency for financial services. See “Item 3. Key Information—D. Risk Factors—Chile’s banking regulatory and capital markets environment is continually evolving and may change.”

The following table sets forth certain components of our income from services (net of fees paid to third parties directly connected to providing those services, principally fees relating to credit card processing and ATM network administration) in the years ended December 31, 2014, 2013 and 2012.

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	Year ended December 31,			% Change	
	2014	2013	2012	2014/2013	2013/2012
	(in millions of Ch$)				
Credit, debit and ATM cards	43,161	39,325	53,934	9.8 %	(27.1 %)
Collections	35,355	45,190	56,472	(21.8 %)	(20.0 %)
Insurance brokerage	34,695	32,253	32,499	7.6 %	(0.8 %)
Letters of credit	32,403	30,131	28,523	7.5 %	5.6 %
Checking accounts	29,031	28,044	28,755	3.5 %	(2.5 %)
Custody and brokerage services	8,307	6,195	9,585	34.1 %	(35.4 %)
Lines of credit	7,015	7,025	9,296	(0.1 %)	(24.4 %)
Asset management	–	31,154	33,414	(100.0 %)	(6.8 %)
Others	37,316	10,519	18,094	254.7 %	(41.9 %)
Total fees and commission income, net	227,283	229,836	270,572	(1.1 %)	(15.1 %)

Fees from credit, debit and ATM cards increased by 9.8% in 2014, reflecting the positive growth of the usage of the Bank's credit and debit cards. Active credit cards totaled 1,877,589 at year-end 2014 and increased 3.3% compared to year-end 2013.

Fees from collections decreased by 21.8% in 2014 compared to 2013. In 2014, we once gain auctioned to the lowest bidder the mandatory insurance products that are sold with mortgage loans. This negatively impacted collection fees where this income is recognized. At the same time in 2014, per new regulations, we began provisioning as a fee expense a portion of the life insurance fees collected by the Bank on behalf of insurance companies. We provisioned a total of Ch$6.8 billion of such fees in 2014. Several of the loan products that the Bank sells, mainly consumer and mortgage loans, are sold with a life insurance that covers the value of the loan in case of death. This insurance premium is collected by the Bank on behalf of insurance companies upfront at the moment the loan is originated to cover a period equal to the maturity of the loan. Therefore, if the client pre-pays the loan, we must return to the insurance company a portion of the fee collected. Insurance brokerage fees increased 7.6% as business volumes recovered in line with a recovery in client and product growth.

Fees from letters of credit and other contingent operations increased 7.5% in 2014. This increase was mainly due to positive performance of our international and foreign trade financing businesses with clients and also due to the depreciation of the peso against the U.S. dollar since this business is mainly transacted in foreign currency.

Fees from checking accounts increased 3.5% in 2014 compared to 2013. This was mainly due to a rise in the Bank's checking account base. According to the latest data published by the SBIF as of November 2014, the Bank's checking accounts totaled 815,182 compared to 772,436 in 2013 or a growth of 5.5%. Higher checking account balances both in retail banking as well as an increase in corporate cash management services also boosted fee growth in this product.

Brokerage and custody fees increased 34.1% in 2014 as compared to 2013. Despite lack luster performance of local equity markets, which hurt brokerage activity, the depreciation of the peso against the dollar positively affected brokerage and custody fees. At the same time the placing of local fixed income instruments on behalf of our clients drove income in this product as well.

Fees from lines of credit were essentially flat compared to 2013. Fee income from this product has stabilized as the client base expanded in 2014. This following various years of decline due to regulations, a decrease in lines of credit as the Bank reduced its exposure to clients with unhealthy financial behavior and restrictions on the increase of fees following the creation of the SERNAC Financiero.

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

The rise in other fee income of 254.7% in 2014 compared to 2014 was mainly due to higher fees from the brokerage of asset management services. As mentioned in the paragraph above, the Bank is no longer in the asset management business, but serves as an exclusive broker for Santander Asset Management, the acquirer of our asset management business. In 2014, asset management brokerage fees totaled Ch$30,984 million.

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

	Year ended December 31,			% Change	% Change
	2014	2013	2012	2014/2013	2013/2012
	(in millions of Ch$)				
Individuals (Commercial banking)	128,891	123,496	141,946	4.4 %	(13.0 %)
Individuals (Santander Banefe)	21,257	25,648	33,853	(17.1 %)	(24.2 %)
Small and mid-sized companies	47,011	37,641	38,115	24.9 %	(1.2 %)
Companies and institutions	29,405	29,249	28,373	0.5 %	3.1 %
Global banking and markets	21,952	18,022	19,159	21.8 %	(5.9 %)
Other	(21,233)	(4,220)	9,126	403.2 %	– %
Total fees and commission income, net	227,283	229,836	270,572	(1.1 %)	(15.1 %)

Fees from Individuals in Commercial banking increased 4.4% in 2014 compared to 2013. Fees from Individuals in Santander Banefe decreased 17.1% in the same period. A key strategic focus in 2014 was to increase business activity in Individuals (commercial banking) which comprise mid-high income segments. In mid-2013, the Bank executed a profound overhaul of its Client Relationship Management (CRM) systems and other changes to its commercial team front-office functions, which has continued to led to greater product sales and usage in this segment in 2014. At the same time, the Bank has de-emphasized growth in Santander Banefe which resulted in lower business activity and client growth in this segment, which is mainly dedicated to banking lower income individuals. Additionally, fees in this segment were impacted by the SERNAC Financiero's restrictions on the increase of fees and the new regulations regarding the selling of mandatory insurance for mortgage loans.

The 24.9% increase in fees in 2014 from Small and mid-sized companies was mainly due to higher prices for some services in this segment.

The 0.5% increase in fees in Companies and institutions sub-segments, respectively, reflects the timid increase in business activity in general in line with the overall growth of the economy in 2014.

Fees from the Global banking and markets segment increased 21.8%. In 2014, this segment saw an important increase in cash management services, custody, financial advisory and other corporate services. Despite lower GDP growth in 2014, many Chilean companies performed various important transactions locally with the Bank. Other income fee income that was not attributed to any business segment totaled a loss of Ch$21,233 million in 2014 compared to a loss of Ch$1,561 million in 2013. This was mainly due to the fact that several of the regulations that affected fee income in 2014, mainly collection fees, were not attributed to any segment.

For the years ended December 31, 2013 and 2012. Net fees and commission income decreased 15.1% to Ch$229,836 million in the twelve-month period ended December 31, 2013 compared to the same period in 2012. In 2013, the Bank completed the overhaul of its Client Relationship Management (CRM) systems and other changes to its commercial team front-office functions. This has resulted in greater client base and product growth. This was offset by the new regulations that lowered fees from brokering mandatory insurance for mortgage loans (mainly fire and earthquake insurance) and the difficulties in increasing fees following stricter regulations issued by the SERNAC Financiero, the newly formed consumer protection agency for financial services. See "Item 3. Key Information—D. Risk Factors—Chile's banking regulatory and capital markets environment is continually evolving and may change."

Fees from credit, debit and ATM cards decreased by 27.1%, reflecting the reduction of clients in the Bank's Santander Banefe unit, as the Bank reduced its exposure to clients with unhealthy financial behavior. This had a negative impact on certain fees, specifically credit card, checking account and line of credit fees, but the Bank expects this to have a positive impact on asset quality in this segment in future periods. The Bank also reduced or eliminated fees on ATM and debit cards in line with the new guidelines set by the SBIF and Sernac Financiero.

Fees from collections decreased by 20.0% in 2013 compared to 2012. In July 2012, new regulations regarding the sale of mandatory insurance for mortgage loans was introduced. At year-end 2012, as per new regulations, we auctioned to the lowest bidder the mandatory insurance products that are sold with mortgage loans. This negatively impacted collection fees where this income is recognized.

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Insurance brokerage fees decreased by 0.8% in 2013. This was mainly due to lower business volumes in our insurance brokerage subsidiary.

Fees from letters of credit and other contingent operations increased 5.6% in 2013. This increase was mainly due to positive performance of our international and foreign trade financing businesses with clients and also due to the depreciation of the peso against the U.S. dollar since this business is mainly transacted in foreign currency.

Fees from checking accounts decreased 2.5% in 2013 compared to 2012. This was mainly due to competitive pressures on checking account maintenance fees and increased restrictions on the increase of fees following the creation of the SERNAC Financiero.

Brokerage and custody fees decreased 35.4% in 2013 as compared to 2012. This fall was mainly due to the poor performance of the local equity markets, which hurt brokerage activity.

Fees from lines of credit decreased 24.4% in 2013 compared to 2012. This decrease was mainly due to a decrease in lines of credit as the Bank reduced its exposure to clients with unhealthy financial behavior, though the Bank expects this to have a positive impact on asset quality in the Individuals segment in future periods. The decrease was also due to increased restrictions on the increase of fees following the creation of the SERNAC Financiero.

Fees from our asset management business decreased 6.8% in 2013 compared to 2012 due to lower growth of equity funds given the poor performance of the local stock market. In December 2013, our Asset Management business was sold for a price of Ch$90,281 million. This operation generated Ch$78,122 million of profit recorded within Other operating income.

The fall in other fee income of 41.9% in 2013 compared to 2012 was mainly due to higher fee expenses paid related to fees paid for our collection efforts. This was offset by higher fees in our Companies, SMEs and Institutions business segments as the Bank focused on increasing banking services and activities with these clients. Fees from foreign currency exchange services increased 9.9% to Ch$3,554 million in 2013 compared to 2012. Financial advisory fees increased 5.8% to Ch$6,146 million in 2013 compared to 2012. Fees from office banking totaled Ch$1,812 million and increased 22.3% in 2013 compared to 2012 due to greater usage of this platform by Company segment clients.

Fees from Individuals in Commercial banking decreased 13.0% in 2013 compared to 2012. Fees from Individuals in Santander Banefe decreased 24.2% in the same period. As mentioned, the Bank executed a profound overhaul of its Client Relationship Management (CRM) systems and other changes to its commercial team front-office functions. At the same time, the Bank modified its admission policies for loan origination, which resulted in lower business activity and client growth, especially in lower income individuals. Additionally, fees in this segment were impacted by the SERNAC Financiero's restrictions on the increase of fees and the new regulations regarding the selling of mandatory insurance for mortgage loans.

The 1.2% decrease in fees in 2013 from Small and mid-sized companies was mainly due to a hike in prices and greater business growth in this segment.

The 3.1% increase in fees in Companies and institutions sub-segments, respectively, reflects the higher fees from letters of credits, office banking and foreign currency services, as well as greater business activity in general with these clients.

Fees from the Global banking and markets segment decreased by 5.9%, primarily due to a fall in volumes our brokerage unit and other corporate fees.

Financial transactions, net

The following table sets forth information regarding our income (loss) from financial transactions for the years ended December 31, 2014, 2013 and 2012.

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	Year ended December 31, 2014	2013	2012	% Change 2014/2013	% Change 2013/2012
	(in millions of Ch$)				
Net income from financial operations	(159,647)	(20,289)	(64,079)	686.9 %	(68.3 %)
Foreign exchange profit (loss), net	272,212	144,726	146,378	88.1 %	(1.1 %)
Total financial transactions, net	112,565	124,437	82,299	(9.5 %)	51.2 %

For the years ended December 31, 2014 and 2013. Total financial transactions, net, which is the sum of net income from financial operations and foreign exchange profit (loss), totaled Ch$112,565 million in the year ended December 31, 2014, a decrease of 9.5% compared to the same period in 2013. These results include the results of our Treasury Division's trading business and financial transactions with customers, as well the results of our Financial Management Division.

Net income from financial operations was a loss of Ch$159,647 million in 2014 compared to a loss of Ch$20,289 million in 2013.

	Year ended December 31, 2014	2013	2012	% Change 2014/2013	% Change 2013/2012
	(in millions of Ch$)				
Derivatives classified as trading	(224,015)	(68,201)	(104,344)	228.5 %	(34.6 %)
Trading investments	45,952	29,985	36,338	53.2 %	(17.5 %)
Sale of loans	6,070	3,177	4,835	91.1 %	(34.3 %)
Available-for-sale instruments sales	6,934	10,258	(1,764)	(32.4 %)	–
Other results	5,412	4,492	856	20.5 %	424.8 %
Net income (loss) from financial operations	(159,647)	(20,289)	(64,079)	686.9 %	(68.3 %)

The higher loss from financial operations in 2014 compared to 2013 was mainly due to:

(i) Higher losses from derivatives classified as trading. In 2014, the average yearly exchange rate depreciated 15.2% compared to 1.8% in 2013. Movements in foreign currency affect this line item because it includes the valuation adjustments of our derivatives classified as trading. The Bank's spot position includes all assets and liabilities in foreign currency and assets and liabilities in Ch$ linked to U.S.$ that are not derivatives. Internal policy prohibits us from opening a large exposure in foreign currency, but we usually have more liabilities in foreign currency (mainly US$) than assets in our spot position due to our long-term funding in foreign currency and deposits denominated in foreign currencies from Chilean exporters. This net foreign currency liability spot position is hedged using different instruments. Our long-term foreign currency funding is hedged with cross-currency swaps that are matched and are accounted under hedge accounting rules. Therefore, the liability and the corresponding hedge are recognized in foreign exchange profits, described below and not in this line item. Excluding this part of our funding in foreign currency, we are left with the foreign currency deposits and other short-term foreign currency funding mechanisms, which are larger than the foreign currency assets, mainly loans and cash. This difference is hedged with derivatives that are accounted as trading derivatives. As the peso depreciated against the dollar in 2014 at a higher rate than in 2013, the loss from derivatives classified as trading rose. For more details, see "Item 11. Quantitative and Qualitative Disclosures About Market Risk—E. Market Risks—Market risk management—Market risk – local and foreign financial management."

(ii) This was partially offset by higher gains from our investment portfolio classified as trading. In this line item the mark-to-market and interest income of the trading portfolio are recognized. In 2014, the higher UF inflation increased interest from this portfolio and falling interest rates increased the mark-to-market gains. This explains the 53.2% increase in results from the trading portfolio compared to 2013, which totaled Ch$45,952 million.

The net result from foreign exchange transactions totaled a gain of Ch$272,212 million in 2014 compared to Ch$144,726 million This difference was mainly the result of the greater depreciation of the Chilean peso against the U.S. dollar in 2014 compared to 2013. This line item includes the net result of our spot position in foreign currency.

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	Year ended December 31,			% Change	% Change
	2014	2013	2012	2014/2013	2013/2012
	(in millions of Ch$)				
Net profit or loss from foreign currency exchange differences	(370,282)	(242,841)	270,990	52.5 %	–
Hedge-accounting derivatives	621,767	379,910	(120,610)	63.7 %	–
Translation gains and losses over assets and liabilities indexed to foreign currencies, net	20,727	7,657	(4,002)	170.7 %	–
Net results from foreign exchange profit (loss)	272,212	144,726	146,378	88.1 %	(1.1 %)

The effects on net income from the change in value of our spot foreign currency position are generally positive if the peso appreciates and negative if the peso depreciates as our spot funding base in foreign currency is larger than our spot asset position in foreign currency. As mentioned above, in general we do not open large exposures in foreign currency. The net foreign currency liability spot position is hedged using different instruments. Our long-term funding is hedged with cross-currency swaps that are matched and are accounted under hedge accounting rules. Therefore, the net liability spot position and the portion hedge with derivatives that are valued under hedge accounting are recognized in foreign exchange profits. The depreciation of the peso in 2014 led to a larger loss in the net profit or loss from foreign currency exchange, which reflects the value of our spot foreign currency position. This loss totaled Ch$370,282 million in 2014 compared to a loss of Ch$242,841 million in 2013. At the same time, the results from hedge-accounting derivatives increased from Ch$379,910 million in 2013 to Ch$621,767 million in 2014 arising from the net long position we have in hedge accounting derivatives that hedge our long-term foreign currency funding. For more details, see "Item 11. Quantitative and Qualitative Disclosures About Market Risk—E. Market Risks—Market risk management— Market risk – local and foreign financial management."

In order to more easily compare the results from financial transactions, net, we present the following table that separates the results by line of business for 2014, 2013 and 2012.

	Year ended December 31,			% Change	
	2014	2013	2012	2014/2013	2013/2012
	(in millions of Ch$)				
Santander Global Connect	50,740	44,860	52,703	13.1 %	(14.9 %)
Market-making with clients	33,097	34,258	34,991	(3.4 %)	(2.1 %)
Client treasury services	83,837	79,118	87,694	6.0 %	(9.8 %)
Sale of loans and charged-off loans	6,070	3,218	4,835	88.6 %	(33.4 %)
Proprietary trading	(1,113)	(1,963)	8,213	(43.3 %)	— %
Financial Management Division (1)	23,771	44,064	(18,443)	(46.1 %)	— %
Non-client treasury income (loss)	28,728	45,319	(5,395)	(36.6 %)	— %
Total financial transactions, net	112,565	124,437	82,299	(9.5 %)	51.2 %

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

Client treasury services totaled Ch$83,837 million and increased 6.0% in 2014 compared to 2013. The results from Santander Global Connect and market-making mainly include the results from the sale of derivatives, foreign exchange and fixed income instruments to our client base. In 2014, the results from Santander Global Connect increased 13.1%. The depreciation of the peso led to a larger demand for hedging from our Corporate and Companies clients driving this income line. The results from market-making with client services decreased 3.4% in 2014, mainly due to lower business volumes of tailor-made treasury services sold to specific corporate clients. These results may vary year-to-year as some large operations with corporate clients may not be repeated in subsequent years.

The results from non-client treasury income decreased 36.6% and totaled a gain of Ch$28,728 million in 2014 compared to Ch$45,319 million in 2013. These results include the income from sale of loans, including charged-off loans, proprietary trading and the results from our Financial Management Division. The results from the sale of loans increased 88.6% to Ch$6,070 million in 2014. The results from proprietary trading totaled a loss of Ch$1,113 million. The Bank since year-end 2012, no longer has a proprietary trading area and these results are from residual positions that are being closed.

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In 2014, income from the Bank's Financial Management Division decreased 46.1% to Ch$23,771 million. This department manages the structural interest rate risk, the structural position in inflation-indexed assets and liabilities, capital requirements and liquidity levels. The aim of the Financial Management Division is to provide stability and continuity in our net interest income from commercial activities, and to ensure that we comply with internal and regulatory limits regarding liquidity, regulatory capital, reserve requirements and market risk. This lower result was mainly due to lower gains obtained from short-term interest rate differential between the U.S. dollar and the Chilean peso. As mentioned, the Bank has a greater spot position in liabilities denominated in foreign currency than assets. These principally U.S. dollar-denominated liabilities are hedged through derivatives, resulting in minimal foreign currency exposure, but this does result in the existence of a short-term interest rate differential between U.S. dollars and Chilean pesos, which produces a financial result registered here. This result is positive when interest rates in the US are trending up and local rates are falling and vice versa. At the same time, our interest expense related to foreign currency exchange rose proportionally. In 2014 and 2013, local rates went down relative to US rates, but this impact was more significant in 2013 when the end of quantitative easing was announced. This lower result is also partially offset by higher yield on liquidity recognized in net interest income, since the rise in inflation resulted in higher nominal yields earned over the Bank's available for sale fixed income portfolio.

For the years ended December 31, 2013 and 2012. Total financial transactions, net, which is the sum of trading activities, fair value adjustments in our securities portfolio and foreign exchange transactions, totaled Ch$124,437 million in the year ended December 31, 2013, an increase of 51.2% compared to the same period in 2012. These results include the results of our Treasury Division's trading business and financial transactions with customers, as well the results of our Financial Management Division.

Net income from financial operations was a loss of Ch$20,289 million in 2013 compared to a loss of Ch$64,079 million in 2012. The lower loss compared to 2012 was mainly due to:

(i) Lower losses from derivatives classified as trading. This was mainly due to lower losses from the Bank's forwards that hedge foreign currency risk and are recognized as results from our Asset and Liability Management. Derivatives are mainly composed of forward and swap contracts that hedge our spot position in foreign currency. Our spot position includes all assets and liabilities in foreign currency and assets and liabilities in Ch$ linked to U.S.$ that are not derivatives. For more details, see "Item 11. Quantitative and Qualitative Disclosures About Market Risk—E. Market Risks—Market risk management— Market risk – local and foreign financial management." If we have more foreign currency assets than liabilities in our spot position, as hedges and the Chilean peso appreciates, we usually record a low or negative result from the fair value of derivatives held for trading. In the same situation, but if the Chilean peso depreciates, we usually record a better result from the fair value of derivatives held for trading compared to the previous period. This is offset by foreign exchange transaction results, which include the mark-to-market of our spot foreign currency position, net of hedge-accounted derivatives. In 2013, the period end exchange rate depreciated 9.4% compared to the period end exchange rate of 2012. The average exchange rate in 2013 depreciated 1.2% compared to the average exchange rate in 2012. This explains the difference in results from derivatives classified as trading, which totaled a loss of Ch$68,201 million in 2013 compared to a loss of Ch$104,344 million in 2012.

(ii) In 2013, the derivatives classified as trading include the debit value adjustments (DVA) for those derivatives in which the Bank has a net liability position with its counterparty. This resulted in income of Ch$8,324 million in 2013.

(ii) Falling long-term interest rates. which resulted in higher realized gains from the sales of our available-for-instruments, which totaled Ch$10,258 million, and

(iv)

Higher other results due to a Ch$4,502 million gain from the re-purchase of issued bonds. This was offset by lower realized gains and interest from our trading investment portfolio given the reduction in the size of this portfolio between 2013 and 2012.

The net result from foreign exchange transactions totaled a gain of Ch$144,726 million compared to a gain of Ch$146,378 million in 2012. As mentioned, in 2013, the period end exchange rate depreciated 9.4% compared to

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the period end exchange rate of 2012. The average exchange rate in 2013 depreciated 1.2% compared to the average exchange rate in 2012. Foreign currency exchange differences totaled a net loss of Ch$242,841 million in 2013 compared to a gain of Ch$270,990 million in 2012. This difference was mainly the result of the depreciation of the Chilean peso against the U.S. dollar in 2013 compared to an appreciation in 2012.

By line of business, client treasury services decreased 9.8% in 2013 compared to 2012 and represented the majority of our financial transaction income. The results from Santander Global Connect and market-making mainly include the results from the sale of derivatives, foreign exchange and fixed income instruments to our client base. In 2013, the results from Santander Global Connect decreased 14.9% compared to 2012. In the first half of 2013, demand for hedging and derivative products on behalf of our clients was low given the low volatility of the exchange rate. Once the U.S. federal reserve announced the tapering of quantitative easing, the volatility of the exchange rate increased and business volumes recovered. The results from market-making with client services decreased 2.1% in 2013, mainly due to lower business volumes of tailor-made treasury services sold to specific corporate clients, especially in the first half of the year. These results may vary year-to-year as some large operations with corporate clients may not be repeated in subsequent years.

The results from non-client treasury income totaled a gain of Ch$45,319 million in 2013 compared to a loss of Ch$5,395 million in 2012. In 2013, the net results of our Financial Management Division were positive, since the Bank has a greater spot position in liabilities denominated in foreign currency than assets. These principally U.S. dollar-denominated liabilities are hedged through derivatives (short term foreign currency swaps) with minimal foreign currency exposure, but this does result in the existence of a short-term interest rate differential between U.S. dollars and Chilean pesos, which produces a financial result registered in financial transactions, net. This result is positive when interest rates in the US are trending up and local rates are falling and vice versa. In 2013, local rates, especially in the second half of the year began, to go down relative to US rates. This better result from our Financial Management division in this line is partially offset by lower net interest income where the interest earned on peso- or UF-denominated asset is declining and the interest expense of the lower-yielding U.S.$-denominated liabilities is rising.

Other operating income

	Year ended December 31,			% Change	% Change
	2014	2013	2012	2014/2013	2013/2012
	(In millions of Ch$)				
Income from assets received in lieu of payment	2,811	6,571	2,654	(57.2 %)	147.6 %
Net results from sale of investment in other companies	—	78,122	599	— %	12942.1 %
Operational leases	805	328	142	145.4 %	131.0 %
Gain on sale of Bank property, plant and equipment	687	176	9,194	290.3 %	(98.1 %)
Recovery of generic provisions for contingencies	315	77	—	309.1 %	100.0 %
Insurance coverage for earthquake	661	725	262	(8.8 %)	176.7 %
Other	1,266	2,156	254	(41.3 %)	748.8 %
Sub-total other income	3,734	3,462	9,852	7.9 %	(64.9 %)
Total other operating income	6,545	88,155	13,105	(92.6 %)	572.7 %

For the years ended December 31, 2014 and 2013. Total other operating income fell 92.6% in 2014 compared to 2013 and totaled a gain of Ch$6,545 million. This fall was mainly due to the fact that in 2013 we recognized a non-recurring gain from the sale of our asset management subsidiary, Santander Asset Management S.A. Administradora General de Fondos. In December 2013 our subsidiary Santander Asset Management S.A.

Administradora General de Fondos was sold through a formal offer of purchase received in May 2013. The sale price was Ch$90,281 million for 100% of the shares. 99.99% were acquired by SAM Investment Holdings Limited and the remaining 0.01% by Santander Asset Management UK Holdings Limited, both related to Grupo Santander. This operation generated a gain of Ch$78,122 million recorded within the net results from sale of investments in other companies. Additionally, the entities entered into a management service agreement for a 10-year period. This transaction was reviewed by independent external evaluators who were of the opinion that the price offered was reasonable in consideration of their fair value appraisals. Based on this appraisal, the Audit Committee and the Board of Directors recommended the transaction. On December 5, 2013 an Extraordinary Shareholders' meeting was held. The offer was accepted and thus, on December 6, 2013 the SBIF was informed of this transaction.

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Apart from this item, other operating income was negatively affected by lower gains from income received from assets in lieu of payment as 2013 included various large operations that were not repeated in 2014.

For the years ended December 31, 2013 and 2012. Total other operating income totaled a gain of Ch$88,155 million in the year ended December 31, 2013, a 572.7% increase from the corresponding period in 2012. The main reason for this increase was the gain recognized from the sale of our asset management subsidiary, Santander Asset Management S.A. Administradora General de Fondos. Apart from this item, other operating income was positively affected by the higher gains from income received from assets in lieu of payment and negatively affected from lower gains from the sale of branches as we did not sell branches in 2013.

Provision for loan losses

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

	Year ended December 31,			% Change	% Change
	2014	2013	2012	2014/2013	2013/2012
		(in millions of Ch$)			
Provision for loan losses	(403,069)	(418,675)	(431,237)	(3.7%)	(2.9%)
Charge-off of loans analyzed on an individual basis	(10,811)	(8,071)	(5,470)	33.9%	47.6%
Recoveries on loans previously charged-off	58,977	55,284	33,015	6.7%	67.5%
Provision for loan losses, net	(354,903)	(371,462)	(403,692)	(4.5%)	(8.0%)
Year end loans (1)	22,892,649	21,060,761	18,966,652	8.7%	11.0%
Non-performing loans (2)	644,327	613,301	597,767	5.1%	2.6%
Impaired loans (3)	1,617,251	1,477,701	1,338,137	9.4%	10.4%
Allowance for loan losses (4)	684,317	614,933	550,048	11.3%	11.8%
Impaired loans / Year end loans (5)	7.06%	7.02%	7.06%		
Non-performing loans / Year end loans (2)	2.81%	2.91%	3.15%		
Allowances for loan losses / Total loans	2.99%	2.92%	2.90%		
Coverage ratio non-performing loans (5)	106.21%	100.27%	92.02%		

(1) Includes Ch$11,943 million in 2014, Ch$125,449 million in 2013 and Ch$90,573 million in 2012 in interbank loans.

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

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

(4) Includes Ch$1 million in 2014, Ch$495 million in 2013 and Ch$159 million in 2012 in allowance for loan losses for interbank loans.

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

For the years ended December 31, 2014 and 2013. Provisions for loan losses, net of recoveries totaled Ch$354,903 million in 2013 and increased 3.7% compared to the amount of provisions recorded in 2013.

Provision for loan losses, which includes the full amount of provisions recognized as a result of loan growth and change in risk classification as well as the net result of provisions and charge-offs of loans analyzed on a group basis, totaled Ch$403,069 million in 2014 compared to Ch$418,675 million in 2013 and decreased 3.7%. The following table breaks down provision for loans losses by loan product for the years ended December 31, 2014, 2013 and 2012.

	2014	2013	2012	% Change 2014/2013	% Change 2013/2012
	(in millions of Ch$)				
Interbank loans	494	(336)	(148)	—	127.0%
Commercial loans	(203,454)	(157,558)	(129,583)	29.1%	21.6%
Mortgage loans	(18,346)	(33,271)	(17,865)	(44.9%)	86.2%
Consumer loans	(180,666)	(222,964)	(280,094)	(19.0%)	(20.4%)
Contingent loans	(1,097)	(4,546)	(3,547)	(75.9%)	28.2%
Total(1)	(403,069)	(418,675)	(431,237)	3.7%	(2.9%)

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

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Provisions established for the Bank’s consumer loans decreased by 19.0% to Ch$180,666 million in 2014 compared to 2013. During the second half of 2014, and as a response to the ongoing improvement of the allowances models for loans, the Bank updated its allowances model for consumer loans. The models were calibrated with the aim of improving the prediction of client behavior and maintaining statistical and management standards. Part of these improvements consisted of the advancement of the models’ governance allowing technical and decisional approvals at different points of the approval process, more robust statistical processes and more historical information, allowing stronger parameters of the Probability of Non-Performance (PNP) and the Severity (SEV) involved in the provision calculation. These changes resulted in the release of consumer provisions of Ch$26,563 million in 2014. As this is a change in estimation, this improvement was recognized under the "Provisions for loan losses" in the Consolidated Statement of Income for the year in accordance with IAS 8. See “Item 5. Operating and Financial Review and Prospects—F. Selected Statistical Information-Classification of Loan Portfolio— Classification of Loan Portfolio-Loans analyzed on a group basis—Allowances for consumer loans.”

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It is also important to point out that since 2012, the Bank has been pursuing a strategy of growing in higher income and less riskier segments in consumer lending and reducing relative exposure to the lower end of the consumer segment, which is mainly attended by Santander Banefe. This has resulted in improvements in asset quality of our consumer loan book as seen in the adjacent graph, despite the slowdown in economic growth in 2014.

This reduction in provision expense in consumer lending was offset by the 29.1% rise in provision for loan losses in commercial lending, which totaled Ch$203,454 million in 2014. During the second half of 2014, and as a response to the ongoing improvement of the allowances models for loans, the Bank updated its allowances model for commercial loans analyzed on a group basis. The models were calibrated with the aim of improving the prediction of client behavior and maintaining statistical and management standards. Part of these improvements consisted of the advancement of the models' governance allowing technical and decisional approvals at different points of the approval process, more robust techniques of statistical processes and more historical information, allowing stronger parameters of the Probability of Non-Performance (PNP) and the Severity (SEV) involved in the provision calculation. These changes resulted in an increase in commercial provisions of Ch$45,141 million. As this is a change in estimation, this impact was recognized under the "Provisions for loan losses" in the Consolidated Statement of Income for the year in accordance with IAS 8.

At the same time in 2014, the lower economic growth also negatively affected asset quality in commercial loans, especially in the SME segment. This is reflected in the ratio of commercial impaired loans to total commercial loans rose from 6.9% in 2013 to 7.2% in 2014, mainly due to a rise in impaired loans in the SME segment that is more sensitive to economic cycles and the lower investment rates. In the middle-market and institutions and the global banking and markets segments, asset quality indicators were stable in 2014 compared to 2013.

Provisions for mortgage loans decreased 44.9% in 2014 compared to 2013. This decrease was due to:

(i) In the second quarter of 2013, the model for the renegotiated mortgage loan portfolio was updated. This was driven by the fact that after the 2010 earthquake the Bank offered temporary relief to some mortgage clients. A portion of this portfolio continued to perform out of range with our model. For this reason, the Risk Committee decided that the model needed to be updated in order to capture this event.

(ii) The non-performing ratio for mortgage loans declined from 2.8% in 2013 to 2.7% in 2014 and the impaired mortgage loans ratio also improved from 5.7% in 2013 to 5.6% in 2014.

(ii) Simultaneously in 2013, the Bank resolved a class action suit brought by CONADECUS, a consumer protection group, and renegotiated a group of residential mortgage loans that had a bullet payment due in 2013, which were offered to clients in 2010, following the earthquake. This also led to the rise in impaired residential mortgage loans and provisions in that year.

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

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Additionally, the lower economic growth in 2014 resulted in a rise in charge-off of loans analyzed on an individual basis that totaled Ch$10,811 million in 2014 and rose 33.9% compared to 2013.

Recoveries on loans previously charged-off increased 6.7% in 2014 compared to 2013. This was due to higher recoveries of charged-off commercial loans, indirectly a reflection of higher charge-offs in the SME segment As the Bank has improved the asset quality in consumer lending, the growth rate of recoveries has also diminished. The following table shows recoveries of loans previously charged-off by type of loan.

	Year ended December 31,			% Change	% Change
	2014	2013	2012	2014/2013	2013/2012
	(in millions of Ch$)				
Recovery of loans previously charged-off					
Consumer loans	36,908	36,004	22,015	2.5 %	63.5 %
Residential mortgage loans	5,122	4,735	2,305	8.2 %	105.4 %
Commercial loans	16,947	14,545	8,695	16.5 %	67.3 %
Total recoveries	58,977	55,284	33,015	6.7 %	67.5 %

In some instances, we will sell a portfolio of charged-off loans to a third party. Gain (loss) on these charged-off loans is recognized as net income from financial transactions as disclosed in “Note 27—Profit and Loss from Financial Operations” of our Audited Consolidated Financial Statements. The following table sets forth information about our sale of charged-off loans for the year ended December 31, 2014, 2013 and 2012.

	Year ended December 31,			% Change	% Change
	2014	2013	2012	2014/2013	2013/2012
	(in millions of Ch$)				
Gains on sale of loans previously charged-off	4,809	1,500	2,090	220.6 %	(28.2 %)

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

	Year ended December 31,			% Change	% Change
	2014	2013	2012	2014/2013	2013/2012
	(in millions of Ch$)				
Individuals (Commercial banking)	(119,886)	(157,697)	(229,958)	(24.0 %)	(31.4 %)
Individuals (Santander Banefe)	(46,410)	(56,309)	(73,882)	(17.6 %)	(23.8 %)
Small and mid-sized companies (SMEs)	(160,581)	(101,611)	(80,144)	58.0 %	26.8 %
Companies and institutions	(27,319)	(41,497)	(24,532)	(34.2 %)	69.2 %
Global banking & markets	(701)	(14,739)	5,546	(95.2 %)	— %
Other	(6)	391	(722)	— %	— %
Total provisions, net	(354,903)	(371,462)	(403,692)	(4.5 %)	(8.0 %)

Net provisions expense from individuals both in commercial banking and Santander Banefe decreased in 2014 compared to 2013 mainly due to improved credit quality of consumer loans as well as the modifications made to the consumer loan provisioning model, as mentioned above .

Net provision expense from SMEs increased 58.0%. This was due to the change in the provisioning model mentioned above and an increase in risk in this segment due to the slowdown in economic growth and the contraction of investment that the Chilean economy experienced in 2014.

Net provision expense from Companies and institutions decreased 34.2%. In 2013, the Bank performed various downgrades of specific clients in the retails, salmon, fishery and construction sectors that were not repeated in 2014.

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Net provision expense from global banking and markets decreased 95.2% since 2013, when the Bank downgraded specific clients in the construction and retail sectors, which did not occur in 2014.

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

For the years ended December 31, 2013 and 2012. Provisions for loan losses, net of recoveries totaled Ch$371,462 million in 2013 and decreased 8.0% compared to the amount of provisions recorded in 2012.

Provision for loan losses, which includes the full amount of provisions recognized as a result of loan growth and change in risk classification as well as the net result of provisions and charge-offs of loans analyzed on a group basis, totaled Ch$418,675 million in 2013 and decreased 2.9% from 2012.

Provisions established for the Bank's consumer loans decreased by 20.4% to Ch$222,964 million in 2013 compared to 2012. In June 2012, the Bank updated its allowance model for consumer loans, which mainly impacted the provisions established for renegotiated loans, and resulted in a provision of Ch$24,753 million. Before the June 2012 allowance model update, estimated loss rates were established by the historical behavior of charge-offs net of recoveries for each risk profile. This methodology only considered historical charge-off data for each specific profile and did not include the use of any other statistical information. Since June 2012, the loss rate has been estimated as the product of the Probability of Non-Performance (PNP) and Severity (SEV). PNP and SEV have been established according to the historical behavior of the profiles, and take into account a wider range of variables. See "Item 5. Operating and Financial Review and Prospects—F. Selected Statistical Information-Classification of Loan Portfolio— Classification of Loan Portfolio-Loans analyzed on a group basis—Allowances for consumer loans."

Excluding this effect, provisions for consumer loans decreased 12.7% in 2013 compared to 2012. In 2013, the Bank, in order to lower credit risk in its consumer loan book, modified its strategy by focusing growth in less risky segments to individuals in Commercial banking and by decreasing consumer loans in Santander Banefe. As a result of this shift in strategy, impaired consumer loans decreased 11.1% and non-performing consumer loans decreased 21.1% in 2013 compared to 2012.

Provision expense for commercial loans increased 21.6% in 2013 compared to 2012. This rise was mainly due to commercial loan growth of 11.6% in the year, which increased gross provisions. At the same time, greater provisions were recognized as a result of the increase in the commercial impaired loan ratio from 6.8% in 2012 to 6.9% in 2013. The ratio of non-performing commercial loans to total commercial loans remained stable at 3.1% in both periods.

Provisions for mortgage loans increased 86.2% in 2013 compared to 2012. This rise was due to an increase in impaired mortgage loans from 4.3% in 2012 to 5.7% in 2013. The non-performing ratio for mortgage loans declined from 3.0% in 2012 to 2.8% in 2013. During the year, the indicators corresponding to the renegotiated (including renegotiated loans and modified loans, See "Item 5. Loan Portfolio—Renegotiated loans") showed values that required updating of the model with more recent loan history and accordingly we updated it with the information available as of March, 2013. It should be noted that this loan category has changed materially in recent years, since after the earthquake of 2010, the Bank offered to its clients certain new restructuring solutions, which led to an increase in the impaired and modified mortgage loan portfolio from 5.9% in 2010 to 8.1% of our total loan portfolio by the end of 2013. Under this scenario the Risk Committee decided that the model needed to be updated in order to capture all relevant information associated with this fluctuation. Simultaneously in 2013, the Bank resolved a class action suit brought forth by CONADECUS, a consumer protection group, and renegotiated a group of residential mortgage loans that had a bullet payment due in 2013, which were offered to clients in 2010, following the earthquake. This also led to the rise in impaired residential mortgage loans and provisions. The Bank's non-renegotiated loan portfolio had a stable evolution in the year, reflecting the positive economic and employment environment.

Recoveries on loans previously charged-off increased 67.5% in the year ended December 31, 2013 compared to the corresponding period in 2012. This was a direct result of higher incentives and a reorganization of our collection areas in 2012 and 2013 that has led to an overall improvement in recoveries.

Net provisions expense from individuals both in commercial banking and Santander Banefe decreased in 2013 compared to 2012 mainly due to the lower provisions from consumer loans as mentioned above.

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Net provision expense from SMEs increased 26.8%. This was due to the 11.5% increase in lending and the increase in credit risk of SME loans.

Net provision expense from Companies and institutions increased 69.2%. This was mainly due to the 14.0% increase in lending and to the downgrade of specific clients in the salmon, fishery, retail and construction sectors.

Net provision expense from global banking and markets totaled Ch$14,739 million compared to a reversal of Ch$5,546 million in 2012. This rise was mainly due to the downgrade of specific clients in the construction and retail sectors.

Operating expenses

The following table sets forth information regarding our operating expenses in the years ended December 31, 2014, 2013 and 2012.

	Year ended December 31,			% Change	% Change
	2014	2013	2012	2014/2013	2013/2012
	(in millions of Ch$)				
Personnel salaries and expenses	(338,888)	(308,344)	(299,904)	9.9%	2.8%
Administrative expenses	(205,149)	(188,191)	(183,379)	9.0%	2.6%
Depreciation and amortization	(44,172)	(61,074)	(56,369)	(27.7%)	8.3%
Impairment	(36,664)	(244)	(90)	14,926.2%	171.1%
Other operating expenses	(58,946)	(52,338)	(59,637)	12.6%	(12.2%)
Total operating expenses	(683,819)	(610,191)	(599,379)	12.1%	1.8%
Efficiency ratio(1)	41.1%	40.2%	42.5%		

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

For the years ended December 31, 2014 and 2013. Operating expenses in the year ended December 31, 2014 increased 12.1% compared to the corresponding period in 2013. The efficiency ratio was 41.1% in 2014 compared to 40.2% in 2013.

The 9.9% increase in personnel salaries and expenses was mainly due to: (i) a 7.9% increase in personnel compensation which totaled Ch$213,364 million in 2014. Total headcount fell 0.3% to 11,478 people, but the higher inflation rate resulted in larger wage increases as well as the impact of the Bank's meritocracy policies; (ii) a 13.8% increase in bonuses which totaled Ch$77,145 million, following a positive year for the Bank both in terms of financial and business goals; (iii) severance payments increased 19.5% to Ch$10,551 million; and (iv) in March 2014, a new collective bargaining agreement was signed with the main unions, which became effective on October 1, 2014, and which will expire on December 31, 2018. This resulted in an increase in certain benefits related to the Bank's health insurance fund and other benefits.

Administrative expenses increased 9.0% in the year ended December 31, 2014 compared to the corresponding period in 2013. The increase in administrative expenses was mainly due to the 13.9% increase in maintenance, repair of property, plant and equipment, which totaled Ch$17,498 million and the 7.6% rise in security services expenses that totaled Ch$17,089 million. In 2014, the Bank continued to refurbish branches, open new Santander Select branches and close Santander Banefe branches. The Bank also had to continue to increase the expenditure dedicated to securing and protecting ATM machines given the increase in theft and more regulations regarding ATM security. The rise in costs was also due to the 8.6% increase in office lease due to the higher inflation rate as these contracts are indexed to inflation. The Bank's total branch network decreased from 493 offices to 474, but increased in areas of higher leasing costs due to the strategic shift towards higher income clients.

Depreciation and amortization expense decreased 27.7%, mainly due to the lower depreciation and amortization of intangible assets. In 2014, the Bank, following an extensive analysis of its intangible assets, performed an extraordinary charge-off of those intangible assets, mainly software, that were obsolete or were not contributing to the Bank's business or earnings.

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Impairment charges increased 14,926.2% in 2014 compared to 2013 and totaled Ch$36,664 million. The Bank initiated a plan to transform its business and operating model with a better focus on the client. Therefore, there have arisen a number of new requirements for the Bank to adapt to changing customer demands and establish new ways to interact with them. As a result of this change in strategy, the Bank evaluated a number of applications that were in use or in development and tested them for impairment. Following the testing, in accordance with IAS 36, the Bank has recognized an impairment of Ch$36,556 million in 2014 due to the abandonment of unnecessary systems.

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

	Year ended December 31,			% Change	% Change
	2014	2013	2012	2014/2013	2013/2012
	(in millions of Ch$)				
Individuals (Commercial banking)	(350,964)	(298,173)	(291,562)	17.7%	2.3%
Individuals (Santander Banefe)	(44,657)	(52,370)	(51,797)	(14.7%)	1.1%
Small and mid-sized companies	(83,985)	(79,633)	(76,560)	5.5%	4.0%
Companies and institutions	(69,223)	(69,828)	(65,672)	(0.9%)	6.3%
Global banking and markets	(41,944)	(37,728)	(35,476)	11.2%	6.3%
Other	2,564	(19,877)	(18,585)	—%	7.0%
Total personnel, administrative expenses, depreciation and amortization (1)	(588,209)	(557,609)	(539,652)	5.5%	3.3%

(1) Excludes impairment and other operating expenses.

By business segment, the 5.5% increase in costs excluding impairment and other operating expenses in 2014 compared to the corresponding period in 2013 was mainly due to the 17.7% increase in costs incurred by the Individuals (commercial banking). In 2014, the Bank continued with its strategy of increasing presence in this segment, which implied additional costs as a result of this expansion plan mainly in our distribution network and technology. Costs in the Companies and institutions segment grew 5.5% in 2014 compared to 2013 as this segment was also priority for growth in 2013, increasing in terms of size of balance sheet and headcount. Costs in the SME segment increased 0.9%, reflecting the lower growth and lower results that led to an inferior growth of salaries and administrative expenses. Finally, costs in GBM rose 11.2% in line with business growth in this segment.

The following table sets forth information regarding Other operating expenses in the years ended December 31, 2014, 2013 and 2012.

	Year ended December 31,			% Change	% Change
	2014	2013	2012	2014/2013	2013/2012
	(in millions of Ch$)				
Provisions and expenses for assets received in lieu of payment	4,066	4,824	10,176	(15.7%)	(52.6%)
Credit card expenses	2,638	2,157	6,362	22.3%	(66.1%)
Customer services	9,940	10,954	8,674	(9.3%)	26.3%
Operating charge-offs	6,153	8,222	8,366	(25.2%)	(1.7%)
Life insurance and general product insurance policies	8,919	7,348	7,211	21.4%	1.9%
Additional tax on expenses paid overseas	3,055	2,862	3,283	6.7%	(12.8%)
Provisions for contingencies	13,080	5,805	7,964	158.5%	(27.1%)

Expense for adopting chip technology on cards	2,400	2,283	–	5.1	%	—	%
Other	8,695	7,883	7,601	10.3	%	3.7	%
Total	58,946	52,338	59,637	12.6	%	(12.2	%)

Other operating expenses were Ch$58,946 million in 2014, a 12.6% increase compared to 2013. This increase was mainly due to higher provisions for contingencies that totaled Ch$13,080 million in 2014 compared to Ch$5,805 million in 2013. Compared to 2013, the rise in provision for contingencies was due to Ch$5 billion for future severance payments and Ch$2.4 billion for future costs related to chip technology for cards. This reflects the pending expense for customers that have yet to change their debit or credit card with the new chip technology, which is an on-going process. See "Note 33—Other operating income and expenses" and "Note 20-Provisions" to our Audited Consolidated Financial Statements for more detail on Other operating expenses.

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For the years ended December 31, 2013 and 2012. Operating expenses in the year ended December 31, 2013 increased 1.8% compared to the corresponding period in 2012. The efficiency ratio was 40.2% in 2013 compared to 42.5% in 2012.

The 2.8% increase in personnel salaries and expenses was mainly due to higher salaries. Total salary expenses, including bonuses increased 4.0% in 2013 compared to 2012, totaling Ch$265,500 million. This rise was partially offset by lower costs of the Bank's stock based compensation plan as the 2013 goals were not achieved and lower costs of the Bank's pension plan. Some of the executives that qualified for this benefit are no longer employees for the Bank lowering the amount of this cost. Headcount as of December 31, 2013 totaled 11,516, a decrease of 1.7% from 2012. In December 2013, the Bank sold its asset management subsidiary which reduced headcount by 90 persons.

Administrative expenses increased 2.6% in the year ended December 31, 2013 compared to the corresponding period in 2012. The increase in administrative expenses was mainly due to: (i) the 33.1% increase in security and valuable transport services which increased from Ch$11,929 million in 2012 to Ch$15,879 million in 2013. In 2013 the Bank had to increase the expenditure dedicated to securing and protecting ATM machines given the increase in theft and more regulations regarding ATM security, (ii) the 17.2% increase in expenses relating to the IT and communication systems from Ch$24,873 million to Ch$29,144 million in 2012, in line with the Bank's improvements of its CRM systems, phone banking and internet banking services; (iii) the 8.0% increase in expenses relating to outsourced computer services related to various IT upgrades, (iv) a 7.1% rise in branch rental expenses due to the greater number of branches rented following the sale of branches in 2012 and 2011 and (v) a 7.5% rise in expenses relating to the maintenance and repair of property as the bank refurbished branches and introduced its new brand Santander Select and transformed 44 branches into this new format for mid-higher income clients.

Depreciation and amortization expense increased 8.3%, mainly due to higher amortization expenses of intangible assets such as software and other computer systems that have been updated in recent periods.

By business segment, the 3.3% increase in costs in 2013 compared to the corresponding period in 2012 was mainly due to the 8.4% increase in costs incurred by Individuals in commercial banking. In 2013, the Bank continued with its strategy of increasing presence in this segment, which implied additional costs as a result of this expansion plan mainly in our distribution network and technology. At the same time clients were transferred form Santander Banefe to Individuals in commercial banking with their respective cost structure. Costs in Santander Banefe in 2013 fell 12.4% as the Bank continued with its strategy of reducing exposure to the lower end of the consumer market and increasing presence in other segments. Costs in the Companies and institutional segment fell 4.3% in 2013 compared to 2012 as some clients were re-segmented to the GBM segment. For this reason costs in GBM grew 7.9% in 2013 compared to 2012.

Other operating expenses were Ch$52,338 million in 2013, a 12.2% decrease compared to 2012. This decrease was mainly due to lower provisions and expenses for repossessed assets that totaled Ch$4,824 million in 2013 compared to Ch$10,176 million in 2012. This was offset by higher customer service expenses that includes costs related to our call center and higher other costs, which increased due to the Ch$2,283 million in expenses recorded in 2013 from the costs incurred in adopting chip technology for our ATM and credit cards. See "Note 33—Other operating income and expenses" to our Audited Consolidated Financial Statements for more detail on Other operating expenses.

Income tax

	Year ended December 31,			% Change	% Change
	2014	2013	2012	2014/2013	2013/2012
	(in millions of Ch$)				
Net income before tax	626,940	538,959	405,906	16.3 %	32.8 %

Income tax expense	(51,050)	(94,530)	(44,473)	(46.0 %)	112.6 %
Effective tax rate(1)	8.1 %	17.5 %	11.0 %		

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

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For the years ended December 31, 2014 and 2013. The Chilean Government enacted in 2014 a reform to the corporate tax structure. The statutory corporate tax rate increased from 20% to 21% in 2014 and will rise to 22.5% in 2015.

Total income tax expense by the Bank in 2014 totaled Ch$51,050 million, a 46.0% decrease compared to 2013. The Bank paid an effective tax rate of 8.1% in 2014 compared to 17.5% in 2014. Income tax expenses in 2014 included a one-time non-cash income of Ch$39,262 million from the re-adjustments made to the Bank's deferred tax asset base following passage of the new tax law. The Bank has more deferred tax assets than liabilities. This gain arises from the difference between the Bank's accounting and tax books regarding how provisions and charge-offs are recognized. When the statutory rates were modified, the Bank's net deferred tax assets increased as the future tax rates used to calculate this asset were gradually increased from 20% to 27%. The higher CPI inflation rate in 2014 compared to 2013 also resulted in greater permanent differences since the Bank, for Chilean tax purposes, must re-value its capital each year for the variation in CPI inflation. The table below demonstrates the effective tax rate reconciliation. See "Note 14—Current and Deferred Taxes" of the Audited Consolidated Financial Statements for more detail on income tax expense.

	As of December 31,			
	2014		2013	
	Tax rate %	Amount Ch$mn	Tax rate %	Amount Ch$mn
Tax calculated over profit before tax	21.00	131,657	20.00	107,792
Permanent differences	(6.18)	(38,724)	(2.04)	(11,012)
Single penalty tax (rejected expenses)	0.12	746	0.07	392
Effect of tax reform changes on deferred tax	(6.26)	(39,262)	—	—
Real estate taxes	(0.54)	(3,357)	(0.55)	(2,987)
Other	—	(10)	0.06	345
Effective rates and expenses for income tax	8.14	51,050	17.54	94,530

For the years ended December 31, 2013 and 2012. Our income tax expense increased by 112.6% in the year ended December 31, 2013 compared to the same period in 2012. The statutory corporate tax rate in 2013 and 2012 was 20%. The Bank's effective tax rate tends to be below the Chilean statutory rate because for tax purposes, the Bank is still required to recognize the effects of price level restatement on equity. The effective tax rate was 17.5% in 2013 compared to 11.0% in 2012. The higher effective tax rate in 2013 compared to 2012 was due to the fact that in September 2012, the statutory tax rate was increased from 18.5% to 20.0% and this created an income tax reversal of Ch$16,221 million in 2012, corresponding to the adjustment of deferred tax assets to the higher statutory rate. See "Note 14—Current and Deferred Taxes" of the Audited Consolidated Financial Statements for more detail on income tax expense.

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.

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The following table sets forth our contractual obligations and commercial commitments by time remaining to maturity. As of the date of the filing of this Annual Report, the Bank does not have significant purchase obligations. As of December 31, 2014, the scheduled maturities of our contractual obligations and of other commercial commitments, including accrued interest, were as follows:

Contractual Obligations	Demand	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Subtotal up to 1 year	Between 1 and 5 years	More than 5 years	Subtotal after 1 year	Total
					(in millions of Ch$)				
Obligations under repurchase agreements	—	390,331	1,453	342	392,126	—	—	—	392,126
Checking accounts, time deposits and other time liabilities (1)	6,873,781	5,343,226	2,480,158	2,289,405	16,986,570	130,427	58,699	189,126	17,175,69
Financial derivative contracts	—	125,884	176,048	319,488	621,420	1,028,017	911,947	1,939,964	2,561,384
Interbank borrowings	4,133	137,921	227,898	413,564	783,516	435,309	12,776	448,085	1,231,601
Issued debt instruments	—	176,649	319,516	691,227	1,187,392	2,693,946	1,903,774	4,597,720	5,785,112
Other financial liabilities (2)	114,564	1,934	746	3,305	120,549	41,733	42,843	84,576	205,125
Subtotal	6,992,478	6,175,945	3,205,819	3,717,331	20,091,573	4,329,432	2,930,039	7,259,471	27,351,04
Contractual interest payments (3)	2,301	43,155	126,047	445,275	616,778	1,362,292	786,150	2,148,442	2,765,220
Total	6,994,779	6,219,100	3,331,866	4,162,606	20,708,351	5,691,724	3,716,189	9,407,913	30,116,26

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

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

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

Operational Leases

Certain bank premises and equipment are leased under various operating leases. Future minimum rental commitments as of December 31, 2014 under non-cancelable leases are as follows:

	As of December 31, 2014 (in millions of Ch$)
Due within 1 year	19,225
Due after 1 year but within 2 years	17,509
Due after 2 years but within 3 years	16,416
Due after 3 years but within 4 years	15,206
Due after 4 years but within 5 years	13,012
Due after 5 years	58,213
Total	139,581

Other Commercial Commitments

As of December 31, 2014, the scheduled maturities of other commercial commitments, including accrued interest, were as follows:

Other Commercial Commitments	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years	Total
			(in millions of Ch$)			
Guarantees	122,176	188,378	620,143	522,233	28,224	1,481,154
Confirmed foreign letters of credit	54,701	108,218	43,001	—	—	205,920
Letters of credit issued	17,626	6,858	169,875	54,126	13,684	262,169
Pledges and other commercial commitments	2,426	26,807	4,085	42,495	—	75,813
Total other commercial commitments	196,929	330,261	837,104	618,854	41,908	2,025,056

Risk-Weighted Assets and Regulatory Capital

We currently have regulatory capital in excess of the minimum requirement under the current Chilean regulations. According to the General Banking Law, a bank is required to have regulatory capital of at least 8% of its risk-weighted assets, net of required loan loss allowances, and paid-in capital and reserves (i.e., basic capital) of at least 3% of its total assets, net of required loan loss allowances. For these purposes, the regulatory capital of a

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bank is the sum of: (1) the bank's basic capital; (2) subordinated bonds issued by the bank valued at their placement price for an amount up to 50% of its basic capital, provided that the value of the bonds is required to be decreased by 20% for each year that elapses during the period commencing six years prior to their maturity; and (3) its voluntary allowances for loan losses, for an amount of up to 1.25% of its risk-weighted assets. Santander-Chile does not have goodwill, but if it did, this value would be required to be deducted from regulatory capital. When calculating risk weighted assets, we also include off-balance sheet contingent loans. The merger of Old Santander Chile and Santiago on August 1, 2002 required a special regulatory pre-approval of the SBIF, which was granted on May 16, 2002. The resolution granting this pre-approval imposed a regulatory capital to risk weighted assets ratio of 12% for the merged bank. This requirement was reduced to 11% by the SBIF effective January 1, 2005. For purposes of weighing the risk of a bank's assets, the General Banking Law considers five different categories of assets, based on the nature of the issuer, the availability of funds, and the nature of the assets and the existence of collateral securing such assets.

The following table sets forth our consolidated and risk-weighted assets and regulatory capital as of December 31, 2014 and 2013 as required by the SBIF.

	Consolidated assets as of		Risk-weighted assets(1)	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
	(Ch$ million)			
Asset Balance (Net of allowances)				
Cash and deposits in bank	1,608,888	1,571,810	—	—
Unsettled transactions	531,373	604,077	90,203	66,672
Trading investments	774,815	287,567	89,605	40,924
Investments under resale agreements	—	17,469	—	3,494
Financial derivative contracts(4)	1,154,471	1,008,026	996,334	862,810
Interbank loans	11,918	125,395	2,384	25,079
Loans and accounts receivables from customers	22,179,938	20,327,021	19,519,483	18,071,792
Available for sale investments	1,651,598	1,700,993	190,137	238,835
Investments in other companies	17,914	9,681	17,914	9,681
Intangibles assets	40,983	66,703	40,983	66,703
Property, plant and equipment	211,561	180,215	211,561	180,215
Current taxes	2,241	1,643	224	164
Deferred taxes	282,173	230,215	28,221	23,022
Other assets	493,173	400,025	493,173	346,533
Off-balance sheet assets				
Contingent loans	3,976,465	3,436,773	2,265,904	2,013,057
Total	32,937,549	29,967,613	23,946,126	21,948,981

			Ratio	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
	(Ch$ million)		%	%
Basic capital(2)	2,609,896	2,325,678	7.92	7.73
Regulatory capital(3)	3,354,702	3,033,741	14.00	13.71

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(1) As required by local regulations.

(2) As a percentage of total assets.

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

(4) Include note to indicate that derivatives are shown as required by Chapter 12-1 RAN.

Financial Investments

Financial assets are classified into the following specified categories: financial assets trading investments “at fair value through profit or loss” (FVTPL), “held to maturity” investments, “available for sale investments” (AFS)

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financial assets and “loans and accounts receivable from customers.” The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

Financial assets at FVTPL - Trading investments

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

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

Held to maturity investments

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

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Available for sale investments (AFS investments)

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

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

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

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated as the described in f) above. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

a) Trading

	As of December 31,		
	2014	2013	2012
	(in millions of Ch$)		
Central Bank and Government Securities			
Chilean Central Bank bonds	270,004	75,577	267,008
Chilean Central Bank notes	–	100	3,397
Other Chilean Central Bank and government securities	461,340	189,962	48,160
Subtotal	731,344	265,639	318,565
Other Chilean Securities			
Time deposits in Chilean financial institutions	–	–	3,531
Mortgage bonds of Chilean financial institutions	–	–	–
Chilean financial institutions bonds	–	10,042	–
Chilean corporate bonds	36,339	2,229	–
Other Chilean securities	–	–	–
Subtotal	36,339	12,271	3,531
Foreign securities			
Foreign Financial Securities	–	–	–
Other foreign financial instruments	–	–	–
Subtotal		–	–
Investments in mutual funds	–	–	–

Funds managed by related entities	7,132	9,657	16,191
Subtotal	7,132	9,657	16,191
Total	774,815	287,567	338,287

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b) Available for sale

	As of December 31,		
	2014	2013	2012
	(in millions of Ch$)		
Central Bank and Government Securities			
Chilean Central Bank bonds	381,117	364,821	712,278
Chilean Central Bank notes	384	1,078	8,270
Other Chilean Central Bank and government securities	353,419	146,295	296,010
Subtotal	734,920	512,194	1,016,558
Other Chilean Securities			
Time deposits in Chilean financial institutions	590,382	1,011,354	756,136
Mortgage bonds of Chilean financial institutions	31,693	33,856	37,319
Chilean financial institution bonds	–	–	–
Chilean corporate bonds	–	–	–
Other Chilean securities	–	–	321
Subtotal	622,075	1,045,210	793,776
Foreign Financial Securities			
Central Bank and Government Foreign Securities	–	–	–
Other Foreign financial securities	294,603	143,589	15,824
Subtotal	294,603	143,589	15,824
Total	1,651,598	1,700,993	1,826,158

c) Held-to-maturity

No financial investments were classified as held-to-maturity as of December 31, 2014, 2013 and 2012.

The following table sets forth an analysis of our investments as of December 31, 2014 by remaining maturity and the weighted average nominal rates of such investments.

	Within one year	Weighted average Nominal Rate	After one year but within five years	Weighted average Nominal Rate	After five years but within ten years	Weighted average Nominal Rate	After ten years	Weighted average Nominal Rate	Total	Weighted average Nominal Rate
	(in millions of Ch$, except rates)									
Trading										
Central Bank and Government Securities										
Central Bank bonds	112,400	2.6	124,712	2.2	32,573	4.0	319	1.7	270,004	2.6
Central Bank notes	—	—	—	—	—	—	—	—	—	—
Central Bank and government securities	308,325	3.8	46,659	2.6	100,394	2.1	5,962	4.4	461,341	3.3

Subtotal	420,725		171,371		132,967		6,281		731,344	
Other Chilean Securities										
Time deposits in Chilean financial institutions	—	—	—	—	—	—	—	—	—	—
Mortgage bonds of Chilean financial institutions	—	—	—	—	—	—	—	—	—	—
Chilean financial institutions bonds	—	—	—	—	—	—	—	—	—	—
Chilean corporate bonds	—	—	249	2.9	36,090	3.0	-	-	36,339	3.0
Other Chilean securities	—	—	—	—	—	—	—	—	—	—
Subtotal	—	—	249	—	36,090	—	—	—	36,339	
Investment in mutual funds										
Mutual funds administered by related parties	7,132	0.3	—	—	—	—	—	—	7,132	0.3
Subtotal	7,132	—	—	—	—	—	—	—	7,132	—
Total	427,857		171,620		169,057		6,281		774,815	

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	Within one year	Weighted average Nominal Rate	After one year but within five years	Weighted average Nominal Rate	After five years but within ten years	Weighted average Nominal Rate	After ten years	Weighted average Nominal Rate	Total	Weighted average Nominal Rate
	(in millions of Ch$, except rates)									
Available for sale Central Bank and Government Securities										
Central Bank bonds	103,580	2.9	87,262	3.0	190,275	4.1	—	—	381,117	3.5
Central Bank notes	384	4.6	—	—	—	—	—	—	384	4.7
Central Bank and government securities	12,659	3.9	95,621	3.0	244,987	4.0	152	3.2	353,419	3.9
Subtotal	116,623		182,883		435,262		-		734,920	
Other Chilean Securities										
Time deposits in Chilean financial institutions	590,382	2.4	—	—	—	—	—	—	590,382	2.4
Mortgage bonds of Chilean financial institutions	71	4.9	1,493	3.4	9,504	3.8	20,625	3.6	31,693	3.7
Chilean financial institutions bonds	—	—	—	—	—	—	—	—	—	—
Chilean corporate bonds	—	—	—	—	—	—	—	—	—	—
Other Chilean securities	—	—	—	—	—	—	—	—	—	—
Subtotal	590,453		1,493		9,504		20,625		622,075	
Other financial securities										
Central Bank and Government Foreign Securities	—	—	—	—	—	—	—	—	—	—
Other Foreign financial securities	—	—	—	—	294,603	3.2	—	—	294,603	3.2
Subtotal	—	—	—	—	294,603	—	—	—	294,603	—
Total	707,076		184,376		739,369		20,777		1,651,598	

Working Capital

As a bank, we satisfy our working capital needs through general funding, the majority of which derives from deposits and other borrowings from the public. (See “Item 5. Operating and Financial Review and Prospects—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.

The following table sets forth the balance of our liquidity portfolio managed by our Financial Management Division in the manner in which it is presented to the Asset and Liability Committee (ALCO) and the Board. The ALCO has determined that our liquidity portfolio must be comprised of cash plus assets that can be readily convertible into cash either through the Central Bank window, overnight deposits or instruments or the local secondary market. The management of the Bank’s liquidity portfolio is performed by the Financial Management Division under rules determined by the ALCO.

	December 31, 2014	December 31, 2013
	Ch$ million	
Balance as of (1):		
Financial investments for trading	774,815	287,567
Available for sale investments	1,651,598	1,700,993
Encumbered assets (net) (2)	(112,015)	(71,896)
Net cash (3)	14,774	248,073
Net interbank deposits (4)	890,274	984,666
Total liquidity portfolio	3,219,446	3,149,403

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	December 31, 2014	December 31, 2013
	Ch$ million	
Average balance as of:		
Financial investments for trading	571,479	412,012
Available for sale investments	1,673,423	1,706,631
Encumbered assets (net) (1)	(97,712)	(100,021)
Net cash (2)	(50,554)	29,812
Net interbank deposits (3)	788,958	858,699
Total liquidity portfolio	2,885,594	2,907,134

(1) Assets encumbered through repurchase agreements are deducted from the liquidity portfolio

(2) Cash minus reserve requirements

(3) Includes overnight deposits in the Central Bank, domestic banks and foreign banks

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

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

- The sum of the liabilities with a maturity of less than 30 days may not exceed the sum of the assets with a maturity of less than 30 days by an amount greater than our capital. This limit must be calculated in local currency and foreign currencies together as one gap. At December 31, 2014 the percentage of (i) our liabilities with a maturity of less than 30 days in excess of our assets with a maturity of less than 30 days to (ii) our capital and reserves was 32%.

- The sum of the liabilities in foreign currency with a maturity of less than 30 days may not exceed the sum of the assets in foreign currency with a maturity of less than 30 days by more than an amount greater than our capital. At December 31, 2014 the percentage of (i) our liabilities with a maturity of less than 30 days in foreign currency in excess of our assets in foreign currency with a maturity of less than 30 days to (ii) our capital and reserves was 0%, as the Bank had more foreign currency assets than liabilities for the calculation of this limit.

- The sum of the liabilities with a maturity of less than 90 days may not exceed the sum of the assets with a maturity of less than 90 days by more than 2 times our capital. This limit must be calculated in local currency and foreign currencies together as one gap. At December 31, 2013 the percentage of (i) our liabilities with a maturity of less than 90 days in excess of our assets with a maturity of less than 90 days to (ii) our capital and reserves was 15%.

We have set other liquidity limits and ratios that minimize liquidity risk. See “Item 11. Quantitative and Qualitative Disclosures About Market Risk.”

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Cash Flow

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

	Year ended December 31,		
	2014	2013	2012
	Millions of Ch$		
Net cash provided by (used in) operating activities	282,423	645,166	(1,153,932)

Our operating activities generated cash of Ch$282,423 million in 2014. The consumption of cash due to loan growth was more than offset by growth of deposits and other liabilities. In 2013, operating activities generated cash in an amount of Ch$535,422million. In the fourth quarter of 2011 and first quarter of 2012, the Bank increased its cash position in light of greater market uncertainty abroad. As market conditions improved in the second half of 2012, the ALCO permitted the Financial Management Division to return to more normal levels of liquidity by prepaying costlier liabilities. Loan growth was also a factor in the consumption of cash in operating activities in 2012.

	Year ended December 31,		
	2014	2013	2012
	Millions of Ch$		
Net cash (used in) provided by investment activities	(92,666)	30,000	(72,087)

In 2014, the Bank's investment activities consumed cash in an amount of Ch$92,666 million. This was mainly due to the purchases of property, plant and equipment and the acquisition of intangibles. In 2013 we sold our asset management business for Ch$90,281 million. In 2012, cash used in investing activities was Ch$72,087 million, mainly due to investments in property, equipment and technology as part of investment programs to modernize and improve the efficiency in retail banking activities.

	Year ended December 31,		
	2014	2013	2012
	Millions of Ch$		
Net cash used in financing activities	(265,156)	(240,687)	(289,416)

In 2014, 2013 and 2012, the net cash used in financing activities can be explained by the Bank's annual dividend payment each year partially offset by issuances of subordinated debt in 2013.

Deposits and Other Borrowings

The following table sets forth our average balance of liabilities for the years ended December 31, 2014, 2013 and, 2012, in each case together with the related average nominal interest rates paid thereon.

	2014			2013			2012		
	Average Balance	% of Total Average	Average Nominal Rate	Average Balance	% of Total Average	Average Nominal Rate	Average Balance	% of Total Average	Average Nominal Rate

	Liabilities				Liabilities				Liabilities			
					(millions of Ch$, except percentages)							
Interest-bearing liabilities												
Savings accounts	108,185	0.3	%	5.0 %	103,760	0.4	%	1.9 %	102,420	0.4	%	2.5 %
Time deposits	11,952,994	36.5	%	3.4 %	9,949,401	36.8	%	4.5 %	9,659,815	38.5	%	5.2 %
Central Bank borrowings	6,906	—		0.2 %	221	—		6.3 %	4,469	—		5.2 %
Repurchase agreements	413,263	1.3	%	2.0 %	266,883	1.0	%	5.6 %	369,338	1.5	%	4.2 %
Mortgage finance bonds	81,805	0.2	%	11.9 %	102,778	0.4	%	8.0 %	131,070	0.5	%	8.6 %
Other interest bearing liabilities	6,865,084	21.0	%	6.9 %	6,850,953	25.3	%	4.7 %	5,927,893	23.6	%	5.3 %
Subtotal interest-bearing liabilities	19,428,237	59.4	%	4.6 %	17,273,996	63.9	%	4.6 %	16,195,005	64.5	%	5.3 %
Non-interest bearing liabilities												
Non-interest bearing deposits	5,386,272	16.5	%		4,620,849	17.1	%		4,177,432	16.6	%	
Derivatives	2,719,386	8.3	%		1,467,723	5.4	%		1,141,169	4.5	%	
Other non-interest bearing liabilities	2,501,651	7.6	%		1,325,975	4.9	%		1,395,112	5.6	%	
Shareholders' equity	2,689,037	8.2	%		2,349,448	8.7	%		2,187,716	8.8	%	
Subtotal non-interest bearing liabilities	13,296,346	40.6	%		9,763,995	36.1	%		8,901,429	35.5	%	
Total liabilities	32,724,583	100.0	%		27,037,991	100.0	%		25,096,434	100.0	%	

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Our most important source of funding is our deposits. Average time deposits plus non-interest bearing demand deposits represented 53.0% of our average total liabilities and shareholders' equity in 2014. Our current funding strategy is to continue to utilize all sources of funding in accordance with their costs, their availability and our general asset and liability management strategy. Special emphasis is being placed on lengthening the maturities of funding with institutional clients, diversifying our bond holder base and broadening our core deposit funding. We believe that broadening our deposit base by increasing the number of account holders has created a more stable funding source.

Composition of Deposits

The following table sets forth the composition of our deposits and similar commitments at December 31, 2014, 2013, 2012, 2011 and 2010.

	2014	2013	2012	2011	2010
			(in millions of Ch$)		
Demand deposits and other demand obligations					
Current accounts	5,131,130	4,403,526	4,006,143	3,543,776	3,330,352
Other deposits and demand accounts	554,785	569,395	455,315	350,519	368,934
Other demand obligations	794,582	647,842	508,561	519,520	537,148
Subtotals	6,480,497	5,620,763	4,970,019	4,413,815	4,236,434
Time deposits and other time deposits					
Time deposits	10,303,167	9,567,855	9,008,902	8,816,766	7,154,396
Time saving accounts	107,599	104,143	101,702	102,831	103,191
Other time deposits	3,174	3,274	1,609	1,517	1,170
Subtotals	10,413,940	9,675,272	9,112,213	8,921,114	7,258,757
Total deposits and other commitments	16,894,437	15,296,035	14,082,232	13,334,929	11,495,191

Maturity of Interest Bearing Deposits

The following table sets forth information regarding the currency and maturity of our interest bearing deposits as of December 31, 2014, 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	0.03 %	0.09 %	0.00 %	0.03 %
Savings accounts	0.02 %	7.12 %	0.00 %	1.03 %
Time deposits:				
Maturing within 3 months	76.00 %	45.46 %	93.56 %	74.73 %
Maturing after 3 but within 6 months	15.83 %	22.91 %	5.47 %	15.02 %
Maturing after 6 but within 12 months	6.95 %	16.86 %	0.94 %	7.31 %
Maturing after 12 months	1.17 %	7.56 %	0.03 %	1.88 %
Total time deposits	99.95 %	92.79 %	100.00 %	98.94 %
Total deposits	100.00 %	100.00 %	100.00 %	100.00 %

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The following table sets forth information regarding the maturity of our outstanding time deposits in excess of U.S.$100,000 as of December 31, 2014.

	Ch$	UF	Foreign Currencies	Total
	(in millions of Ch$)			
Time deposits:				
Maturing within 3 months	5,377,657	679,321	1,724,906	7,781,884
Maturing after 3 but within 6 months	1,120,528	342,400	100,933	1,563,861
Maturing after 6 but within 12 months	492,057	251,859	17,361	761,277
Maturing after 12 months	82,752	112,888	504	196,144
Total time deposits	7,072,994	1,386,468	1,843,704	10,303,166

Short-term Borrowings

The principal categories of our short-term borrowings are repurchase agreements and interbank borrowings. The table below presents the amounts outstanding at each year-end indicated and the weighted-average nominal interest rate for each such year by type of short-term borrowing.

	2014 Balance	2014 Weighted-Average Nominal Interest Rate	2013 Balance	2013 Weighted-Average Nominal Interest Rate	2012 Balance	2012 Weighted-Average Nominal Interest Rate
	(in millions of Ch$, except percentages)					
Obligations arising from repurchase agreements	392,126	0.2 %	208,972	0.3 %	304,117	0.4 %
Obligations with the Central Bank	94	0.5 %	220	0.5 %	398	0.5 %
Loans from domestic financial institutions	66,006	0.2 %	500	0.1 %	—	—
Foreign obligations	717,416	0.2 %	1,529,511	0.3 %	1,272,994	0.4 %
Total short-term borrowings	1,175,642	0.2 %	1,739,203	0.3 %	1,577,509	0.4 %

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

	2014 Average Balance	2014 Average Nominal Interest Rate	2013 Average Balance	2013 Average Nominal Interest Rate	2012 Average Balance	2012 Average Nominal Interest Rate
	(in millions of Ch$, except percentages)					
Obligations arising from repurchase agreements	413,263	2.0 %	266,883	5.6 %	369,338	4.2 %
Obligations with the Central Bank	6,906	0.2 %	221	6.3 %	4,469	5.2 %
Loans from domestic financial institutions	100,513	4.9 %	33,834	4.6 %	6,171	3.7 %
Foreign obligations	1,508,559	1.3 %	1,543,337	1.0 %	1,578,051	0.8 %
Total short-term borrowings	2,029,241	1.6 %	1,844,275	1.8 %	1,958,029	1.4 %

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

	Maximum 2014 Month-End Balance	Maximum 2013 Month-End Balance	Maximum 2012 Month-End Balance
	(in millions of Ch$)		
Obligations arising from repurchase agreements	392,126	471,486	571,211
Obligations with the Central Bank	205	370	766
Loans from domestic financial institutions	206,530	251,600	70,000
Foreign obligations	1,809,514	1,802,127	1,854,398
Total short-term borrowings	2,408,375	2,525,583	2,496,375

Total Borrowings

	As of December 31, 2014		
	Long-term	Short-term	Total
	(in millions of Ch$)		
Central Bank credit lines for renegotiations of loans (a)	—	94	94
Obligations under repurchase agreements	—	392,126	392,126
Mortgage finance bonds (b)	74,948	6,561	81,509
Senior bonds (c)	3,701,885	1,166,602	4,868,487
Mortgage bonds(d)	105,422	3,778	109,200
Subordinated bonds(e)	715,465	10,451	725,916
Borrowings from domestic financial institutions	—	66,006	66,006
Foreign borrowings(f)	448,085	717,416	1,165,501
Other obligations(g)	84,576	120,549	205,125
Total borrowings	5,130,381	2,483,583	7,613,964

	As of December 31, 2013		
	Long-term	Short-term	Total
	(in millions of Ch$)		
Central Bank credit lines for renegotiations of loans (a)	—	220	220
Obligations under repurchase agreements	—	208,972	208,972
Mortgage finance bonds (b)	95,174	6,493	101,667
Senior bonds (c)	2,586,989	1,603,929	4,190,918
Mortgage bonds(d)	70,339	—	70,339
Subordinated bonds(e)	697,268	138,466	835,734
Borrowings from domestic financial institutions	—	500	500
Foreign borrowings(f)	152,146	1,529,511	1,681,657
Other obligations(g)	88,083	101,698	189,781
Total borrowings	3,689,999	3,589,789	7,279,788

	As of December 31, 2012		
	Long-term	Short-term	Total
	(in millions of Ch$)		
Central Bank credit lines for renegotiations of loans	—	398	398
Obligations under repurchase agreements	—	304,117	304,117

Mortgage finance bonds	6,863	121,223	128,086
Senior bonds	534,852	3,182,361	3,717,213
Subordinated bonds	16,037	709,953	725,990
Borrowings from domestic financial institutions	—	—	—
Foreign borrowings	164,611	1,272,994	1,437,605
Other obligations	101,335	91,276	192,611
Total borrowings	823,698	5,682,322	6,506,020

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(a) Credit lines for renegotiations of loans

Central Bank borrowings include credit lines for the renegotiations of loans and other Central Bank borrowings. The maturities of the outstanding amounts due are as follows:

	As of December 31, 2014	As of December 31, 2013
	(in millions of Ch$)	
Due within 1 year	94	220
Total	94	220

(b) Mortgage finance bonds

These bonds are used to finance mortgage loans. Their principal amounts are amortized on a quarterly basis. The range of maturities of these bonds is between five and twenty years. Loans are indexed to UF and pay a yearly interest rate of 5.83% as of December 31, 2014.

	As of December 31, 2014 (in millions of Ch$)
Due within 1 year	6,561
Due after 1 year but within 2 years	6,971
Due after 2 years but within 3 years	8,282
Due after 3 years but within 4 years	10,366
Due after 4 years but within 5 years	6,198
Due after 5 years	43,131
Total mortgage finance bonds	81,509

The following table sets forth, at the dates indicated, our issued senior bonds. The bonds are denominated principally in UFs or U.S. dollars, and are principally used to fund assets with similar durations.

	As of December 31,		
	2014	2013	2012
	(in millions of Ch$)		
Senior Bonds in UF	1,797,438	1,964,905	2,025,105
Senior Bonds in U.S.$	2,191,347	1,658,789	1,269,454
Senior Bonds in CHF	443,186	246,284	90,249
Senior Bonds in Ch$	236,025	277,530	293,933
Senior Bonds in CNY	—	43,410	38,472
Current bonds in AUD	62,472	—	—
Santander bonds in JPY	138,019	—	—
Total senior bonds	4,868,487	4,190,918	3,717,213

The maturities of these bonds are as follows:

	As of December 31, 2014 (in millions of Ch$)
Due within 1 year	1,166,602
Due after 1 year but within 2 years	646,380
Due after 2 years but within 3 years	1,037,521
Due after 3 years but within 4 years	381,263
Due after 4 years but within 5 years	566,430
Due after 5 years	1,070,291
Total bonds	4,868,487

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In 2014, the Bank issued bonds for UF11,400,000; CLP 75,000,000,000; CHF 300,000,000; USD 750,000,000, AUD 125,000,000, and JPY 27,300,000,000 detailed as follows:

Series	Amount		Term	Issuance rate	Issuance date	Series issued amount		Maturity date
EB Series	UF	2,000,000	5 years	3.50% per annum simple	02-21-2014	UF	2,000,000	10-01-2018
ED Series	UF	2,000,000	7 years	3.50% per annum simple	08-28-2014	UF	2,000,000	01-01-2021
EF Series	UF	2,400,000	10 years	3.40% biannually	10-29-2014	UF	2,400,000	01-01-2024
SB Series	UF	3,000,000	5 years	2.65% biannually	12-11-2014	UF	3,000,000	07-01-2019
SA Series	UF	2,000,000	10 years	3.00% biannually	12-16-2014	UF	2,000,000	01-01-2024
UF Total	UF	11,400,000						
EA Series	CLP	25,000,000,000	5 years	6.20% per annum simple	02-22-2014	CLP	25,000,000,000	09-01-2018
SE Series	CLP	50,000,000,000	5 years	5.50% per annum simple	11-21-2014	CLP	50,000,000,000	07-01-2019
CLP Total	CLP	75,000,000,000						
CHF Bond	CHF	300,000,000	3 years	1.0% per annum simple	01-31-2014	CHF	300,000,000	07-31-2017
CHF Total	CHF	300,000,000						
DN Current Bond	USD	250,000,000	5 years	Libor (3 months) + 75 bp	02-19-2014	USD	250,000,000	02-19-2019
Floating Bond	USD	500,000,000	5 years	Libor (3 months) + 90 bp	04-15-2014	USD	500,000,000	04-11-2017
USD Total	USD	750,000,000						
AUD Bond	AUD	125,000,000	3 years	4.50% per annum simple	03-13-2014	AUD	125,000,000	03-13-2017
AUD Total	AUD	125,000,000						
JPY Floating Bond	JP	Y6,600,000,000	3 years	Libor (3 months) + 65 bp	04-24-2014	JP	Y6,600,000,000	04-24-2017
JPY Current Bond	JP	Y2,000,000,000	3 years	0.72% per annum simple	04-24-2014	JP	Y2,000,000,000	04-24-2017
JPY Current Bond	JP	Y18,700,000,000	5 years	0.97% per annum simple	04-24-2014	JP	Y18,700,000,000	04-24-2019
JPY Total	JP	Y27,300,000,000						

During 2014, the Bank repurchased bonds for CLP 118,409,000,000 and UF 6,000,000.

(d) Mortgage bonds

These bonds are used to finance mortgage loans with certain characteristics such as loan-to-value ratios below 80% and a debt servicing ratio of the client lower than 20%. All outstanding mortgage bonds are UF denominated.

The maturities of our mortgage bonds are as follows:

	As of December 31, 2014 Ch$mn	2013 Ch$mn
Due within 1 year	3,778	—
Due after 1 year but within 2 years	6,065	—
Due after 2 year but within 3 years	6,261	—
Due after 3 year but within 4 years	6,463	—
Due after 4 year but within 5 years	6,671	—
Due after 5 years	79,962	70,339
Total senior bonds	109,200	70,339

In 2014, the Bank issued bonds for UF 1,500,000, detailed as follows:

	Amount	Term	Issuance rate	Issuance date	Series issued amount	Maturity
AB Series	UF1,500,000	18 years	3.20% biannually	09-01-2014	UF1,500,000	04-01-2032
Total UF	UF1,500,000					

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(e) Subordinated bonds

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

	As of December 31,		
	2014	2013	2012
	(in millions of Ch$)		
Subordinated bonds denominated in U.S.$	3	139,802	174,285
Subordinated bonds linked to the UF	725,913	695,932	551,705
Total subordinated bonds	725,916	835,734	725,990

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

	As of December 31, 2014 (in millions of Ch$)
Due within 1 year	10,451
Due after 1 year but within 2 years	6,311
Due after 2 years but within 3 years	–
Due after 3 years but within 4 years	–
Due after 4 years but within 5 years	–
Due after 5 years	709,154
Total subordinated bonds	725,916

During 2014, the Bank did not issue subordinated bonds.

(f) Foreign borrowings

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

	As of December 31, 2014 (in millions of Ch$)
Due within 1 year	717,416
Due after 1 year but within 2 years	242,863
Due after 2 years but within 3 years	192,522
Due after 3 years but within 4 years	–
Due after 5 years	12,700
Total loans from foreign financial institutions	1,165,501

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(g) Other obligations

Other obligations are summarized as follows:

	As of December 31, 2014 MCh$
Long term obligations	
Due after 1 years but within 2 years	3,380
Due after 2 years but within 3 years	2,248
Due after 3 years but within 4 years	20,988
Due after 4 years but within 5 years	15,116
Due after 5 years	42,844
Long-term financial obligations subtotals	84,576
Short term obligations:	
Amounts due to credit card operators	112,530
Acceptance of letters of credit	2,496
Other long-term financial obligations, short-term portion	5,523
Short-term financial obligations subtotals	120,549
Other financial obligations totals	205,125

Other Off-Balance Sheet Arrangements and Commitments

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

The following table presents the Bank's outstanding contingent loans as of December 31, 2014, 2013 and 2012:

	As of December 31,		
	2014	2013	2012
	(in millions of Ch$)		
Issued and documented letters of credit	205,920	218,032	199,420
Confirmed foreign letters of credit	75,813	127,600	113,878
Documented guarantees	1,481,154	1,212,799	1,046,114
Other guarantees	262,169	181,416	139,059
Subtotals	2,025,056	1,739,847	1,498,471
Lines of credit with immediate availability	5,699,573	5,141,831	4,933,335
Other irrevocable obligation	109,520	47,376	63,828

Totals	7,834,149	6,929,054	6,495,634

Asset and Liability Management

Please refer to "Item 11. Quantitative and Qualitative Disclosures about Market Risk" for information regarding our policies with respect to asset and liability management.

Capital Expenditures

The following table reflects capital expenditures in each of the three years ended December 31, 2014, 2013 and 2012:

	Year Ended December 31,		
	2014	2013	2012
	(in millions of Ch$)		
Land and Buildings	24,957	17,470	17,177
Machinery, Systems and Equipment	22,785	20,171	14,570
Furniture, Vehicles, Other(1)	11,346	3,148	4,991
Total	59,088	40,789	36,738

(1) Includes assets ceded under operating leases.

The increase in capital expenditures in 2014 was mainly due to higher investments in IT hardware and software, and to refurbish branches.

F. Selected Statistical Information

The following information is included for analytical purposes and should be read in conjunction with our Audited Consolidated Financial Statements, as well as the discussion in this "Item 5. Item 5. Operating and Financial Review and Prospects." The UF is linked to, and is adjusted daily to reflect changes in, the previous month's Chilean consumer price index. See "Item 5. Operating and Financial Review and Prospects—C. Operating Results—Impact of Inflation."

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

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

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

Where:

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

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

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

Nd	=	nominal average rate for foreign currency-denominated assets and liabilities for the period;
D	=	devaluation rate of the Chilean peso to the U.S. dollar for the period; and
I	=	inflation rate in Chile for the period (based on the variation of the Chilean Consumer Price Index).

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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 (Rd) 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% (Nd = 0.10), assuming a 5.0% annual devaluation rate (D = 0.05) and a 12.0% annual inflation rate (I = 0.12):

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

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

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

The following tables show, by currency of denomination, average balances and, where applicable, interest amounts and real rates for our assets and liabilities for the years ended December 31, 2014, 2013 and 2012.

	For the year ended December 31,										
	2014				2013				2012		
	Average Balance	Interest Earned	Average Real Rate	Average Nominal Rate	Average Balance	Interest Earned	Average Real Rate	Average Nominal Rate	Average Balance	Interest Earned	Averag Real Rate
Assets											
Interest earning assets											
Deposits in Central Bank											
Ch$	477,977	8,728	1.9 %	1.8 %	246,757	4,092	(0.7)%	1.7%	528,682	18,346	2.0
UF	-	-	- %	- %	-	-	- %	- %	-	-	-

Foreign currency	-	-	- %	- %	-	-	- %	- %	-	-	-
Total	477,977	8,728	1.9 %	1.8 %	246,757	4,092	(0.7)%	1.7%	528,682	18,346	2.0
Financial investments											
Ch$	1,339,117	40,701	3.0 %	3.0 %	1,067,737	68,060	3.9 %	6.4%	1,593,870	82,257	3.6
UF	295,570	38,906	13.1%	13.2%	434,485	14,945	1.0 %	3.4%	132,209	10,961	6.7
Foreign currency	1,368,089	6,047	16.6%	0.4 %	523,584	2,013	7.4 %	0.4%	593,645	636	(9.5
Total	3,002,776	85,654	10.2%	2.8 %	2,025,806	85,018	4.2 %	4.2%	2,319,724	93,854	0.4
Commercial Loans											
Ch$	5,658,176	474,537	8.4 %	8.4 %	5,474,890	496,055	6.5 %	9.1%	4,874,036	559,194	9.8
UF	4,077,560	381,244	9.3 %	9.3 %	3,689,570	250,748	4.3 %	6.8%	3,746,119	261,493	5.4
Foreign currency	2,874,210	67,140	18.8%	2.3 %	2,645,594	57,157	9.3 %	2.2%	1,907,824	53,175	(7.0
Total	12,609,946	922,921	11.1%	7.3 %	11,810,054	803,960	6.4 %	6.8%	10,527,979	873,862	5.2

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	For the year ended December 31,									
	2014				2013				2012	
	Average Balance	Interest Earned	Average Real Rate	Average Nominal Rate	Average Balance	Interest Earned	Average Real Rate	Average Nominal Rate	Average Balance	Interest Earned
Consumer loans										
Ch$	3,502,026	600,869	22.2%	17.2%	3,196,286	607,136	16.2%	19.0%	2,735,628	525,209
UF	91,668	11,191	17.0%	12.2%	100,042	9,951	7.4%	9.9%	120,620	11,570
Foreign currency	27,606	-	21.0%	-%	22,187	1	7.0%	-%	16,009	-
Total	3,621,300	612,060	22.1%	16.9%	3,318,515	617,088	15.9%	18.6%	2,872,257	536,779
Mortgage loans										
Ch$	23,758	4,918	20.7%	20.7%	31,403	2,267	4.7%	7.2%	28,170	2,236
UF	6,535,989	591,446	9.0%	9.0%	5,554,152	356,304	4.0%	6.4%	5,157,859	363,496
Foreign currency	-	-	-%	-%	-	-	-%	-%	-	-
Total	6,559,747	596,364	9.0%	9.0%	5,585,555	358,571	4.0%	6.4%	5,186,029	365,732
Interbank loans										
Ch$	4,356	139	3.1%	3.2%	5,102	195	1.4%	3.8%	214	-
UF	-	-	-%	-%	-	-	-%	-%	-	-
Foreign currency	1	-	16.1%	-%	3	-	7.0%	-%	129,581	790
Total	4,357	139	3.1%	3.2%	5,105	195	1.4%	3.8%	129,795	790
Investment Agreements to resell										
Ch$	4,074	793	19.5%	19.5%	31,446	2,050	4.1%	6.5%	2,580	163
UF	-	95	-%	-%	90	5	3.1%	5.6%	17,900	1,074
Foreign currency	-	-	-%	-%	-	-	-%	-%	-	-
Total	4,074	888	19.5%	19.5%	31,536	2,055	4.1%	6.5%	20,480	1,237
Threshold										
Ch$	31	-	-%	-%	-	-	-%	-%	2	-
UF	-	-	-%	-%	-	-	-%	-%	-	-
Foreign currency	479,488	264	16.1%	0.1%	244,407	225	7.1%	0.1%	35,142	353
Total	479,519	264	16.1%	0.1%	244,407	225	7.1%	0.1%	35,144	353
Total interest earning assets										
Ch$	11,009,515	1,130,685	10.3%	10.3%	10,053,621	1,179,855	9.1%	11.7%	9,763,182	1,187,405
UF	11,000,787	1,022,882	9.3%	9.3%	9,778,339	631,953	4.0%	6.5%	9,174,707	648,594
Foreign currency	4,749,394	73,451	17.8%	1.5%	3,435,775	59,396	8.8%	1.7%	2,682,201	54,954
Total	26,759,696	2,227,018	11.2%	8.3%	23,267,735	1,871,204	6.9%	8.0%	21,620,090	1,890,953

Non-interest earning assets			
Cash			
Ch$	677,003	678,021	544,044
UF	-	-	-
Foreign currency	78,195	74,779	17,304
Total	755,198	752,800	561,348
Allowance for loan losses			
Ch$	(722,660)	(625,960)	(582,581)
UF	-	-	-
Foreign currency	-	-	-
Total	(722,660)	(625,960)	(582,581)
Fixed assets			
Ch$	202,902	131,372	174,948
UF	-	-	-
Foreign currency	-	-	-
Total	202,902	131,372	174,948
Derivatives			
Ch$	2,910,369	1,686,654	1,334,464
UF	-	-	-
Foreign currency	-	2,459	(26,517)
Total	2,910,369	1,689,113	1,307,947
Financial Investment (Trading)			
Ch$	114,875	215,003	185,018
UF	600,005	166,124	257,719
Foreign currency	7	86	4
Total	714,887	381,213	442,741
Other assets			
Ch$	1,065,307	952,902	975,585
UF	71,241	64,511	69,937
Foreign currency	967,643	424,305	526,419
Total	2,104,191	1,441,718	1,571,941
Total non-interest earning assets			
Ch$	4,247,703	3,037,992	2,631,478
UF	671,363	230,635	327,656

Foreign currency	1,045,821		501,629		517,210	
Total	5,964,887		3,770,256		3,476,344	
Total assets						
Ch$	15,257,218	1,130,685	13,091,613	1,179,855	12,394,660	1,187,405
UF	11,672,150	1,022,882	10,008,974	631,953	9,502,363	648,594
Foreign currency	5,795,215	73,451	3,937,404	59,396	3,199,411	54,954
Total	32,724,583	2,227,018	27,037,991	1,871,204	25,096,434	1,890,953

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	For the year ended December 31, 2014				2013				2012		
	Average Balance	Interest Earned	Average Real Rate	Average Nominal Rate	Average Balance	Interest Earned	Average Real Rate	Average Nominal Rate	Average Balance	Interest Earned	Av…
Liabilities And Share-Holders' Equity											
Interest bearing liabilities											
Savings accounts											
Ch$	1,213	3	0.2%	0.2%	1,105	3	(2.0)%	0.3%	1,015	2	
UF	106,972	5,461	5.2%	5.1%	102,655	1,906	(0.5)%	1.9%	101,405	2,537	
Foreign currency	-	-	-%	-%	-	-	-%	-%	-	-	
Total	108,185	5,464	5.1%	5.0%	103,760	1,909	(0.5)%	1.9%	102,420	2,539	
Time deposits											
Ch$	7,891,805	307,868	3.9%	3.9%	7,148,978	386,545	3.0%	5.4%	6,383,384	384,895	
UF	1,345,965	93,624	6.9%	7.0%	819,695	57,379	4.5%	7.0%	1,430,807	109,163	
Foreign currency	2,715,224	8,443	16.4%	0.3%	1,980,728	6,061	7.3%	0.3%	1,845,624	9,048	
Total	11,952,994	409,935	7.1%	3.4%	9,949,401	449,985	4.0%	4.5%	9,659,815	503,106	
Central bank borrowings											
Ch$	6,815	5	0.1%	0.1%	-	-	-%	-%	4,070	218	
UF	91	9	9.8%	9.9%	221	14	3.9%	6.3%	399	14	
Foreign currency	-	-	-%	-%	-	-	-%	0.0%	-	-	
Total	6,906	14	0.2%	0.2%	221	14	3.9%	6.3%	4,469	232	
Repurchase Agreements											
Ch$	400,673	8,267	2.0%	2.1%	258,971	15,089	3.4%	5.8%	360,538	15,326	
UF	-	-	-%	-%	-	-	-%	-%	-	-	
Foreign currency	12,590	27	16.3%	0.2%	7,912	9	7.1%	0.1%	8,800	73	
Total	413,263	8,294	2.4%	2.0%	266,883	15,098	3.5%	5.6%	369,338	15,399	
Mortgage finance bonds											
Ch$	-	-	-%	-%	-	-	-%	-%	-	-	
UF	81,805	9,698	11.8%	11.9%	102,778	8,235	5.5%	8.0%	131,070	11,254	
Foreign currency	-	-	-%	-%	-	-	-%	-%	-	0	
Total	81,805	9,698	11.8%	11.9%	102,778	8,235	5.5%	8.0%	131,070	11,254	
Other interest bearing liabilities											
Ch$	409,021	203,374	49.7%	49.7%	393,354	62,642	13.2%	15.9%	395,033	39,171	

UF	2,538,094	234,284	9.3 %	9.2 %	2,654,931	150,770	3.2 %	5.7 %	2,570,059	157,727
Foreign currency	3,917,969	38,851	17.2 %	1.0 %	3,802,668	105,789	10.0 %	2.8 %	2,962,801	118,791
Total	6,865,084	476,509	16.2 %	6.9 %	6,850,953	319,201	7.5 %	4.7 %	5,927,893	315,689
Total interest bearing liabilities										
Ch$	8,709,527	519,517	5.0 %	6.0 %	7,802,408	464,279	3.5 %	6.0 %	7,144,040	439,612
UF	4,072,927	343,076	8.4 %	8.4 %	3,680,280	218,304	3.5 %	5.9 %	4,233,740	280,695
Foreign currency	6,645,783	47,321	16.9 %	0.7 %	5,791,308	111,859	9.1 %	1.9 %	4,817,225	127,912
Total	19,428,237	909,914	9.8 %	4.7 %	17,273,996	794,442	5.4 %	4.6 %	16,195,005	848,219
Non interest bearing liabilities										
Non interest bearing demand deposits										
Ch$	5,282,135				4,520,789				4,150,121	
UF	35,333				32,787				23,047	
Foreign currency	68,804				67,273				4,264	
Total	5,386,272				4,620,849				4,177,432	
Derivatives										
Ch$	2,719,386				1,466,096				1,140,913	
UF	-				-				-	
Foreign currency	-				1,627				256	
Total	2,719,386				1,467,723				1,141,169	
Other non-interest bearing liabilities										
Ch$	762,367				615,977				621,920	
UF	398,108				247,400				204,532	
Foreign currency	1,341,176				462,598				568,660	
Total	2,501,651				1,325,975				1,395,112	
Shareholders' equity										
Ch$	2,689,037				2,349,448				2,187,716	
UF	-				-				-	
Foreign currency	-				-				-	
Total	2,689,037				2,349,448				2,187,716	
Total non-interest bearing liabilities and										

shareholders' equity						
Ch$	11,452,925		8,952,310		8,100,670	
UF	433,441		280,187		227,579	
Foreign currency	1,409,980		531,498		573,180	
Total	13,296,346		9,763,995		8,901,429	
Total Liabilities and Share-Holders' Equity						
Ch$	20,162,452	519,517	16,754,718	464,279	15,244,710	439,612
UF	4,506,368	343,076	3,960,467	218,304	4,461,319	280,695
Foreign currency	8,055,763	47,321	6,322,806	111,859	5,390,405	127,912
Total	32,724,583	909,914	27,037,991	794,442	25,096,434	848,219

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

The following table allocates, by currency of denomination, changes in our net interest revenue and interest expense between changes in the average volume of interest-earning assets and interest-bearing liabilities and changes in their respective nominal interest rates for 2014 compared to 2013 and 2013 compared to 2012. Volume and rate variances have been calculated based on movements in average balances over the period and changes in nominal interest rates on average interest-earning assets and average interest-bearing liabilities.

	Increase (Decrease) from 2013 to 2014 Due to Changes in				Increase (Decrease) from 2012 to 2013 Due to Changes in			
	Volume	Rate	Rate and Volume	Net Change from 2013 to 2014	Volume	Rate	Rate and Volume	Net Change from 2012 to 2013
Assets								
Interest earning assets								
Deposits in Central Bank								
Ch$	3,931	247	458	4,636	(9,867)	(9,516)	5,129	(14,254)
UF	—	—	—	—	—	—	—	—
Foreign currency	—	—	—	—	—	—	—	—
Subtotal	3,931	247	458	4,636	(9,867)	(9,516)	5,129	(14,254)
Financial investments								
Ch$	17,368	(36,303)	(8,424)	(27,359)	(27,359)	19,126	(5,964)	(14,197)
UF	(4,723)	42,580	(13,896)	23,961	25,089	(6,478)	(14,627)	3,984
Foreign currency	3,378	—	656	4,034	(70)	1,781	(334)	1,377
Subtotal	16,023	6,277	(21,664)	636	(2,340)	14,429	(20,925)	(8,836)
Commercial loans								
Ch$	16,679	(38,324)	127	(21,518)	69,098	(116,977)	(15,260)	(63,139)
UF	26,383	92,239	11,874	130,496	(3,958)	(7,492)	705	(10,745)
Foreign currency	5,030	2,646	2,307	9,983	20,658	(11,447)	(5,229)	3,982
Subtotal	48,092	56,561	14,308	118,961	85,798	(135,916)	(19,784)	(69,902)
Consumer loans								
Ch$	58,091	(57,533)	(6,825)	(6,267)	88,446	(5,471)	(1,048)	81,927
UF	(829)	2,301	(232)	1,240	(1,975)	362	(6)	(1,619)
Foreign currency	—	—	(1)	(1)	—	—	1	1
Subtotal	57,262	(55,232)	(7,058)	(5,028)	86,471	(5,109)	(1,053)	80,309
Mortgage loans								
Ch$	(550)	4,239	(1,038)	2,651	255	(197)	(27)	31
UF	62,838	144,408	27,896	235,142	27,741	(32,555)	(2,378)	(7,192)
Foreign currency	—	—	—	—	—	—	—	—
Subtotal	62,288	148,647	26,858	237,793	27,996	(32,752)	(2,405)	(7,161)
Interbank loans								
Ch$	(28)	(31)	3	(56)	—	8	187	195
UF	—	—	—	—	—	—	—	—
Foreign currency	—	—	—	—	(777)	(777)	764	(790)
Subtotal	(28)	(31)	3	(56)	(777)	(769)	951	(595)
Investment under agreement to resell								

Ch$	(1,779)	4,088	(3,566)	(1,257)	1,819	5	63	1,887
UF	(5)	(5)	100	90	(1,069)	(72)	72	(1,069)
Foreign currency	—	—	—	—	—	—	—	—
Subtotal	(1,784)	4,083	(3,466)	(1,167)	750	(67)	135	818
Threshold								
Ch$	—	—	—	—	—	—	—	—
UF	—	—	—	—	—	—	—	—
Foreign currency	235	—	(196)	39	2,093	(316)	(1,905)	(128)
Subtotal	235	—	(196)	39	2,093	(316)	(1,905)	(128)
Total interest earnings assets								
Ch$	93,712	(123,617)	(19,265)	(49,170)	122,392	(113,022)	(16,920)	(7,550)
UF	83,664	281,523	25,742	390,929	45,828	(46,235)	(16,234)	(16,641)
Foreign currency	8,643	2,646	2,766	14,055	21,904	(10,759)	(6,703)	4,442
Total	186,019	160,552	9,243	355,814	190,124	(170,016)	(39,857)	(19,749)

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	Increase (Decrease) from 2013 to 2014 Due to Changes in				Increase (Decrease) from 2012 to 2013 Due to Changes in			
	Volume	Rate	Rate and Volume	Net Change from 2013 to 2014	Volume	Rate	Rate and Volume	Net Change from 2012 to 2013
Liabilities and Shareholders' Equity								
Interest bearing liabilities								
Savings accounts								
Ch$	—	—	—	—	—	1	—	1
UF	82	3,285	188	3,555	31	(608)	(54)	(631)
Foreign currency	—	—	—	—	—	—	—	—
Subtotal	82	3,284	189	3,555	31	(607)	(54)	(630)
Time deposits								
Ch$	40,113	(107,235)	(11,555)	(78,677)	45,936	(38,300)	(5,986)	1,650
UF	36,839	—	(594)	36,245	(46,445)	(8,585)	3,246	(51,784)
Foreign currency	2,203	—	179	2,382	676	(3,691)	28	(2,987)
Subtotal	79,155	(107,235)	(11,970)	(40,050)	167	(50,576)	(2,712)	(53,121)
Central bank borrowings								
Ch$	—	—	5	5	(220)	(220)	222	(218)
UF	(8)	8	(5)	(5)	(6)	11	(5)	—
Foreign currency	—	—	—	—	—	—	—	—
Subtotal	(8)	8	—	—	(226)	(209)	217	(218)
Repurchase agreements								
Ch$	8,219	(9,582)	(5,459)	(6,822)	(4,367)	5,408	(1,278)	(237)
UF	—	—	—	—	—	—	—	—
Foreign currency	5	8	5	18	(7)	(62)	5	(64)
Subtotal	8,224	(9,574)	(5,454)	(6,804)	(4,374)	5,346	(1,273)	(301)
Mortgage finance bonds								
Ch$	—	—	—	—	—	—	—	—
UF	(1,678)	4,008	(867)	1,463	(2,433)	(786)	200	(3,019)
Foreign currency	—	—	—	—	—	—	—	—
Subtotal	(1,678)	4,008	(867)	1,463	(2,433)	(786)	200	(3,019)
Other interest bearing liabilities								
Ch$	2,491	132,954	5,287	140,732	(166)	23,702	(65)	23,471
UF	(6,660)	92,923	(2,749)	83,514	5,177	(10,280)	(1,854)	(6,957)
Foreign currency	3,228	(68,448)	(1,718)	(66,938)	33,595	(35,554)	(11,043)	(13,002)
Subtotal	(941)	157,429	820	157,308	38,606	(22,132)	(12,962)	3,512
Total interest bearing liabilities								
Ch$	50,823	16,136	(11,721)	55,238	41,183	(9,409)	(7,107)	24,667
UF	28,575	100,224	(4,027)	124,772	(43,676)	(20,248)	1,533	(62,391)
Foreign currency	5,436	(68,440)	(1,534)	(64,538)	34,264	(39,307)	(11,010)	(16,053)
Total	84,834	47,920	(17,282)	115,472	31,771	(68,964)	(16,584)	(53,777)

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Interest-Earning Assets: Net Interest Margin

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

	Year ended December 31,		
	2014	2013	2012
	(in millions of Ch$)		
Total average interest-earning assets			
Ch$	11,009,515	10,053,621	9,763,182
UF	11,000,787	9,778,339	9,174,707
Foreign currencies	4,749,384	3,435,775	2,682,201
Total	26,759,696	23,267,735	21,620,090
Net interest earned (1)			
Ch$	611,168	715,576	747,793
UF	679,806	413,649	367,899
Foreign currencies	26,130	(52,463)	(72,958)
Total	1,317,104	1,076,762	1,042,734
Net interest margin (2)			
Ch$	5.55%	7.12%	7.66%
UF	6.18%	4.23%	4.01%
Foreign currencies	0.55%	(1.53)%	(2.72%)
Total	4.92%	4.63%	4.82%

(1) Net interest earned is defined as interest revenue earned less interest expense incurred.

(2) Net interest margin is defined as net interest earned divided by total average interest-earning assets.

Return on Equity and Assets; Dividend Payout

The following table presents certain information and selected financial ratios for Santander-Chile for the years indicated.

	Year ended December 31,		
Ch$ million	2014	2013	2012
Net income	575,910	444,429	361,433
Net income attributable to shareholders	569,910	442,294	356,808
Average total assets	32,724,583	27,037,991	25,096,434
Average equity	2,689,037	2,349,448	2,187,716
Net income as a percentage of:			
Average total assets	1.8%	1.6%	1.4%
Average equity	21.4%	18.9%	16.5%
Average equity as a percentage of:			
Average total assets	8.2%	8.7%	8.7%
Cash dividend (1)	330,198	265,156	232,780
Dividend payout ratio, based on net income attributable to shareholders (1)	58.0%	60.0%	65.2%

(1) Cash dividend for 2014 represents cash dividend approved by shareholders on April 28, 2015.

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

Year	Dividend Ch$ mn (1)	Per share Ch$/share (2)	Per ADR Ch$/ADR (3)	% over earnings (4)	% over earnings (5)
2011	286,294	1.52	1,578.48	60	57
2012	261,051	1.39	1,439.10	60	65
2013	232,780	1.24	494.10	60	65
2014	265,156	1.41	562.83	60	60
2015(6)	330,198	1.75	700.89	60	58

(1) Millions of nominal pesos.
(2) Calculated on the basis of 188,446 million shares.
(3) Calculated on the basis of 1,039 shares per ADS for the periods from 2009-2012. In 2014, it is calculated on the basis of 400 shares per ADS.
(4) Calculated by dividing dividend paid in the year by net income attributable to shareholders for the previous year under Chilean GAAP.
(5) Calculated by dividing dividend paid in the year by net income attributable to shareholders for the previous year under IFRS.
(6) Dividend proposed by the Board for shareholders' approval on April 28, 2015.

Loan Portfolio

The following table analyzes our loans by product type. Except where otherwise specified, all loan amounts stated below are before deduction for loan loss allowances. Total loans reflect our loan portfolio, including principal amounts of past due loan and substandard loans. Any collateral provided generally consists of a mortgage on real estate, a pledge of marketable securities, a letter of credit or cash. The existence and amount of collateral generally vary from loan to loan.

	As of December 31,				
	2014	2013	2012	2011	2010
	(in millions of Ch$)				
Commercial Loans:					
Commercial loans	8,324,949	7,797,682	7,316,417	6,602,372	6,107,117
Foreign trade loans	1,786,232	1,840,334	1,270,423	1,042,024	783,552
Checking account debtors	266,231	279,657	205,355	132,383	67,956
Factoring transactions	327,841	316,114	322,242	188,630	206,140
Leasing transactions	1,489,384	1,349,814	1,277,555	1,237,675	1,122,916
Other loans and accounts receivable	135,663	118,651	97,029	84,501	17,948
Subtotal	12,330,300	11,702,252	10,489,021	9,287,585	8,305,629
Mortgage loans:					
Mortgage mutual loans	57,356	71,833	46,105	71,878	184,364
Mortgage finance bond backed loans	116,150	72,297	92,204	113,858	138,094
Other mortgage mutual loans	6,458,525	5,481,682	5,133,272	4,929,927	4,328,679
Subtotal	6,632,031	5,625,812	5,271,581	5,115,663	4,651,137
Consumer loans:					

Installment consumer loans	2,320,775	2,168,121	1,857,657	1,808,594	1,604,603
Credit card loans	1,362,587	1,235,881	1,054,473	920,852	794,216
Consumer leasing contracts	5,270	3,451	3,688	3,727	3,735
Other consumer loans	229,743	199,795	199,659	210,673	298,236
Subtotal	3,918,375	3,607,248	3,115,477	2,943,846	2,700,790
Subtotal Loans to customers	22,880,706	20,935,312	18,876,079	17,347,094	15,657,556
Interbank loans	11,943	125,449	90,573	87,688	69,726
Total	22,892,649	21,060,761	18,966,652	17,434,782	15,727,282

The loan categories are as follows:

Commercial loans

Commercial loans are long-term and short-term loans, including checking overdraft lines for companies, granted in Chilean pesos, inflation linked, U.S.$ linked or denominated in U.S.$. The interest on these loans is fixed or variable and is used primarily to finance working capital or investments. General commercial loans also include factoring operations.

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

Checking account debtors mainly include mortgage loans (fixed and variable rate) that are inflation-indexed long-term loans with monthly payments of principal and interest secured by a real property mortgage. These loans can be endorsed to a third party.

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

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

Other loans and accounts receivable loans include other loans and accounts payable.

Mortgage loans

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

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

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

Consumer loans

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

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

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

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

Other loans and accounts receivable from customers include draft lines for individuals.

Non-client loans

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

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Maturity and Interest Rate Sensitivity of Loans

The following table sets forth an analysis by type and time remaining to maturity of our loans as of December 31, 2014.

	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total balance as of December 31, 2014
	(in millions of Ch$)			
General commercial loans	4,507,601	3,115,686	1,666,258	9,289,545
Foreign trade loans	1,313,811	194,474	31,669	1,539,954
Leasing contracts	330,698	716,916	445,245	1,492,859
Other outstanding loans	7,942	–	–	7,942
Subtotal commercial loans	6,160,052	4,027,076	2,143,172	12,330,300
Residential loans backed by mortgage bonds	14,602	36,389	16,663	67,654
Other residential mortgage loans	374,596	1,223,166	4,966,615	6,564,377
Subtotal residential mortgage loans	389,198	1,259,555	4,983,278	6,632,031
Consumer loans	1,982,047	1,797,571	138,757	3,918,375
Subtotal	8,531,297	7,084,202	7,265,207	22,880,706
Interbank loans	11,943	–	–	11,943
Total loans	8,543,240	7,084,202	7,265,207	22,892,649

The following tables present the total amount of loans due after one year that have fixed and variable interest rates as of December 31, 2014. See also "Item 5. Operating and Financial Review and Prospects –C. Operating Results—Interest Rates."

	As of December 31, 2014 (in millions of Ch$)
Variable Rate	
Ch$	1,645
UF	947,534
Foreign currencies	–
Subtotal	949,179
Fixed Rate	
Ch$	3,638,302
UF	9,255,250
Foreign currencies	506,678
Subtotal	13,400,230
Total	14,349,409

Loans by Economic Activity

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

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	Domestic loans (*) as of December 31,					Foreign loans (**) as of Decem			
	2014	2013	2012	2011	2010	2014	2013	2012	20
	(in millions of Ch$)					(in millions of Ch$)			
Commercial loans									
Manufacturing	1,126,268	1,216,914	1,014,777	834,011	838,324	–	–	–	–
Mining	428,847	464,865	292,217	266,442	106,119	–	–	–	–
Electricity, gas and water	567,548	222,110	337,269	221,039	149,907	–	–	–	–
Agriculture and livestock	871,247	806,092	770,558	760,527	679,159	–	–	–	–
Forestry	98,039	183,716	120,002	89,353	84,375	–	–	–	–
Fishing	256,818	265,917	188,803	144,162	133,930	–	–	–	–
Transport	758,339	721,931	511,407	473,414	449,508	–	–	–	–
Communications	167,004	249,499	179,544	252,528	214,881	–	–	–	–
Construction	1,365,841	1,337,791	1,130,194	980,797	839,316	–	–	–	–
Commerce	2,773,410	2,578,979	2,396,428	1,916,400	1,732,800	11,899	125,383	90,546	87,0
Services	469,141	447,861	400,716	384,061	358,314	–	–	–	–
Other	3,447,842	3,206,643	3,147,133	2,965,498	2,719,013	–	–	–	–
Subtotals	12,330,344	11,702,318	10,489,048	9,288,232	8,305,646	11,899	125,383	90,546	87,0
Mortgage loans	6,632,031	5,625,812	5,271,581	5,115,663	4,651,137	–	–	–	–
Consumer loans	3,918,375	3,607,248	3,115,477	2,943,846	2,700,790	–	–	–	–
Total	22,880,750	20,935,378	18,876,106	17,347,741	15,657,573	11,899	125,383	90,546	87,0

	Total loans as of December 31,					% of total loans as of Decemb			
	2014	2013	2012	2011	2010	2014	2013	2012	201
	(in millions of Ch$)					(in millions of Ch$)			
Commercial loans									
Manufacturing	1,126,268	1,216,914	1,014,777	834,011	838,324	4.92 %	5.78 %	5.35 %	4.7
Mining	428,847	464,865	292,217	266,442	106,119	1.87 %	2.21 %	1.54 %	1.5
Electricity, gas and water	567,548	222,110	337,269	221,039	149,907	2.48 %	1.05 %	1.78 %	1.2
Agriculture and livestock	871,247	806,092	770,558	760,527	679,159	3.81 %	3.83 %	4.06 %	4.3
Forestry	98,039	183,716	120,002	89,353	84,375	0.43 %	0.87 %	0.63 %	0.5
Fishing	256,818	265,917	188,803	144,162	133,930	1.12 %	1.26 %	1.00 %	0.8
Transport	758,339	721,931	511,407	473,414	449,508	3.31 %	3.43 %	2.70 %	2.7
Communications	167,004	249,499	179,544	252,528	214,881	0.73 %	1.18 %	0.95 %	1.4
Construction	1,365,841	1,337,791	1,130,194	980,797	839,316	5.97 %	6.35 %	5.96 %	5.6
Commerce	2,773,410	2,704,362	2,486,974	2,003,441	1,802,509	12.12 %	12.84 %	13.11 %	11.
Services	469,141	447,861	400,716	384,061	358,314	2.05 %	2.13 %	2.11 %	2.2
Other	3,447,842	3,206,643	3,147,133	2,965,498	2,719,013	15.07 %	15.23 %	16.59 %	17.
Subtotals	12,330,344	11,827,701	10,579,594	9,375,273	8,375,355	53.89 %	56.16 %	55.78 %	53.
Mortgage loans	6,632,031	5,625,812	5,271,581	5,115,663	4,651,137	28.99 %	26.71 %	27.79 %	29.
Consumer loans	3,918,375	3,607,248	3,115,477	2,943,846	2,700,790	17.13 %	17.13 %	16.43 %	16.
Total	22,880,750	21,060,761	18,966,652	17,434,782	15,727,282	100.00 %	100.00 %	100.00 %	100

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Foreign Assets and Loans

Santander-Chile's Asset and Liability Committee, or ALCO, is responsible for determining the maximum foreign country exposure the Bank is permitted to have. The ALCO has determined that the total foreign country exposure cannot be greater than 1-time regulatory capital. To determine this, each country is classified using a ranking system from 1 to 6 based on the definition promulgated by the SBIF, in which the main consideration is the international rating of each country. The ALCO has also set a higher limit if the foreign exposure is to related parties. As of December 31, 2014, the Bank's foreign exposure, including the estimate of counterparty risk in our derivatives portfolio, was U.S.$1,711 million, or 3.4% of our assets. For more information please see note 37 of our Consolidated Financial Statements.

Below, there are additional details regarding our exposure to countries in category 2 and 3, the riskiest categories we have exposure to as of December 31, 2014, considering fair value of derivative instruments. In this category Italy is the largest exposure and is also broke down below. We do not have sovereign exposure to Italy.

Country	Classification (1)	Derivative Instruments (adjusted to market) USD Mn	Deposits USD Mn	Loans USD Mn	Financial Investments USD Mn	Total Exposure USD Mn
Italy	2	49.65	3.28	0.18	–	53.11
Colombia	2	4.13	–	0.09	–	4.22
Peru	2	1.08	–	0.25	–	1.33
Brazil	2	–	–	0.28	–	0.28
Mexico	2	–	0.21	–	–	0.21
Total Category 2		54.86	3.49	0.8	–	59.15
Panama	3	0.29	–	–	–	0.29
Total Category 3		0.29	–	–	–	0.29
Total		55.15	3.49	0.80	–	59.44

(1) Corresponds to country's classification established in Chapter B-6 of the Compendium of Accounting Standards issued by the SBIF.

Below, there are additional details regarding our exposure to Spain as of December 31, 2014, considering the fair value of derivative instruments. We do not have sovereign exposure to Spain.

Country	Classification (1)	Derivative Instruments (adjusted to market) USD Mn	Deposits USD Mn	Loans USD Mn	Financial Investments USD Mn	Total Exposure USD Mn
Spain	1	4.79	311.26	1.34	–	317.39

(1) Corresponds to country's classification established in Chapter B-6 of the Compendium of Accounting Standards issued by the SBIF.

Our exposure to Spain within the group is as follows:

Classification	Loans

Counterpart	Country		Derivative instruments (market adjusted)* USD Mn	Deposits USD Mn	USD Mn	Financial Investments USD Mn	Total Exposure USD Mn
Banco Santander España**	Spain	1	4.79	311.79	–	–	316.05

* The total amount of this exposure to derivative instruments must be compensated daily with collateral and, therefore, the net credit exposure is US$ 4.79 million.

** We have included our exposure to Santander branches in New York and Hong Kong as exposure to Spain.

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Furthermore, is additional detail regarding our exposure to the United State, which is the only country with more than 1% of exposure over total assets. Below we detail exposure to assets in the USA as of December 31, 2014, considering fair value of derivative instruments.

Country	Classification (1)	Derivative Instruments (adjusted to market) USD Mn	Deposits USD Mn	Loans USD Mn	Financial Investments USD Mn	Total Exposure USD Mn
USA	1	41.54	1,039.34	0.00	0.00	1,080.88

As of December 31, 2014, we had no applicable sovereign exposure, no unfunded exposure, no credit default protection and no current developments.

Classification of Loan Portfolio

Credit Review Process

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

Santander-Chile's governance rules have established the existence of two high-level committees to monitor and control credit risks: the Executive Credit Committee and the Risk Committee. See "Item 11. Quantitative and Qualitative Disclosures About Market Risk—A. Credit Risk" for more information.

Credit Approval

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

Approved By	Maximum approval (thousands of U.S.$)
Executive Credit Committee	>60,000
Loan analyzed on an individual basis Committee	20,000
Business Segment Committee	8,000-12,000
Large companies	12,000
Real estate sector	12,000
Medium-sized companies	8,000
Zonal Committee	5,000
Territorial Committee	2,000
Branch Committee	300
SMEs	140
Commercial mortgage	300
Residential Mortgage	240
Persons	120

We also have a department designated to monitor the quality of the loan portfolio on a continuous basis. The purpose of this special supervision is to maintain constant scrutiny over the portions of the portfolio that represent the greatest risk and to anticipate any deterioration. Based on this ongoing review of the loan portfolio, we believe that we are able to detect potentially problematic loans and make a decision on a client's status. This includes measures such as reducing or extinguishing a loan, or requiring better collateral from the client. The control systems require that these loans be reviewed at least three times per year for those clients in the lowest category of credit watch.

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Credit Approval: Loans approved on an individual basis

In preparing a credit proposal for a corporate client whose loans are approved on an individual basis, Santander-Chile's personnel verifies such parameters as debt servicing capacity (typically including projected cash flows), the company's financial history and projections for the economic sector in which it operates. The Risk Division is closely involved in this process, and prepares the credit application for the client. All proposals contain an analysis of the client's strengths and weaknesses, a rating and a recommendation. Credit limits are determined not on the basis of outstanding balances of individual clients, but on the direct and indirect credit risk of entire financial groups. For example, a corporation will be evaluated together with its subsidiaries and affiliates.

Credit Approval: Loans approved on a group basis

The majority of loans to individuals and small and mid-sized companies are approved by the Standardized Risk Area through an automated credit scoring system. This system is decentralized, automated and based on multiple parameters, including demographic and information regarding credit behavior from external sources and the SBIF.

Classification of Loan Portfolio

Loans are divided into: (i) consumer loans (including loans granted to individuals for the purpose of financing the acquisition of consumer goods or payment of services); (ii) residential mortgage loans (including loans granted to individuals for the acquisition, construction or repair of residential real estate, in which the value of the property covers at least 100% of the amount of the loan); and (iii) commercial loans (including all loans other than consumer loans and residential mortgage loans). The models and methods used to classify our loan portfolio and establish credit loss allowances must follow the following guiding principles, which have been approved by our Board of Directors.

Loans analyzed on an individual basis

For loans that are greater than Ch$150 million (US$286,000), the Bank uses internal models to assign a risk category level to each borrower and its respective loans. We consider the following risk factors: industry or sector of the borrower, the borrower's competitive position in its markets, owners or managers of the borrower, the borrower's financial situation, the borrower's payment capacity and the borrower's payment behavior to calculate the estimated incurred loan loss. Through these categories, we differentiate the normal loan portfolio from the impaired one.

These are our categories:

1. Debtors may be classified in risk categories A1, A2, A3 or B (if they are current on their payment obligations and show no sign of deterioration in their credit quality). B is different from the A categories by a certain history of late payments. The A categories are distinguished by different PNPs (as defined below).

2. Debtors classified as C1, C2, C3, C4, D1 or D2 include debtors whose loans with us have been charged off or administered by our Recovery Unit, or classified as Precontenciosos (PRECO or deteriorated).

For loans classified as A1, A2, A3 and B, we assign a specific provision level on an individual basis to each borrower and, therefore, the amount of loan loss allowance is determined on a case by case basis.

Estimated Incurred Loan Loss = Loan Loss Allowance

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

EIL= EXP x PNP x SEV

- EIL = Estimated Incurred Loan Loss. The estimated incurred loan loss is how much could be lost in the event a debtor does not perform the obligations under the loan.
- EXP = Exposure. This corresponds to the value of commercial loans.
- PNP = Probability of Non-Performance. This variable, expressed as a percentage, indicates the probability that a debtor will default. This percentage is associated with the internal rating that we give to each debtor, which is determined by analyzing such parameters as debt servicing capacity.
- SEV = Severity. This is the effective loss rate given default for debtors in the same segment, which is determined statistically based on the historical effective losses for us for each segment.

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Every year, models together with PNP and SEV assumptions, are tested by the Bank's Credit Risk Department, to ensure that they are appropriate at each reporting date so as to make sure any difference between the estimated incurred losses and real losses is reduced.

These tests focus on the validation of the sufficiency of the Bank's allowances, and consist of comparisons between actual write-offs to allowances established by the model, and the coverage of the total allowance to actual write-offs in the most current periods. Individual loan classification and improvements to any customer classification are also presented for approval to our Risk Committee.

Our internal policy requires us to update appraisals of the fair value of collateral every 24 months, which policy does not vary by loan product. The appraisal is required to be performed within a shorter period if market conditions in general or conditions in a specific sector or with respect to certain customers indicate that the fair value of the collateral may have changed and any updated fair value of the collateral is factored into our allowance for loan loss calculations. A change in fair value of the collateral may change the risk category or profile of a customer which could result in lower or higher allowance for loan losses.

In accordance with such policy, every year we update appraisals of fair value of collateral before the end of the 24 month period for certain customers and such updated appraisals are considered in the calculation of the allowance for loan losses. The number of updated appraisals performed in 2011 was 59, in 2012 was 72, in 2013 was 113 and in 2014 was 98, and such updated appraisals were performed mainly because of changes in customer conditions (renegotiation deterioration of financial situation increase in credit line).

For loans classified in the C and D categories, loan loss allowances are based mainly on the fair value of the collateral, adjusted for an estimate cost to sell, that each of these loans have. Allowance percentage for each category is then based on the fair value of the collateral, or the expected future cash flow from the loan for each individually evaluated non-performing loans. As of December 31, 2014, loans classified in the C and D risk categories had the following associated loan loss allowance levels:

Classification	Allowance
C1	2%
C2	10%
C3	25%
C4	40%
D1	65%
D2	90%

Loans analyzed on a group basis

The Bank uses the concept of estimated incurred loss to quantify the allowances levels over loan analyzed on a group basis. Incurred loss is the expected provision expense that will appear one year away from the balance date of the transaction's credit risk, considering the counterpart risk and the collateral associated to each transaction.

Following the Bank's definition, the Bank uses group evaluation to approach transactions that have similar credit risk features, which indicate the debtor's payment capacity of the entire debt, capital and interests, pursuant to the contract's terms. In addition, this allows us to assess a high number of transactions with low individual amounts, whether they belong to individuals or small sized companies. Therefore, debtors and loans with similar features are grouped together and each group has a risk level assigned to it. These models are meant to be used mainly to analyze loans granted to individuals (including consumer loans, credit lines, mortgage loans and commercial loans) and commercial loans to SMEs.

Allowances are established using these models, taking into account the historical impairment and other known circumstances at the time of evaluation. After this, a historical loss rate is assigned to each portfolio profile constituting each segment. The method for assigning a profile is established based on a statistical building method, establishing a relation through a logistic regression various variables, such as payment behavior in the Bank, payment behavior outside the Bank, various socio-demographic data, among others, and a response variable that determines a client's risk level, which in this case is 90 days of non-performance. Afterwards, common profiles are established related to a logical order and with differentiate default rates, applying the real historical loss the Bank has had with that portfolio.

Our models for loans analyzed on a group basis (consumer loans, residential mortgage loans and small-and-mid-sized commercial loans) are monitored on a monthly basis with respect to predictability and stability, using indices that seek to capture the underlying need to update the models for current loss trends. Therefore, the periods of historical net charge-offs used in the allowance model may be more than a year old as we only update the historical net charge-offs only when our assessment of predictability and stability indicators determine it is necessary.

The different risk categories are constructed and updated periodically based on the payment behavior of the client's profile to which they belong, as well as his or her socio-demographic characteristics. Therefore, when a customer has past due balance or has missed some payments, the outcome is that the customer will move to a different segment with a higher loss rate, therefore capturing current trends for each risk profile.

Once the customers have been classified, the loan loss allowance is the product of three factors: Exposure (EXP), Probability of Non-Performance (PNP) and Severity (SEV).

EXP = Exposure. This corresponds to the value of commercial loans.

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

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

PNP and SEV are reviewed and updated every three years. Every year, models together with PNP and SEV assumptions, are tested by the Bank's Credit Risk Department, to ensure that they are appropriate at each reporting date so as to make sure any difference between the estimated incurred losses and real losses is reduced.

Allowances for consumer loans

The estimated incurred loss rates for consumer loans correspond to charge-offs net of recoveries. The methodology establishes the period in which the estimated incurred loss for each risk profile emerges. Once the loss has been considered to have been incurred, the estimated incurred loss rates are applied to the corresponding risk profile to obtain the net charge-off level associated with this period. The loss rates applied to each risk profile are based only on the historical net charge-off data for that specific profile within one of the four groups of consumer loans. No other statistical or other information other than net charge-offs is used to determine the loss rates.

The following table sets forth the allowances required by our models for consumer loans from September 30, 2010 until June 2012:

Bank:

		Allowance Level(1)					
		Not renegotiated					
Loan type	Risk Profile	New Clients*		Existing Clients		Renegotiated	
Consumer	Profile 1	33.78	%	10.39	%	41.95	%
	Profile 2	10.82	%	2.01	%	26.29	%
	Profile 3	6.05	%	0.82	%	15.63	%
	Profile 4	5.70	%	0.38	%	7.01	%
	Profile 5	4.12	%	0.22	%	3.00	%
	Profile 6	2.51	%	–		1.25	%
	Profile 7	1.40	%	–		0.50	%

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Loan type	Days Past Due	Allowance Level Not renegotiated New Clients*		Existing Clients		Renegotiated	
Consumer	90-120	44.58	%	56.39	%	52.82	%
	120-150	44.58	%	67.33	%	62.96	%
	150-180	44.58	%	75.49	%	70.08	%

Santander Banefe:

Loan type	Risk Profile	Allowance Level(1) Not renegotiated New Clients*		Existing Clients		Renegotiated	
Consumer	Profile 1	57.60	%	33.24	%	51.13	%
	Profile 2	22.97	%	14.23	%	32.79	%
	Profile 3	19.40	%	7.16	%	28.85	%
	Profile 4	14.62	%	4.10	%	19.23	%
	Profile 5	10.77	%	2.52	%	13.31	%
	Profile 6	5.88	%	1.34	%	8.57	%
	Profile 7	3.09	%	0.94	%	4.37	%
	Profile 8	–		–		2.69	%

Loan type	Days Past Due	Allowance Level Not renegotiated New Clients*		Existing Clients		Renegotiated	
Consumer	90-120	82.95	%	56.36	%	53.55	%
	120-150	82.95	%	68.00	%	64.05	%
	150-180	82.95	%	78.54	%	74.72	%

(1) Percentage of total outstanding.

* A client is considered to be "new" if it has less than 6 months of payment history with the Bank. Therefore, its behavior is very similar and it is rare for a client to receive a loan and not pay from the onset of the relationship; usually, the client starts to default when he or she is already classified as an "existing client."

There are three renegotiated categories in our consumer loan portfolio:

1. Renegotiated Consumer: This category relates to loans which were less than 90 days past due at the time of renegotiation. The allowance for loan loss percentages (or loss rates) are assigned based on six different risk profiles which are determined based on demographic and payment behavior variables.

2. Renegotiated Consumer with three months of non-payment: This category relates to loans which were more than 90 days past due at the time of renegotiation. The loss rates are assigned based on four different risk profiles which are determined based on the number of days overdue at the time of renegotiation:

Profile 1: 180 or more days past due
Profile 2: between 150 and 180 days past due

Profile 3: between 120 and 150 days past due
Profile 4: between 90 and 120 days past due

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After the customer has made three consecutive monthly payments, he/she will be reassigned to one of the seven risk profiles for "Renegotiated Consumer" (number 1 above). If the customer is not able to make the required monthly payment under the renegotiated terms and days past due increase, the customer will move to a more risky profile within the same group "Renegotiated Consumer with three months of non-payment". For example, a customer in Profile 1 (180 or more days past due) that increases days past due will remain in the same category and profile and, therefore, will continue to have a 100% loss rate. A customer in Profile 4 (between 90 and 120 days past due) who reaches more than 120 days past due will move to Profile 3, increasing their loss rate from 38.5% to 47.0%.

3. Non-performing consumer – renegotiated: This category relates only to loans which were in category 1, renegotiated with less than 90 days past due at the time of renegotiation, and have reached 90 days past due subsequent to renegotiation. For example, a customer initially categorized as "Renegotiated Consumer" (less than 90 days past due at the time of renegotiation), under risk profile 1 (29.7% loss rate) who reaches more than 90 days past due since renegotiation will migrate to the "Non-performing Consumer – Renegotiated" category 90 -120 days past due with a 41.6% loss rate. The customer will move to higher risk profiles as number of days past due increases until the loan reaches 180 days past due, when it is charged-off. On the other hand, after the customer has made three consecutive monthly payments, he/she will be reassigned to one of the six risk profiles for "Renegotiated Consumer" (number 1 above).

The following table sets forth the allowances required by our models for consumer loans since June 2012:

Bank:

		Allowance Level(1) (Loss rate) Not renegotiated			
Loan type	Risk Profile	New Clients		Existing Clients	
Performing Consumer	Profile 1	24.5	%	20.9	%
	Profile 2	14.0	%	10.1	%
	Profile 3	7.3	%	5.0	%
	Profile 4	3.4	%	2.1	%
	Profile 5	2.1	%	1.4	%
	Profile 6	1.3	%	0.9	%
	Profile 7	0.8	%	0.5	%
	Profile 8	0.4	%	0.3	%

Loan type	Risk Profile	Allowance Level(1) (Loss rate) Renegotiated	
Renegotiated Consumer which were less than 90 days past due at the time of renegotiation	Profile 1	29.7	%
	Profile 2	21.5	%
	Profile 3	10.7	%
	Profile 4	6.5	%
	Profile 5	4.2	%
	Profile 6	3.2	%

Allowance Level(1)

Loan type	Risk Profile	(Loss rate) Renegotiated
Renegotiated Consumer which were more than 90 days past due at the time of renegotiation (2)	Profile 1	100.0 %
	Profile 2	56.0 %
	Profile 3	47.0 %
	Profile 4	38.5 %

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Loan type	Days Past Due	Allowance Level(1) (Loss rate) Not renegotiated New Clients		Existing Clients		Renegotiated	
Non-performing Consumer	90-120	38.5	%	38.5	%	41.6	%
	120-150	47.0	%	47.0	%	48.8	%
	150-180	55.0	%	55.0	%	55.9	%
	>180			Charged-off			

Santander Banefe:

Loan type	Risk Profile	Allowance Level(1) (Loss rate) Not renegotiated New Clients		Existing Clients	
Performing Consumer	Profile 1	26.7	%	22.3	%
	Profile 2	14.2	%	12.3	%
	Profile 3	9.0	%	4.4	%
	Profile 4	5.8	%	2.2	%
	Profile 5	3.1	%	0.7	%
	Profile 6	1.3	%	0.2	%
	Profile 7	–		0.1	%

Loan type	Risk Profile	Allowance Level(1) (Loss rate) Renegotiated	
Renegotiated Consumer which were less than 90 days past due at the time of renegotiation	Profile 1	36.6	%
	Profile 2	29.6	%
	Profile 3	21.0	%
	Profile 4	12.2	%
	Profile 5	7.1	%
	Profile 6	5.2	%

Loan type	Risk Profile	Allowance Level(1) (Loss rate) Renegotiated	
Renegotiated Consumer which were more than 90 days past due at the time of renegotiation(2)	Profile 1	100.0	%
	Profile 2	64.7	%
	Profile 3	48.9	%
	Profile 4	32.1	%

Loan type	Past-due Days	Allowance Level(1) Not renegotiated New Clients	Existing Clients	Renegotiated (2)

Non-performing Consumer	90-120	32.1	%	32.1	%	48.9	%
	120-150	37.4	%	37.4	%	55.8	%
	150-180	42.7	%	42.7	%	64.7	%
	>180			Charged-off			

1. Percentage of loans outstanding
2. This category relates only to loans which were renegotiated and were less than 90 days past due at the time of renegotiation, migrating from such category as they reached 90 days past due since renegotiation.

During the second half of 2014, and as a response to the ongoing improvement of the allowances models for loans, the Bank updated its allowances model for consumer loans. The model was calibrated with the aim of improving the prediction of client behavior and maintaining statistical and management standards. Part of these

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improvements consisted of implementing more robust techniques of statistical processes and more historical information, resulting in stronger parameters for the Probability of Non-Performance (PNP) and the Severity (SEV) involved in the provision calculation. These changes resulted in the release of consumer provisions of Ch$26,563 million in 2014. As this is a change in estimation, the impact of this improvement was recognized under the "Provisions for loan losses" in the Consolidated Statement of Income for the year in accordance with IAS 8. The most important improvement was the development of a separate model for our Santander Select customers, which are higher income clients. This is in line with the Bank's strategy of reducing exposure to the low-end of the consumer market and growing in less risky segments. The following table sets forth the allowances required by our models for consumer loans since December 2014:

Bank:

		Allowance Level(1) (Loss rate)		
		Not renegotiated		
Loan type	Risk Profile	New Clients	Existing Clients	Santander Select*
Performing Consumer	Profile 1	19.03 %	20.81 %	10.70 %
	Profile 2	7.53 %	6.53 %	2.35 %
	Profile 3	4.52 %	3.06 %	1.02 %
	Profile 4	2.99 %	1.67 %	0.47 %
	Profile 5	1.91 %	0.93 %	0.23 %
	Profile 6	1.38 %	0.43 %	0.14 %
	Profile 7	0.77 %	0.20 %	0.08 %
	Profile 8	0.30 %	0.08 %	0.04 %

* Santander Select includes those clients attended to within the Santander Select distribution network, which is part of the Individuals in Commercial Banking segment.

Loan type	Risk Profile	Allowance Level(1) (Loss rate) Renegotiated
Renegotiated Consumer which were less than 90 days past due at the time of renegotiation (2)	Profile 1	29.14 %
	Profile 2	25.78 %
	Profile 3	21.57 %
	Profile 4	17.58 %
	Profile 5	13.47 %
	Profile 6	10.84 %
	Profile 7	8.12 %
	Profile 8	5.37 %

Loan type	Risk Profile	Allowance Level(1) (Loss rate) Renegotiated
Renegotiated Consumer which were more than 90 days past due at the time of renegotiation (2)	Profile 1	100.0 %

Profile 2	52.92	%
Profile 3	44.99	%
Profile 4	37.17	%

		Allowance Level(1) (Loss rate)							
		Not renegotiated							
Loan type	Days Past Due	New Clients		Existing Clients		Select		Renegotiated	
Non-performing Consumer	90-120	37.17	%	37.17	%	37.17	%	41.72	%
	120-150	44.99	%	44.99	%	44.99	%	47.68	%
	150-180	52.92	%	52.92	%	52.92	%	54.14	%
	>180					Charged-off			

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Santander Banefe:

Loan type	Risk Profile	Allowance Level(1) (Loss rate) Not renegotiated New Clients	Allowance Level(1) (Loss rate) Not renegotiated Existing Clients
Performing Consumer	Profile 1	24.45 %	18.95 %
	Profile 2	13.53 %	7.14 %
	Profile 3	9.12 %	3.27 %
	Profile 4	7.39 %	1.90 %
	Profile 5	6.47 %	0.94 %
	Profile 6	4.74 %	0.60 %
	Profile 7	3.68 %	0.28 %
	Profile 8	1.35 %	0.17 %

Loan type	Risk Profile	Allowance Level(1) (Loss rate) Renegotiated
Renegotiated Consumer which were less than 90 days past due at the time of renegotiation	Profile 1	32.09 %
	Profile 2	29.67 %
	Profile 3	27.96 %
	Profile 4	24.17 %
	Profile 5	18.67 %
	Profile 6	14.79 %
	Profile 7	11.22 %
	Profile 8	8.78 %

Loan type	Risk Profile	Allowance Level(1) (Loss rate) Renegotiated
Renegotiated Consumer which were more than 90 days past due at the time of renegotiation(2)	Profile 1	100.0 %
	Profile 2	42.04 %
	Profile 3	35.97 %
	Profile 4	31.48 %

Loan type	Past-due Days	Allowance Level(1) Not renegotiated New Clients	Allowance Level(1) Not renegotiated Existing Clients	Allowance Level(1) Renegotiated (2)
Non-performing Consumer	90-120	31.48 %	31.48 %	44.50 %
	120-150	35.97 %	35.97 %	50.06 %
	150-180	42.04 %	42.04 %	58.56 %

>180	Charged-off

1. Percentage of loans outstanding
2. This category relates only to loans which were renegotiated and were less than 90 days past due at the time of renegotiation, migrating from such category as they reached 90 days past due since renegotiation.

Allowances for residential mortgage loans

As of June 2011, our provision methodology for residential mortgage loans takes into consideration different factors in order to group customers with less the 90 days past due into seven different risk profiles. Factors considered, in the first place, are whether the customer is a new customer or with prior history with the Bank or if it is a Banefe customer. For each of these three main categories additional factors are considered in order to develop risk profiles within each risk category, including payment behavior, non-performance less than 90 days, collateral

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levels, renegotiation history with the Bank, and historical amounts of net charge-offs, among others. The explanation for the initial segregation into three categories, existing, new or Banefe customer, is as follows: Banefe customers have a different risk profile as they relate to low income individuals; an existing customer (Banefe or Bank) is a customer for which there is a broader level of information and history of payment behavior with the Bank, while for a new customer the Bank has no history of payment behavior and only information from the banking system and credit bureaus is available. The risk categories are such that when a customer's payment behavior deteriorates, the outcome is that the customer will move to a different risk category with a higher loss rate, therefore capturing the current status of the customer.

Mortgage loans with more than 90 days past due balances are assigned a loss rate of 11.01%. When the customer becomes current in its payments, such customer will migrate to one of the profiles in the table above. We determined that 90 days is the appropriate loss emergence period for these loans based on historical analysis of customer's behavior, which has shown that after a customer has reached the 90-day threshold he/she will likely default on his/her obligation, and that, over succeeding periods, the loss incurred does not increase given the high fair value of collateral percentage to loan amount required under our credit policies for this type of loan. Also, we note that the Chilean economy´s stability over the last few years has not resulted in other than insignificant fluctuations in collateral fair values on residential mortgage loan properties.

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The following table sets forth the required loan loss allowance for residential mortgage loans since June 2011 and in 2012.

		Allowance Level(1) (Loss rate)		
Loan type	Risk Profile	New client*	Old	Banefe
Residential mortgage	Profile 1	5.47 %	4.72 %	5.68 %
	Profile 2	1.66 %	1.41 %	2.51 %
	Profile 3	0.45 %	0.59 %	0.71 %
	Profile 4	0.15 %	0.26 %	0.24 %
	Profile 5	0.10 %	0.12 %	0.08 %
	Profile 6	0.03 %	0.03 %	0.06 %
	Profile 7		0.02 %	

* A client is considered to be "new" if it has less than 6 months of payment history with the Bank. Therefore, its behavior is very similar and it is rare for a client to receive a loan and not pay from the onset of the relationship; usually, the client starts to default when he or she is already classified as an "existing client."

In 2013, the model for the renegotiated mortgage loan portfolio was updated. This was driven by the fact that after the 2010 earthquake the Bank offered temporary relief to some mortgage clients. A portion of this portfolio continued to perform out of range with our model. For this reason, the Risk Committee decided that the model needed to be updated in order to capture this event. The following table sets forth the required loan loss allowance for residential mortgage loans in 2013.

		Allowance Level(1) (Loss rate)		
Loan type	Risk Profile	New client*	Old	Banefe
Residential mortgage	Profile 1	5.96 %	5.14 %	6.19 %
	Profile 2	1.81 %	1.54 %	2.74 %
	Profile 3	0.49 %	0.64 %	0.77 %
	Profile 4	0.17 %	0.28 %	0.26 %
	Profile 5	0.11 %	0.13 %	0.08 %
	Profile 6	0.03 %	0.03 %	0.07 %
	Profile 7		0.02 %	

Small- and mid-sized commercial loans

To determine the estimated incurred loss for individuals (natural persons), small- and mid-sized commercial loans collectively evaluated for impairment, we mainly analyze the payment behavior of clients, particularly the payment behavior of clients with payments that are 90 days or more past-due, clients with other weaknesses, such as early non-performance (i.e., payments that are past-due, though by less than 90 days), clients with modified loans and clients with renegotiated loans, as well as success in recovery against these clients. We also consider whether the loan has underlying mortage collateral.

The risk categories are such that when a customer has a past-due balance or has missed some payments, the outcome is that the customer will move to a different risk category with a higher loss rate, therefore capturing current trends of the customer and, in the aggregate, current trends in the market. In order to calculate the estimated incurred loan loss for all commercial loans collectively evaluated for impairment, the Bank sub-divided the portfolio in the following way:

Allowance Level

Small- and mid-sized commercial loans collectively evaluated for impairment

Loan type

Non-renegotiated, w/o mortgage collateral, new client, %		Non-renegotiated, w/o mortgage collateral, existing client, %		Non-renegotiated, with mortgage collateral, %	
Profile 1	37.20%	Profile 1	37.20%	Profile 1	10.60%
Profile 2	31.93%	Profile 2	18.11%	Profile 2	4.42%
Profile 3	13.25%	Profile 3	4.45%	Profile 3	0.68%

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Allowance Level

Small- and mid-sized commercial loans collectively evaluated for impairment

Loan type					
Non-renegotiated, w/o mortgage collateral, new client, %		Non-renegotiated, w/o mortgage collateral, existing client, %		Non-renegotiated, with mortgage collateral, %	
Profile 4	5.09%	Profile 4	2.06%	Profile 4	0.17%
Profile 5	1.50%	Profile 5	0.52%	Profile 5	0.11%
Profile 6	0.55%			Profile 6	0.02%
Profile 7	0.05%				
Renegotiated, %					
Profile 1	29.20%				
Profile 2	19.42%				
Profile 3	10.28%				
Profile 4	3.75%				
Profile 5	1.13%				
Profile 6	0.13%				

During the second half of 2014, and as a response to the ongoing improvement of the allowances models for loans, the Bank updated its allowances model for commercial loans. The model was calibrated with the aim of improving the prediction of client behavior and maintaining statistical and management standards. Part of these improvements consisted of implementing more robust statistical processes and more historical information, resulting in stronger parameters for the Probability of Non-Performance (PNP) and the Severity (SEV) involved in the provision calculation. These changes resulted in an increase in commercial provisions of Ch$45,141 million in 2014. Considering this impact and the reversal of Ch$26,563 million in the consumer loan provisioning model, the net increase of these improvements (Ch$18,578 million) was recognized under the “Provisions for loan losses” in the Consolidated Statement of Income for the year in accordance with IAS 8. The following table sets forth the allowances required by our models for commercial loans assessed on a group basis since December 2014:

		Allowance Level(1) (Loss rate) Non-renegotiated client			
Loan type	Risk Profile	Commercial loan to individuals w/o mortgage collateral	Commercial loan to individuals with mortgage collateral	Small Enterprise	Mid-sized Enterprise
Performing commercial loan	Profile 1	30.60 %	6.66 %	13.24 %	11.31 %
	Profile 2	26.81 %	2.73 %	5.34 %	6.24 %
	Profile 3	20.37 %	0.95 %	2.87 %	3.23 %
	Profile 4	10.80 %	0.45 %	1.67 %	2.43 %
	Profile 5	5.69 %	0.23 %	0.90 %	1.28 %
	Profile 6	4.48 %	0.11 %	0.44 %	0.66 %
	Profile 7	1.96 %	0.03 %	0.19 %	0.32 %
	Profile 8	1.15 %	6.66 %		0.11 %

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Loan type	Risk Profile	Allowance Level(1) (Loss rate) Renegotiated client
Renegotiated client that was less than 90 days past due at the time of renegotiation	Profile 1	20.77 %
	Profile 2	17.99 %
	Profile 3	14.51 %
	Profile 4	11.30 %
	Profile 5	7.95 %
	Profile 6	6.40 %
	Profile 7	4.66 %

		Allowance level (loss rate) (1)			
Loan type	Risk Profile (Days past due)	Commercial loan to individuals w/o mortgage collateral	Commercial loan to individuals with mortgage collateral	Small Enterprise	Mid-sized Enterprise
Renegotiated commercial loans which were more than 90 days past due at the time of renegotiation (2)	Profile 1 (90-179 days)	52.61 %	15.58 %	27.89 %	21.90 %
	Profile 2 (180-359 days)	52.61 %	23.46 %	42.33 %	37.15 %
	Profile 3 (360-719 days)	58.85 %	33.13 %	51.59 %	48.68 %
	Profile 4 (>720 days)	60.92 %	41.30 %	54.77 %	49.20 %

		Allowance level (loss rate) (1)				
Loan type	Days past-due	Commercial loan to individuals w/o mortgage collateral	Commercial loan to individuals with mortgage collateral	Small Enterprise	Mid-sized Enterprise	Renegotiated
Non-performing commercial loan	90-179	52.61 %	15.58 %	27.89 %	21.90 %	24.92 %
	180-359	52.61 %	23.46 %	42.33 %	37.15 %	40.47 %
	360-719	58.85 %	33.13 %	51.59 %	48.68 %	51.52 %
	>720	60.92 %	41.30 %	54.77 %	49.20 %	57.18 %

(1) Percentage of loans outstanding

(2) This category relates only to loans which were renegotiated and were less than 90 days past due at the time of renegotiation, migrating from such category as they reached 90 days past due since renegotiation.

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Analysis of Santander-Chile's Loan Classification

The following tables provide statistical data regarding the classification of our loans analyzed on an individual basis as of December 31, 2014, 2013 and 2012.

	As of December 31, 2014				2-13				2-12			
Category	Individual Ch$mn	Percentage %	Allowance Ch$mn	Percentage %	Individual Ch$mn	Percentage %	Allowance Ch$mn	Percentage %	Individual Ch$mn	Percentage %	Allowance Ch$mn	Percentage %
Individu-alized business												
A1	1,911,035	8.35	998	0.15	2,395,371	11.4	1,589	0.3	2,114,853	11.2	1,306	0.2
A2	5,564,372	24.30	16,334	2.39	4,846,240	23.0	20,416	3.3	4,119,414	21.7	14,853	2.7
A3	1,334,042	5.83	19,630	2.87	1,281,756	6.1	27,982	4.6	1,037,593	5.5	26,279	4.8
B	398,611	1.74	29,189	4.27	374,051	1.8	30,536	5.0	287,897	1.5	23,095	4.2
C1	79,148	0.35	1,583	0.23	56,040	0.3	1,121	0.2	45,104	0.2	902	0.2
C2	66,267	0.29	6,627	0.97	46,996	0.2	4,700	0.8	30,796	0.2	3,080	0.6
C3	16,742	0.07	4,185	0.61	20,780	0.1	5,195	0.8	34,685	0.2	8,672	1.6
C4	33,074	0.14	13,229	1.93	43,109	0.2	17,243	2.8	28,246	0.1	11,298	2.1
D1	59,585	0.26	38,730	5.66	61,246	0.3	39,811	6.5	36,545	0.2	23,754	4.3
D2	94,832	0.41	85,348	12.47	64,755	0.3	58,279	9.5	46,246	0.2	41,622	7.6
Total	9,557,708	41.74	215,853	31.55	9,190,344	43.7	206,872	33.8	7,781,379	41.0	154,861	28.3

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

Non-performing loans include the aggregate principal and accrued but unpaid interest of any loan with one installment that is at least 90 days past-due, and do not accrue interest.

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

Charge-offs

As a general rule, charge-offs should be done when all collection efforts have been exhausted. These charge-offs consist of derecognition from the Consolidated Statements of Financial Position of the corresponding loans operations in its entirety, and, therefore, include portions not past-due of a loan in the case of installments loans or leasing operations (no partial charge-offs exists). Subsequent payments obtained from charged-off loans will be recognized in the Consolidated Statement of Income as a recovery of loans previously charged-off. Loan and accounts receivable charge-offs are recorded for overdue, past due, and current installments based on the time periods expired since reaching overdue status, as described below:

Type of loan	Term
Consumer loans with or without collateral	6 months

Other transactions without collateral	24 months
Commercial loans with collateral	36 months
Mortgage loans	48 months
Consumer leasing	6 months
Other non-mortgage leasing transactions	12 months
Mortgage leasing (household and business)	36 months

Any payment agreement of an already charged-off loan will not give rise to income-as long as the operation is still in an impaired status-and the effective payments received are accounted for as a recovery from loans previously charged-off. In general, legal collection proceedings are commenced with respect to consumer loans once they are past-due for at least 90 days and, with respect to mortgage loans, once they are past-due for at least 120 days. Legal collection proceedings are always commenced within one year of such loans becoming past-due, unless we determine that the size of the past-due amount does not warrant such proceedings. In addition, the majority of our commercial loans are short-term, with single payments at maturity. Past-due loans are required to be covered by individual loan loss reserves equivalent to 100.0% of any unsecured portion thereof.

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The following table sets forth all of our non-performing loans and impaired loans as of December 31, 2014, 2013, 2012, 2011 and 2010.

	2014	2013	2012	2011	2010
	(in millions of Ch$, except percentages)				
Non-performing loans (1)	644,327	613,301	597,767	511,357	416,739
Impaired loans (2)	1,617,251	1,477,701	1,338,137	1,323,355	1,480,476
Allowance for loan losses (3)	684,317	614,933	550,048	488,468	425,447
Total loans (4)	22,892,649	21,060,761	18,966,652	17,434,782	15,727,282
Allowance for loan losses / loans	2.99 %	2.92 %	2.90 %	2.80 %	2.71 %
Non-performing loans as a percentage of total loans	2.81 %	2.91 %	3.15 %	2.93 %	2.65 %
Loan loss allowance as a percentage of non-performing loans	106.21 %	100.27 %	92.02 %	95.52 %	102.09 %

(1) Non-performing loans include the aggregate principal and accrued but unpaid interest of any loan with one installment that is at least 90 days past-due, and do not accrue interest.

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

(3) Includes allowance for interbank loans.

(4) Includes interbank loans.

We suspend the accrual of interest and readjustments on all past-due loans. Interest revenue and expense are recorded on an accrual basis using the effective interest method. However, when a loan is past-due by 90 days or more, when an obligation originated from a refinancing or renegotiation or when the Bank believes that the debtor poses a high risk of default, the interest pertaining to these is not recorded directly in the Consolidated Statement of Income unless it has been actually received. See "Note 1—Summary of Significant Accounting Principles—(h) Valuation of financial assets and liabilities and recognition of fair value changes" and "Note 25—Interest and Adjustments" of the Audited Consolidated Financial Statements. These interest and adjustments balances are generally referred to as "suspended" and are recorded in suspense accounts which are not part of the Consolidated Statements of Financial Position. Instead, they are reported as part of the complementary information thereto. See "Note 25—Interest and Adjustments" of the Audited Consolidated Financial Statements. This interest is recognized as income, when collected, and as a reversal of the related impairment losses.

The Bank ceases accruing interest on the basis of contractual terms on the principal amount of any asset that is classified as an impaired asset. Thereafter, the Bank recognizes as interest income the accretion of the net present value of the written down amount of the loan due to the passage of time based on the original effective interest rate of the loan. On the other hand, any collected interest for any assets classified as impaired are accounted for on a cash basis.

At the period end, the detail of income from suspended interest is as follows:

	Year ended December 31,				
	2014	2013	2012	2011	2010
Suspended interest	Ch$ million				
Commercial loans	24,753	21,645	20,595	17,554	26,020
Mortgage loans	12,454	8,484	8,844	9,343	7,457
Consumer loans	6,336	6,753	8,742	9,246	16,780
Totals	43,543	36,882	38,181	36,143	50,257

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Analysis of Impaired and Non-Performing Loans

The following table analyzes our impaired loans. Impaired loans include: (i) all loans to a single client that are evaluated on a group basis, including performing loans, that have a loan classified as non-performing, (ii) all renegotiated consumer loans and (iii) all commercial loans at risk of default. See "Note 9—Loans and Accounts Receivables from Customers—(a) Loans and accounts receivable from customers" in the Audited Consolidated Financial Statements.

	2014		2013		2012		2011		2010	
					(Ch$ million)					
Total loans	22,892,649		21,060,761		18,966,652		17,434,782		15,727,282	
Allowance for loan losses	684,317		614,933		550,048		488,468		425,447	
Impaired loans(1)	1,617,251		1,477,701		1,338,137		1,323,355		1,480,476	
Impaired loans as a percentage of total loans	7.06	%	7.02	%	7.06	%	7.59	%	9.41	%
Amounts non-performing	644,327		613,301		597,767		511,357		416,739	
To the extent secured(2)	296,899		295,503		306,782		264,355		214,786	
To the extent unsecured	347,428		317,798		290,985		247,002		201,953	
Amounts non-performing as a percentage of total loans	2.81	%	2.91	%	3.15	%	2.93	%	2.65	%
To the extent secured(2)	1.30	%	1.40	%	1.62	%	1.52	%	1.37	%
To the extent unsecured	1.52	%	1.51	%	1.53	%	1.42	%	1.28	%
Loans loss allowances as a percentage of:										
Total loans	2.99	%	2.92	%	2.90	%	2.80	%	2.71	%
Total amounts non-performing	106.21	%	100.27	%	92.02	%	95.52	%	102.09	%
Total amounts non-performing-unsecured	196.97	%	193.50	%	189.03	%	197.76	%	210.67	%

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

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

A break-down of the loans included in the previous table which have been classified as impaired, including renegotiated loans, is as follows:

	As of December 31, 2014			
Impaired loans	Commercial	Residential mortgage	Consumer	Total
		(in millions of Ch$)		
Non-performing loans	367,791	179,417	97,119	644,327
Commercial loans at risk of default (1)	420,038	–	–	420,038
Other impaired loans consisting mainly of renegotiated loans (2)	95,335	191,186	266,365	552,886

Total	883,164	370,603	363,484	1,617,251

As of December 31, 2013				
Impaired loans	Commercial	Residential mortgage	Consumer	Total
		(in millions of Ch$)		
Non-performing loans	364,890	155,688	92,723	613,301
Commercial loans at risk of default (1)	317,534	–	–	317,534
Other impaired loans consisting mainly of renegotiated loans (2)	122,464	167,713	256,689	546,866
Total	804,888	323,401	349,412	1,477,701

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As of December 31, 2012

Impaired loans	Commercial	Residential mortgage	Consumer	Total
	(in millions of Ch$)			
Non-performing loans	320,461	159,802	117,504	597,767
Commercial loans at risk of default (1)	298,868	–	–	298,868
Other impaired loans consisting mainly of renegotiated loans (2)	96,793	69,228	275,481	441,502
Total	716,122	229,030	392,985	1,338,137

As of December 31, 2011

Impaired loans	Commercial	Residential mortgage	Consumer	Total
	(in millions of Ch$)			
Non-performing loans	251,881	152,911	106,565	511,357
Commercial loans at risk of default (1)	285,930	–	–	285,930
Other impaired loans consisting mainly of renegotiated loans (2)	164,158	46,785	315,125	526,068
Total	701,969	199,696	421,690	1,323,355

As of December 31, 2010

Impaired loans	Commercial	Residential mortgage	Consumer	Total
	(in millions of Ch$)			
Non-performing loans	213,872	121,911	80,956	416,739
Commercial loans at risk of default (1)	444,129	–	–	444,129
Other impaired loans consisting mainly of renegotiated loans (2)	230,810	20,735	368,063	618,608
Total	888,811	142,646	449,019	1,480,476

(1) Total loans to a debtor, whose allowance level is determined on an individual basis with a risk of defaulting.

(2) Renegotiated loans for loans whose loan loss allowance is analyzed on a group basis.

Renegotiated Loans

In certain instances, we renegotiate loans that have one or more principal or interest payments past-due. The type of concession we most often afford when renegotiating a loan is a reduction in interest payment or, on rare occasions, forgiveness of principal. We estimate that less than 0.5% of renegotiated loans relate to the forgiveness of principal, and the remaining 99.5% relates to reduction of interest payments. Any amount of principal forgiven is charged off directly to income as of the date the loan is renegotiated, if not already covered by an allowance for loan loss. Renegotiated loans, on which payments are not past-due, are not ordinarily classified as non-performing, but do not accrue interest, and they are considered to be impaired for the life of the loan, both for disclosure purposes and in our determination of our allowances for loan losses, and never moved out of renegotiated status. The effects of the amount of interest to be accrued were not material to “Loans and receivables from customers, net” on our Consolidated Statement of Financial Position.

The following table shows the success rate, for the periods indicated, for renegotiated consumer and residential mortgage loans. The success rate for consumer loans is defined for each reported period as: (i) the total amount of loans renegotiated in that period minus the amount of such renegotiated loans that are classified as non-performing loans as of December 31, 2013 or 2014, as applicable, minus the amount of such renegotiated loans that have been charged off as of December 31, 2013 or 2014, as applicable, divided by (ii) the total amount of such renegotiated loans. The success rate for residential mortgage loans is defined for each reported period as: (i) the total amount of loans renegotiated in that period minus the amount of such renegotiated loans that are classified as non-performing loans as of December 31, 2013 or 2014, as applicable, divided by (ii) the total amount of such renegotiated loans. A charge-off of a residential mortgage loan is not generally included in measuring the success rate of mortgage renegotiations since the period to charge-off a mortgage loan is 48 months after an installment is past-due.

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Period of renegotiation	Success rate Consumer Loans		Success rate Residential mortgage loans	
1Q 2013	48.9	%	86.0	%
2Q 2013	57.2	%	81.2	%
3Q 2013	61.7	%	85.3	%
4Q 2013	65.0	%	80.6	%
1Q 2014	67.5	%	83.1	%
2Q 2014	73.7	%	88.3	%
3Q 2014	85.5	%	91.0	%
4Q 2014	100.0	%	100.0	%

From time to time, we modify loans that are not classified as non-performing if a client is confronting a financial difficulty, such as unemployment or another temporary situation. These loans are not classified as renegotiated for disclosure purposes, but are considered as renegotiated for our provisioning models. The following table provides information regarding loans collectively evaluated for impairment that are classified as "modified:"

Modified loans(1) (Ch$mn)	2014	2013	2012
Commercial loans collectively evaluated for impairment	169,725	169,285	114,949
Residential mortgage loans	228,856	287,730	263,454
Consumer loans	243,441	251,795	324,666
Total modified loans	642,022	708,810	703,069

(1) Modified loans include loans collectively evaluated for impairment that were not classified as non-performing in which certain concessions were made to the client. The main type of concession given by the Bank is a reduction of interest, with forgiveness of principal occurring on rare occasions.

The modified loans included in the table above represent the full balance of all modified loans regardless of the date of modification. When a loan is marked as modified, we do not remove it from this status until paid in full. Our provisioning models currently consider a modified loan to be renegotiated for the life of the loan.

Modified loans are included in the same pool of loans together with renegotiated loans for the life of the loans.

Analysis of Loan Loss Allowances

The following table provides the details of the roll-forwards in 2014, 2013, 2012, 2011 and 2010 of our allowance for loan losses, including decrease of allowances due to charge-offs, allowances established, allowances released, gross provision expense and opening and closing balance:

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Activity during 2014	Commercial loans Individual	Commercial loans Group	Mortgage loans Group	Consumer loans Group	Interbank loan	Total
	(in millions of Ch$)					
Balance as of December 31, 2013	206,377	100,170	43,306	264,585	495	614,933
Allowances established (1)	52,240	99,648	14,959	129,410	60	296,317
Allowances released (2)	(15,903)	(7,127)	(6,561)	(38,275)	(554)	(68,420)
Released allowances by charge-off (3)	(26,862)	(26,994)	(2,960)	(101,697)	—	(158,513)
Balances as of December 31, 2014	215,852	165,697	48,744	254,023	1	684,317

Activity during 2013	Commercial loans Individual	Commercial loans Group	Mortgage loans Group	Consumer loans Group	Interbank loan	Total
	(in millions of Ch$)					
Balance as of December 31, 2012	154,702	95,938	35,990	263,259	159	550,048
Allowances established (1)	92,008	36,724	21,314	155,921	455	306,422
Allowances released (2)	(22,014)	(11,151)	(9,216)	(35,482)	(119)	(77,982)
Released allowances by charge-off (3)	(18,319)	(21,341)	(4,782)	(119,113)	—	(163,555)
Balances as of December 31, 2013	206,377	100,170	43,306	264,585	495	614,933

Activity during 2012	Commercial loans Individual MCh$	Commercial loans Group MCh$	Mortgage loans Group MCh$	Consumer loans Group MCh$	Interbank loan	Total
Balances as of December 31, 2011	112,687	97,115	35,633	243,022	11	488,468
Allowances established (1)	83,742	31,772	10,741	239,607	548	366,410
Allowances released (2)	(20,716)	(16,624)	(7,449)	(38,471)	(400)	(83,660)
Charge-off released allowances (3)	(21,011)	(16,325)	(2,935)	(180,899)	—	(221,170)
Balances as of December 31, 2012	154,702	95,938	35,990	263,259	159	550,048

Activity during 2011	Commercial loans Individual MCh$	Commercial loans Group MCh$	Mortgage loans Group MCh$	Consumer loans Group MCh$	Interbank loan	Total
Balances as of December 31, 2010	96,560	85,942	17,332	225,559	54	425,447
Allowances established (1)	72,927	72,601	27,406	184,488	464	357,886
Allowances released (2)	(41,741)	(26,582)	(7,645)	(25,185)	(507)	(101,660)
Charge-off released allowances (3)	(15,059)	(34,846)	(1,460)	(141,840)	—	(193,205)
Balances as of December 31, 2011	112,687	97,115	35,633	243,022	11	488,468

Activity during 2010	Commercial loans Individual MCh$	Commercial loans Group MCh$	Mortgage loans Group MCh$	Consumer loans Group MCh$	Interbank loan	Total
Balances as of December 31, 2009	78,297	88,142	16,534	166,512	42	349,527
Allowances established (1)	37,561	44,627	7,305	131,973	131	221,597
Allowances released (2)	(10,828)	(8,683)	(952)	(7,135)	(119)	(27,717)
Charge-off released allowances (3)	(8,470)	(38,144)	(5,555)	(65,791)	—	(117,960)

Balances as of December 31, 2010	96,560	85,942	17,332	225,559	54	425,447

(1) Represents gross allowances made in respect of increased risk of loss during the period and loan growth.

(2) Represents the gross amount of loan loss allowances released during the year as a consequence of reduction in the level of risk existing in the loan portfolio, including as a result of improvement in the credit risk classification of borrowers and loans paid.

(3) Represents the gross amount of loan loss allowances removed due to charge-off.

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The following table shows recoveries by type of loan:

	Year ended December 31,				
	2014	2013	2012	2011	2010
	(in millions of Ch$)				
Recovery of loans previously charged-off					
Consumer loans	36,908	36,004	22,015	12,474	22,096
Residential mortgage loans	5,122	4,735	2,305	16,135	1,389
Commercial loans	16,947	14,545	8,695	7,216	6,994
Total recoveries	58,977	55,284	33,015	35,825	30,479

Allocation of the Loan Loss Allowances

The following tables set forth, as of December 31 of each of the five years listed below, the proportions of our required minimum loan loss allowances that were attributable to our commercial, consumer and residential mortgage loans at each such date.

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	As of December 31, 2014			
	Total Allowance	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Allowance amount as a percentage of total allocated allowances
	Ch$ million			
Commercial loans				
Commercial loans	269,185	3.2 %	1.2 %	39.3 %
Foreign trade loans	56,800	3.2 %	0.2 %	8.3 %
Checking accounts debtors	10,009	3.8 %	–	1.4 %
Factoring transactions	4,868	1.5 %	–	0.7 %
Leasing transactions	23,734	1.6 %	0.1 %	3.5 %
Other loans and accounts receivable	16,953	12.5 %	0.1 %	2.5 %
Subtotals	381,549	3.1 %	1.6 %	55.7 %
Residential mortgage loans				
Loans with mortgage finance bonds	353	0.6 %	–	0.1 %
Mortgage mutual loans	552	0.5 %	–	0.1 %
Other mortgage mutual loans	47,839	0.7 %	0.2 %	7.0 %
Subtotals	48,744	0.7 %	0.2 %	7.2 %
Consumer loans				
Installment consumer loans	201,931	8.7 %	0.9 %	29.5 %
	44,050	3.2 %	0.2 %	6.4 %

	As of December 31, 2013			
	Total Allowance	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Allowance amount as a percentage of total allocated allowances
	Ch$ million			
Commercial loans				
Commercial loans	208,619	2.7 %	1.0 %	33.9 %
Foreign trade loans	53,005	2.9 %	0.3 %	8.6 %
Checking accounts debtors	8,376	3.0 %	–	1.3 %
Factoring transactions	5,054	1.6 %	–	0.8 %
Leasing transactions	19,177	1.4 %	0.1 %	3.1 %
Other loans and accounts receivable	12,316	10.4 %	0.1 %	2.0 %
Subtotals	306,547	2.6 %	1.5 %	49.7 %
Residential mortgage loans				
Loans with mortgage finance bonds	470	0.7 %	–	0.1 %
Mortgage mutual loans	380	0.5 %	–	0.1 %
Other mortgage mutual loans	42,456	0.8 %	0.2 %	6.9 %
Subtotals	43,306	0.8 %	0.2 %	7.1 %
Consumer loans				
Installment consumer loans	221,723	10.2 %	1.1 %	36.1 %
	37,300	3.0 %	0.2 %	6.1 %

	As of December 31, 2012			
	Total Allowance	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Allowance amount as a percentage of total allocated allowances
	Ch$ million			
Commercial loans				
Commercial loans	199,841	2.7 %	1.1 %	36.3 %
Foreign trade loans	18,535	1.5 %	0.1 %	3.4 %
Checking accounts debtors	3,033	1.5 %	–	0.6 %
Factoring transactions	3,683	1.1 %	–	0.7 %
Leasing transactions	23,426	1.8 %	0.1 %	4.3 %
Other loans and accounts receivable	2,122	2.2 %	–	0.4 %
Subtotals	250,640	2.4 %	1.3 %	45.7 %
Residential mortgage loans				
Loans with mortgage finance bonds	493	0.5 %	–	0.1 %
Mortgage mutual loans	936	2.0 %	–	0.2 %
Other mortgage mutual loans	34,561	0.7 %	0.2 %	6.3 %
Subtotals	35,990	0.7 %	0.2 %	6.6 %
Consumer loans				
Installment consumer loans	218,474	11.8 %	1.2 %	39.7 %
	38,719	3.7 %	0.2 %	7.0 %

Credit card balances												
Consumer leasing contracts	80	1.5 %	–	–	68	2.0 %	–	–	160	4.3 %	–	–
Other consumer loans	7,962	3.5 %	–	1.2 %	5,494	2.7 %	–	0.9 %	5,906	3.0 %	–	1.0 %
Subtotals	254,023	6.5 %	1.1%	37.1 %	264,585	7.3 %	1.3%	43.1 %	263,259	8.5 %	1.4%	47.7 %
Totals loans to clients	648,316	3.11%	2.9%	100.0%	614,438	2.9 %	3.0%	99.9 %	549,889	2.9 %	2.9%	100.0%
Interbank loans	1	–	–	–	495	0.4 %	–	0.1 %	159	0.2 %	–	–
Totals	648,317	3.0 %	2.9%	100.0%	614,933	2.9 %	3.0%	100.0%	550,048	2.9 %	2.9%	100.0%

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	As of December 31, 2011				As of December 31, 2010			
	Total Allowance	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Allowance amount as a percentage of total allocated allowances	Total Allowance	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Allowance amount as a percentage of total allocated allowances
	Ch$ million				Ch$ million			
Commercial loans								
Commercial loans	161,289	2.4 %	0.9 %	33.0 %	132,775	2.2 %	0.8 %	31.2 %
Foreign trade loans	19,764	1.9 %	0.1 %	4.1 %	18,888	2.4 %	0.1 %	4.4 %
Draft loans	3,384	2.6 %	0.0 %	0.7 %	4,350	6.4 %	–	1.0 %
Factoring transactions	1,861	1.0 %	0.0 %	0.4 %	2,083	1.0 %	–	0.5 %
Leasing transactions	19,266	1.6 %	0.1 %	3.9 %	14,742	1.3 %	0.1 %	3.5 %
Other loans and accounts receivable	4,238	5.0 %	0.0 %	0.9 %	9,664	53.8 %	0.1 %	2.3 %
Subtotals	209,802	2.3 %	1.2 %	4.3 %	182,502	2.2 %	1.2 %	42.9 %
Residential mortgage loans								
Loans with letters of credit	707	0.6 %	–	0.1 %	446	0.3 %	–	0.1 %
Mortgage mutual loans	1,241	1.7 %	–	0.2 %	11,319	6.1 %	0.1 %	2.7 %
Other mortgage mutual loans	33,685	0.7 %	0.2 %	6.9 %	5,567	0.1 %	–	1.3 %
Subtotals	35,633	0.7 %	0.2 %	7.2 %	17,332	0.4 %	0.1 %	4.1 %
Consumer loans								
Installment consumer loans	193,874	10.7 %	1.1 %	39.7 %	176,219	11.0 %	1.1 %	41.4 %
Credit card balances	43,922	4.8 %	0.3 %	9.0 %	36,156	4.6 %	0.2 %	8.5 %
Consumer leasing contracts	109	2.9 %	–	–	121	3.2 %	–	–
Other consumer loans	5,117	2.4 %	–	1.1 %	13,063	4.4 %	0.1 %	3.1 %
Subtotals	243,022	8.3 %	1.4 %	49.8 %	225,559	8.4 %	1.4 %	53.0 %
Totals loans to clients	488,457	2.8 %	2.8 %	100.0 %	425,393	2.7 %	2.7 %	100.0 %
Interbank	11							