BANCO SANTANDER CHILE
Form 20-F
May 02, 2016

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, 2015

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, 20th floor
Santiago, Chile
Telephone: 011-562-320-2000
(Address of principal executive offices)

Robert Moreno Heimlich

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

Bandera 140, 20th Floor, Santiago, Chile

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

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

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

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

None
(Title of Class)

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

None
(Title of Class)

The number of outstanding shares of each class of common stock of Banco Santander-Chile at December 31, 2015, was:

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

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

Yes No

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

Yes No

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

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

Yes No

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

Yes No

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

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

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

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

Item 17 Item 18

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

Yes No

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

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

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

- our financial condition
- our results of operation

The sections of this Annual Report which contain forward-looking statements include, without limitation, “Item 3. Key Information—Risk Factors,” “Item 4. Information on the Company—B. Business Overview—Competition,” “Item 5. Operatin 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;
- our inability to hedge certain risks economically;
- the adequacy of loss allowances;
- technological changes;
- changes in consumer spending and saving habits;
- changes in demographics, consumer spending, investment or saving habits;
- increased costs;

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

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

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CERTAIN TERMS AND CONVENTIONS

As used in this annual report (the "Annual Report"), "Santander-Chile", "the Bank", "we," "our" and "us" or similar terms 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.

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—Accounting Standards Applied in 2015."

This Annual Report contains our consolidated financial statements as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013 (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 accounting firm. See page F-2 of the Audited Consolidated Financial Statements for the 2015 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."

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—C. Selected Statistical Information—Classification of Loan Portfolio Based on the Borrower's Payment Performance."

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

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

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

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

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

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Effect of Rounding

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

Economic and Market Data

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

Exchange Rates

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

Unless otherwise indicated, all U.S. dollar amounts at any year end, for any period have been translated from Chilean pesos based on the interbank market rate published by Reuters at 1:30 pm on the last business day of the period. On December 31, 2014 and 2015 the exchange rate in the Informal Exchange Market as published by Reuters at 1:30 pm on these days was Ch$608.33 and Ch$707.80 respectively, or 0.16% and 0.06% more, respectively, than the observed exchange rate published by the Central Bank for such date of Ch$607,38 and Ch$707.34 respectively, per U.S.$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for the Chilean peso. For more information on the observed exchange rate, see "Item 3. Key Information—A. Selected Financial Data—Exchange Rates" of the Annual Report.

As of December 31, 2014 and 2015, one UF was equivalent to Ch$24,627.10 and Ch$25,629.09, respectively. The U.S. dollar equivalent of one UF was U.S.$36.21 as of December 31, 2015, using the observed exchange rate reported by the Central Bank as of December 30, 2015 of Ch$36.23 per U.S.$1.00.

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, 2015, 2014, 2013, 2012, and 2011 has been derived from our Audited Consolidated Financial Statements prepared in accordance with IFRS. In the F-pages of this Annual Report on Form 20-F, our audited financial statements for the years 2015, 2014 and 2013 are presented. The audited financial statements for 2012 and 2011 are not included in this document, but they can be found in our previous Annual Reports on Form 20-F. These consolidated financial statements differ in some respects from our locally filed financial statements at and for the years ended December 31, 2015, 2014, 2013, 2012, and 2011 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,					
	2015	2015	2014	2013	2012	2011
	In U.S.$ thousands(1)	In Ch$ millions (2)				
CONSOLIDATED STATEMENT OF INCOME DATA (IFRS)						
Net interest income	1,773,391	1,255,206	1,317,104	1,076,762	1,042,734	972,300
Net fee and commission income	335,727	237,627	227,283	229,836	270,572	277,836
Financial transactions, net	205,565	145,499	112,565	124,437	82,299	94,197
Other operating income	9,097	6,439	6,545	88,155	13,105	18,749
Net operating profit before provision for loan losses	2,323,780	1,644,771	1,663,497	1,519,190	1,408,710	1,363,082
Provision for loan losses	(564,110)	(399,277)	(354,903)	(371,462)	(403,692)	(316,137)
Net operating profit	1,759,670	1,245,494	1,308,594	1,147,728	1,005,018	1,046,945
Total operating expenses	(1,017,177)	(719,958)	(683,819)	(610,191)	(599,379)	(564,655)
Operating income	742,493	525,536	624,775	537,537	405,639	482,290
Income from investments in associates and other companies	3,656	2,588	2,165	1,422	267	2,140
Income before tax	746,149	528,124	626,940	538,959	405,906	484,430
Income tax expense	(107,933)	(76,395)	(51,050)	(94,530)	(44,473)	(77,308)
Net income for the year	638,216	451,729	575,890	444,429	361,433	407,122
Net income for the period attributable to:						
Equity holders of the Bank	633,606	448,466	569,910	442,294	356,808	402,191
Non-controlling interests	4,610	3,263	5,980	2,135	4,625	4,931
Net income attributable to Equity holders of the Bank per share	3.36	2.38	3.02	2.35	1.89	2.13
Net income attributable to Equity holders of the Bank per ADS (3)	1,344.90	951.92	1,208.00	938.83	757.37	2,217.48
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	471.1	181.4
CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA (IFRS)						
Cash and deposits in banks	2,917,217	2,064,806	1,608,888	1,571,810	1,250,414	2,793,701
Cash items in process of collection	1,023,624	724,521	531,373	604,077	520,267	276,454
Trading investments	458,139	324,271	774,815	287,567	338,287	409,763

Investments under resale agreements	3,480	2,463	-	17,469	6,993	12,928
Financial derivative contracts	4,529,424	3,205,926	2,727,563	1,494,018	1,293,212	1,601,896
Interbank loans, net	13,720	9,711	11,942	124,954	90,414	87,677
Loans and accounts receivable from customers, net	34,654,910	24,528,745	22,196,390	20,320,874	18,326,190	16,858,637
Available for sale investments	2,888,402	2,044,411	1,651,598	1,700,993	1,826,158	1,661,311
Investments in associates and other companies	28,693	20,309	17,914	9,681	7,614	8,728
Intangible assets	72,248	51,137	40,983	66,703	87,347	80,739
Property, plant, and equipment	340,010	240,659	211,561	180,215	162,214	153,059
Current taxes	-	-	2,241	1,643	10,227	37,253
Deferred taxes	452,850	320,527	272,118	227,285	181,875	136,521
Other assets	1,554,357	1,100,174	927,961	514,938	657,890	550,326
TOTAL ASSETS	48,937,074	34,637,660	30,975,347	27,122,227	24,759,102	24,668,993
Deposits and other demand liabilities	10,392,937	7,356,121	6,480,497	5,620,763	4,970,019	4,413,815
Cash items in process of being cleared	652,949	462,157	281,259	276,379	284,953	89,486
Obligations under repurchase agreements	203,008	143,689	392,126	208,972	304,117	544,381
Time deposits and other time liabilities	17,212,160	12,182,767	10,413,940	9,675,272	9,112,213	8,921,114
Financial derivative contracts	4,044,371	2,862,606	2,561,384	1,291,785	1,146,161	1,292,402
Interbank borrowing s	1,847,378	1,307,574	1,231,601	1,682,377	1,438,003	1,920,092
Issued debt instruments	8,416,353	5,957,095	5,785,112	5,198,658	4,571,289	4,623,239
Other financial liabilities	311,567	220,527	205,125	189,781	192,611	176,599
Current taxes	25,143	17,796	1,077	50,242	525	1,498
Deferred taxes	5,519	3,906	7,631	26,753	9,544	5,315
Provisions	388,525	274,998	285,970	217,310	191,892	187,557
Other liabilities	1,477,634	1,045,869	654,557	311,479	341,274	398,977
TOTAL LIABILITIES	44,977,544	31,835,105	28,300,279	24,749,771	22,562,601	22,574,475
Capital	1,259,258	891,303	891,303	891,303	891,303	891,303
Reserves	2,158,651	1,527,893	1,307,761	1,130,991	975,460	802,528
Valuation adjustments	1,820	1,288	25,600	(5,964)	(3,781)	2,832
Retained earnings	497,160	351,890	417,321	327,622	299,254	364,054
Attributable to Equity holders of the Bank	3,916,889	2,772,374	2,641,985	2,343,952	2,162,236	2,060,717
Non-controlling interest	42,641	30,181	33,083	28,504	34,265	33,801
TOTAL EQUITY	3,959,530	2,802,555	2,675,068	2,372,456	2,196,501	2,094,518
TOTAL LIABILITIES AND EQUITY	48,937,074	34,637,660	30,975,347	27,122,227	24,759,102	24,668,933

	As of and for the years ended December 31,				
	2015	2014	2013	2012	2011
CONSOLIDATED RATIOS (IFRS)					
Profitability and performance:					
Net interest margin (5)	4.4 %	4.9 %	4.6 %	4.8 %	4.8 %
Return on average total assets (6)	1.3 %	1.8 %	1.6 %	1.4 %	1.7 %
Return on average equity (7)	16.0 %	21.4 %	18.9 %	16.5 %	20.4 %
Capital:					
Average equity as a percentage of average total assets (8)	8.2 %	8.2 %	8.7 %	8.7 %	8.3 %
Total liabilities as a multiple of equity (9)	11.4	10.6	10.4	10.3	10.8
Credit Quality:					
Non-performing loans as a percentage of total loans (10)	2.5 %	2.8 %	2.9 %	3.2 %	2.9 %
Allowance for loan losses as percentage of total loans	3.0 %	2.9 %	2.9 %	2.9 %	2.8 %
Operating Ratios:					
Operating expenses /operating revenue (11)	43.8 %	41.1 %	40.2 %	42.5 %	41.4 %
Operating expenses /average total assets	2.1 %	2.1 %	2.3 %	2.4 %	2.3 %
OTHER DATA					
CPI Inflation Rate (12)	4.4 %	4.7 %	3.0 %	1.5 %	4.4 %
Revaluation (devaluation) rate (Ch$/U.S.$) at year end (12)	(16.5 %)	(16.0 %)	(9.4 %)	8.2 %	(11.3 %)
Number of employees at period end	11,723	11,478	11,516	11,713	11,566
Number of branches and offices at period end	471	474	493	504	499

(1) Amounts stated in U.S. dollars at and for the year ended December 31, 2015 have been translated from Chilean pesos at the interbank market exchange rate of Ch$707.80 = U.S.$1.00 as of December 31, 2015 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— C. Selected Statistical Information”).

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

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

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

(9) Total liabilities divided by equity.

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

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

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

Exchange Rates

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

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

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, 2014 and 2015 the exchange rate in the Informal Exchange Market as published by Reuters at 1:30 pm on these days was Ch$608.33 and Ch$707.80 respectively, or 0.16% and 0.06% more, respectively, than the Central Bank's published observed exchange rate for such date of Ch$607.38 and Ch$707.34, respectively, per U.S.$1.00.

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

dollars or Chilean pesos, as the case may be, at the rates indicated, at any particular rate or at all. The Federal Reserve Bank of New York does not report a noon buying rate for pesos.

	Daily Observed Exchange Rate Ch$ Per U.S.$(1)			
Year	Low(2)	High(2)	Average(3)	Period End
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
2015	597.10	715.66	654.25	707.34

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	Daily Observed Exchange Rate Ch$ Per U.S.$(1)			
Month	Low(2)	High(2)	Average(3)	Period End
October 2015	673.91	698.72	685.31	690.34
November 2015	688.94	715.66	704.00	712.63
December 2015	693.72	711.52	704.24	707.34
January 2016	710.16	730.31	721.95	711.72
February 2016	689.18	715.41	703.51	689.18
March 2016	671.97	694.82	682.07	675.10
April 2016 (until April 28, 2016)	657.90	682.45	670.26	668.49

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 2015 dividend must be proposed and approved during the first four months of 2016. 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 The Bank of New York Mellon, as depositary (the "Depositary") and will be subject to the Chilean withholding tax currently at the rate of 35% (subject to credits in certain cases as described in "Item 10. Additional Information—E. Taxation—Material Tax Consequences of Owning Shares of Our Common Stock or ADSs").

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

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

Year	Dividend Ch$ mn (1)	Dividend US$ mn (2)	Per share Ch$/share (3)	Per ADS US$/ADS (4)	% over earnings (5)	% over earnings (6)
2012	261,051	533.1	1.39	2.94	60	65
2013	232,780	493.1	1.24	1.05	60	65
2014	265,156	476.0	1.41	1.01	60	60
2015	330,198	540.4	1.75	1.15	60	58
2016 (6)	336,659	503.7	1.79	1.07	75	75

(1) Millions of nominal pesos.

(2) Millions of US$ using the observed exchange rate of the day the dividend was approved in the annual shareholders meeting.

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

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

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

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

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 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 (such as volatility in 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 most countries have begun to recover, this recovery may not be sustainable. Many major financial institutions, including some of the world’s largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies experienced, and some continue to experience, significant difficulties. Around the world, there have also been runs on deposits at several financial institutions, numerous institutions have sought additional capital or have been assisted by governments, and many lenders and institutional investors have reduced or ceased providing funding to borrowers (including to other financial institutions).

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.

Despite recent improvements in certain segments of the global economy, uncertainty remains concerning the future economic environment. There can be no assurance that economic conditions in these segments will continue to improve or that the global economic condition as a whole will improve significantly. Such economic uncertainty could have a negative impact on our business and results of operations. Investors remain cautious. A slowing or failing of the economic recovery would likely aggravate the adverse effects of these difficult economic and market conditions on us and on others in the financial services industry.

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

Credit, market and liquidity risk may have an adverse effect on our credit ratings and our cost of funds. Any downgrading in Chile's, our controlling 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—A3 by Moody's Investors Service España, S.A., ("Moody's") A- 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 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 de Chile, the principal government-owned sector bank, with department stores and with larger supermarket chains that make consumer loans and sell other financial products to a large portion of the Chilean population. The lower to middle-income segments of the Chilean population and the small- and mid-sized corporate segments have become the target markets of several banks and competition in these segments may increase. 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.

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

The 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.

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. Our success is also dependent on our ability to anticipate and leverage new and existing technologies that may have an impact on products and services in the banking industry. Technological changes may further intensify