

BANCO SANTANDER CHILE  
Form 6-K  
August 22, 2012

## **FORM 6-K**

**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

### **Report of Foreign Issuer**

**Pursuant to Rule 13a-16 or 15d-16 of  
the Securities Exchange Act of 1934**

**Commission File Number: 001-14554**

### **Banco Santander-Chile Santander-Chile Bank**

(Translation of Registrant's Name into English)

**Bandera 140  
Santiago, Chile**

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F                          Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes                                      No                                      X

Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes No X

Indicate by check mark whether by furnishing the information contained in this Form, the Registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes No X

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

---

**Table of Contents**

**Item**

1. 2Q Earnings Report
2. June 2012 Financial Statements in English

**IMPORTANT NOTICE**

Santander-Chile is a Chilean bank and maintains its financial books and records in Chilean pesos. The consolidated interim unaudited financial statements included in this report have been prepared in accordance with Chilean accounting principles issued by the Superintendency of Banks and Financial Institutions ( Chilean Bank GAAP and the SBIF, respectively). The accounting principles issued by the SBIF are substantially similar to IFRS but there are some exceptions. Therefore, the unaudited financial statements included in this 6K have some differences compared to the financial statements filed in our Annual Report on Form 20-F for the year ended December 31, 2011 (the Annual Report ). For further details and a discussion on main differences between Chilean Bank GAAP and IFRS refer to Item 5. Operating and Financial Review and Prospects. A. Accounting Standards Applied in 2011 of our Annual Report.

---

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**BANCO SANTANDER CHILE**

Date: August 22, 2012

By: /s/ Juan Pedro Santa María  
Name: Juan Pedro Santa María  
Title: General Counsel

---

BANCO SANTANDER CHILE  
SECOND QUARTER 2012  
EARNINGS REPORT



**INDEX**

<b>SECTION</b>	<b>PAGE</b>
<b><u>SECTION 1: SUMMARY OF RESULTS</u></b>	<b>2</b>
<b><u>SECTION 2: BALANCE SHEET ANALYSIS</u></b>	<b>6</b>
<b><u>SECTION 3: ANALYSIS OF QUARTERLY INCOME STATEMENT</u></b>	<b>10</b>
<b><u>SECTION 4: CREDIT RISK RATINGS</u></b>	<b>19</b>
<b><u>SECTION 5: SHARE PERFORMANCE</u></b>	<b>20</b>
<b><u>ANNEX 1: BALANCE SHEET</u></b>	<b>21</b>
<b><u>ANNEX 2: YTD INCOME STATEMENTS</u></b>	<b>22</b>
<b><u>ANNEX 3: QUARTERLY INCOME STATEMENTS</u></b>	<b>23</b>
<b><u>ANNEX 4: QUARTERLY EVOLUTION OF MAIN RATIOS AND OTHER INFORMATION</u></b>	<b>24</b>

**CONTACT INFORMATION**

Robert Moreno  
Manager, Investor Relations Department  
Banco Santander Chile  
Bandera 140 Piso 19

Santiago, Chile  
Tel: (562) 320-8284  
Fax: (562) 671-6554  
Email: [rmorenoh@santander.cl](mailto:rmorenoh@santander.cl)  
Website: [www.santander.cl](http://www.santander.cl)

---

## **SECTION 1: SUMMARY OF RESULTS**

### **2Q12: Net income reaches Ch\$105.695 million**

In 2Q12, **Net income** attributable to shareholders totaled Ch\$105,695 million (Ch\$0.56 per share and US\$1.1411/ADR). Compared to 1Q12 (from now on QoQ), net income decreased 10.7%. Compared to 2Q12 (from now on YoY), a record earnings quarter for the Bank, net income decreased 25.3%. This decline was mainly due to the lower inflation rate in the quarter that negatively affected net interest margins. Net income in the first half of 2012 totaled Ch\$224,002 million (Ch\$1.19 per share and US\$2.42/ADR).

### **Solid levels of capital: Core capital at 10.4%, BIS at 13.7%**

**ROAE** in 2Q12 reached 21.0% and 22.2% in 1H12. The Bank paid on April 25, 2012 its annual dividend equivalent to 60% of 2011 net income (Ch\$1.39/share and US\$2.9522/ADR) equivalent to a dividend yield of 3.5% on the dividend record date in Chile. Our dividend payout ratio has remained unchanged for the past three years. The prudent management of the Bank's capital ratios and high profitability has permitted the Bank to continue paying attractive dividends without issuing new shares since 2002. The **BIS ratio** reached 13.7% as of June 2012 compared to 13.4% as of June 2011. The Bank's core capital ratio reached 10.4% as of June 2012, among the highest among our main peers. Voting common shareholders' equity is the sole component of our Tier I capital.

### **Loan growth accelerating**

In 2Q12, total loans increased 3.3% QoQ (+13.2% annualized) and 5.5% YoY. In the quarter, the Bank focused its loan growth in the middle-market and corporate loan segments. These segments continue to show healthy loan demand given the solid level of investment expected this year in the Chilean economy. Simultaneously, many corporate clients have reverted to the local market for their funding needs as external funding sources for companies have become more expensive. As a result, **lending in the middle market** (companies with annual sales between Ch\$1,200 million and Ch\$10,000 million per year) increased 4.2% QoQ. **Corporate lending** (companies with sale over Ch\$10,000 million per year or that are part of a large foreign or local economic group) increased 6.6% QoQ.



## Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

---

1 Earnings per ADR was calculated using the Observed Exchange Rate Ch\$509.73 per US\$ as of June 30, 2012.

2 Dividend per ADR calculated based on the observed exchange rate of Ch\$487.15 / US\$ as of April 25, 2012, which was the dividend pay date in Chile.

**Investor Relations Department**

Bandera 140 19th Floor, Santiago, Chile, Tel: 562-320-8284, fax: 562-671-6554,  
email: rmorenoh@santander.cl

2

--	--

**Loans to individuals**, which include consumer, mortgage and commercial loans to individuals, increased 1.7% QoQ in 2Q12 and 5.6% YoY. In the quarter, the Bank focused on expanding its loan portfolio in the mid-upper income segments, while remaining more selective in the mass consumer market. Loans to high-income individuals increased 2.7% QoQ in comparison to a decrease of 1.1% QoQ in the mass consumer market. **Lending to SMEs** (defined as companies that sell less than Ch\$1,200 million per year) expanded 2.1% QoQ (8.3% YoY), reflecting the Bank's consistent focus on this profitable segment.

### Solid growth of deposits

**Total deposits** increased 8.6% QoQ and 9.3% YoY, outstripping loan growth. In the quarter, pension funds and core deposits fueled deposit growth. As a result, total **time deposits** increased 12.3% QoQ. **Core deposits** (demand deposits and time deposits from non-institutional sources) grew 1.5% QoQ and 17.6% YoY. The Bank took advantage of this influx of deposits and its relatively high structural liquidity to pre-pay more expensive foreign bank lines and bonds.

\* Demand deposits plus time deposits from non-institutional sources

### Asset quality indicators remain stable QoQ

**Net provisions for loan losses in the quarter were** up 0.4% QoQ. Total **charge-offs** increased 4.3% QoQ driven by an increase in charge-offs in retail banking. This was offset by a 52.4% QoQ rise in loan loss recoveries, as the Bank strengthened its collection efforts in retail banking. The Bank's **Non-performing loans ratio** (NPL) reached 2.88% as of June 2012 compared to 2.92% as of March 2012 and 2.60% as of June 2011. The **Coverage ratio** of total NPLs (loan loss allowances over non-performing loans) reached 97.8% as of June 30, 2012. The **Risk Index**, which measures the percentage of loans for which the Bank must set aside loan loss allowances, based on our internal models and

Superintendency of Banks guidelines, decreased to 2.82% as of June 2012 compared to 2.94% in March 2012 and 2.90% in June 2011.

**Investor Relations Department**

Bandera 140 19th Floor, Santiago, Chile, Tel: 562-320-8284, fax: 562-671-6554,  
email: [rmorenoh@santander.cl](mailto:rmorenoh@santander.cl)

---

**Deceleration of inflation temporarily lowers net interest margins**

In 2Q12, the **Net interest margin** (NIM) reached 5.0% compared to 5.3% in 1Q12 and 5.2% in 2Q11. The lower NIM was mainly due to **the lower inflation rates**, since the Bank has more assets than liabilities linked to inflation. Inflation, measured as the variation of the Unidad de Fomento (an inflation indexed currency unit), increased 0.42% in 2Q12 compared to 1.07% in 1Q12 and 1.44% in 2Q11. **Net interest income** decreased 4.2% QoQ and increased 3.0% YoY. The negative impact of a lower inflation rate was more than offset by **higher lending volumes and an improved funding mix**. The latter is a direct result of the Bank's efforts over the past two years to improve our funding costs. This

should give further stability to margins going forward.

**Focus on improving efficiency in middle-income banking**

**Operating expenses** in 2Q12 increased 9.6% QoQ and 10.1% YoY. The QoQ rise in expenses is mainly seasonal. In the quarter, the Bank continued with its projects of investing in a new Client Relationship Management system and the Transformation Initiatives aimed at enhancing productivity, especially in middle-income banking. The CRM and Transformation Project should help to reverse this situation, leading to better long-term efficiency, growth and profitability in this segment.

**Investor Relations Department**

Bandera 140 19th Floor, Santiago, Chile, Tel: 562-320-8284, fax: 562-671-6554,  
email: rmorenoh@santander.cl

4

**Banco Santander Chile: Summary of Quarterly Results**

	2Q12	Quarter 1Q12	2Q11	Change% 2Q12 / 2Q11	Change% 2Q12 / 1Q12
<b>(Ch\$ million)</b>					
Net interest income	254,940	266,072	247,414	3.0%	(4.2%)
Fee income	68,007	68,691	72,050	(5.6%)	(1.0%)
<b>Core revenues</b>	<b>322,947</b>	<b>334,763</b>	<b>319,464</b>	<b>1.1%</b>	<b>(3.5%)</b>
Financial transactions, net	25,640	19,303	29,076	(11.8%)	32.8%
Provision expense	(78,575)	(78,281)	(56,874)	38.2%	0.4%
Operating expenses	(137,742)	(125,670)	(125,161)	10.1%	9.6%
<b>Operating income, net of provisions and costs</b>	<b>132,270</b>	<b>150,115</b>	<b>166,505</b>	<b>(20.6%)</b>	<b>(11.9%)</b>
Other operating & Non-op. Income	(26,575)	(31,808)	(24,993)	6.3%	(16.5%)
<b>Net income attributable to shareholders</b>	<b>105,695</b>	<b>118,307</b>	<b>141,512</b>	<b>(25.3%)</b>	<b>(10.7%)</b>
Net income/share (Ch\$)	0.56	0.63	0.75	(25.3%)	(10.7%)
Net income/ADR (US\$) <sup>1</sup>	1.14	1.33	1.66	(31.0%)	(14.2%)
Total loans	18,374,472	17,792,081	17,422,040	5.5%	3.3%
Deposits	14,537,663	13,392,489	13,306,475	9.3%	8.6%
Shareholders' equity	2,028,611	2,065,995	1,866,467	8.7%	(1.8%)
Net interest margin	5.0%	5.3%	5.2%		
Efficiency ratio	41.0%	36.8%	36.5%		
Return on average equity <sup>2</sup>	21.0%	23.3%	30.5%		
NPL / Total loans <sup>3</sup>	2.88%	2.92%	2.60%		
Coverage NPLs	97.8%	100.7%	111.9%		
Risk index <sup>5</sup>	2.82%	2.94%	2.90%		
BIS ratio	13.7%	14.8%	13.4%		
Branches	499	499	487		
ATMs	1,966	1,939	1,946		
Employees	11,621	11,572	11,516		

1. The change in earnings per ADR may differ from the change in earnings per share due to exchange rate movements. Earnings per ADR was calculated using the Observed Exchange Rate Ch\$509.73 per US\$ as of June 30, 2012.
2. Annualized quarterly Net income attributable to shareholders / Average equity attributable to shareholders.
3. NPLs: Non-performing loans: full balance of loans with one installment 90 days or more overdue.
4. PDLs: Past due loans; all loan installments that are more than 90 days overdue.
5. Risk Index: Loan loss allowances / Total loans: measures the percentage of loans the banks must provision for given their internal models and the Superintendency of Banks guidelines.

Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

Bandera 140 19th Floor, Santiago, Chile, Tel: 562-320-8284, fax:  
562-671-6554,  
email: [rmorenoh@santander.cl](mailto:rmorenoh@santander.cl)

---

**SECTION 2: BALANCE SHEET ANALYSIS****LOANS***Loan growth accelerating*

Loans (Ch\$ million)	Quarter ended,			% Change		
	Jun-12	Mar-12	Jun-11	Jun. 12 / 11	Jun. / Mar. 12	
Total loans to individuals <sup>1</sup>	9,534,018	9,376,934	9,026,697	5.6%	1.7%	
Consumer loans	2,987,880	2,963,104	2,893,037	3.3%	0.8%	
Residential mortgage loans	5,221,914	5,162,473	4,909,630	6.4%	1.2%	
SMEs	2,658,077	2,604,565	2,455,349	8.3%	2.1%	
<b>Total retail lending</b>	<b>12,192,095</b>	<b>11,981,499</b>	<b>11,482,046</b>	<b>6.2%</b>	<b>1.8%</b>	
Institutional lending	366,862	347,818	372,939	(1.6%)	5.5%	
Middle-Market & Real estate	3,848,479	3,692,576	3,625,439	6.2%	4.2%	
Corporate	2,006,270	1,881,429	1,950,992	2.8%	6.6%	
<b>Total loans 2</b>	<b>18,374,472</b>	<b>17,792,081</b>	<b>17,422,040</b>	<b>5.5%</b>	<b>3.3%</b>	

1. Includes consumer loans, residential mortgage loans and other commercial loans to individuals.

2. Total loans gross of loan loss allowances. Total loans include other non-segmented loans and excludes interbank loans.

In 2Q12, total loans increased 3.3% QoQ (+13.2% annualized) and 5.5% YoY. Loan growth was driven by the favorable evolution of the Chilean economy and was mainly focused in the high-end of the retail market, the middle-market and the corporate business segment. Even though the external scenario has worsened, the supportive local economic environment continued to push loan demand, albeit in less risky segments.

**Loans to individuals**, which include consumer, mortgage and commercial loans to individuals, increased of 1.7% QoQ in 2Q12 and 5.6% YoY. By product, **consumer loans** increased 0.8% QoQ (3.3% YoY) and **residential mortgage loans** increased 1.2% QoQ (6.4% YoY). In the quarter, the Bank focused on expanding its loan portfolio in the mid-upper income segments, while remaining more selective in the mass consumer market. Loans to high-income individuals increased 2.7% QoQ in comparison to a decrease of 1.1% in the mass consumer market. **Lending to SMEs** (defined as companies

reflecting the Bank's consistent focus on this expanding and profitable segment.

that sell less than Ch\$1,200 million per year) expanded 2.1%  
QoQ (8.3% YoY),

In the quarter, the Bank focused its loan growth in the middle-market and corporate loan segments. These segments continue to show healthy loan demand given the high level of investment expected this year in the Chilean economy, which is expected to reach approximately 28% of GDP.

6

**Investor Relations Department**

Bandera 140 19th Floor, Santiago, Chile, Tel: 562-320-8284, fax:  
562-671-6554,  
email: [rmorenoh@santander.cl](mailto:rmorenoh@santander.cl)



Simultaneously, as external funding sources for companies have become more expensive many clients in these segments have reverted to the local market for their financing needs. A clear example of this was the largest loan approved by the Bank in its history in an amount of US\$800 million (which will be included in July 2012 figures). This is a direct result of the Bank's solid levels of liquidity and capital. Additionally, the Bank's non-lending businesses with these clients (cash management, brokerage and treasury services) continue to thrive. As a result, **lending in the middle market** (companies with annual sales between Ch\$1,200 million and Ch\$10,000 million per year) increased 4.2% QoQ. In **Corporate lending** (companies with sale over Ch\$10,000 million per year or that are part of a large foreign or local economic group) loans increased 6.6% QoQ.

## **FUNDING**

### **Strong deposit growth**

Funding (Ch\$ million)	Quarter ended,			% Change		
	Jun-12	Mar-12	Jun-11	Jun. 12 / 11	Jun. / Mar. 12	
Demand deposits	4,624,570	4,566,890	4,450,290	3.9%	1.3%	
Time deposits	9,913,093	8,825,599	8,856,185	11.9%	12.3%	
<b>Total deposits</b>	<b>14,537,663</b>	<b>13,392,489</b>	<b>13,306,475</b>	<b>9.3%</b>	<b>8.6%</b>	
Mutual funds (off-balance sheet)	2,944,482	2,995,292	3,138,177	(6.2%)	(1.7%)	
<b>Total customer funds</b>	<b>17,482,145</b>	<b>16,387,781</b>	<b>16,444,652</b>	<b>6.3%</b>	<b>6.7%</b>	
<b>Loans to deposits<sup>1</sup></b>	<b>96.5%</b>	<b>98.4%</b>	<b>96.8%</b>			

1. (Loans - marketable securities that fund mortgage portfolio) / (Time deposits + demand deposits).

**Customer funds** (deposits + mutual funds) increased 6.7% QoQ and 6.3% YoY. **Total deposits** increased 8.6% QoQ and 9.3% YoY, outstripping loan growth. In the quarter, pension funds and core deposits fueled deposit growth. As a result, total **time deposits** increased 12.3% QoQ. The Bank took advantage of this influx of deposits and its relatively high structural liquidity to pre-pay more expensive foreign bank lines and bonds. This improved the Bank's funding mix, as deposits tend to be cheaper and more stable than other sources of funding.

**Core deposits** (demand deposits and time deposits from non-institutional sources) grew 1.5% QoQ and 17.6% YoY. **Demand deposits** increased 1.3% QoQ and 3.9% YoY. **Core time deposits** increased 1.5% QoQ and 17.6% YoY. Core deposits as a percentage of total deposits reached 73.3% compared to 68.1% as of June 2011.

\* Demand deposits plus time deposits from non-institutional sources

It is important to note that the Bank follows Grupo Santander's policy of independent subsidiaries and **intergroup funding** represented 0.8% of our funding as of June 30, 2012.

7

**Investor Relations Department**

Bandera 140 19th Floor, Santiago, Chile, Tel: 562-320-8284, fax:  
562-671-6554,  
email: [rmorenoh@santander.cl](mailto:rmorenoh@santander.cl)

---

This high growth of deposits was partially offset by a decrease in **assets under management**. The weakening of equity markets in 2Q12 negatively affected the funds managed by our asset management business. Assets under management decreased 1.7% QoQ and 6.2% YoY. This also had a negative impact on fees from asset management (See Fee income).

## **SHAREHOLDERS EQUITY AND REGULATORY CAPITAL**

*Core capital ratio at 10.4%. Dividend payout ratio unchanged since 2009.*

Shareholders Equity (Ch\$ million)	Quarter ended,			Change %	
	Jun-12	Mar-12	Jun-11	Jun. 12 / 11	Jun. / Mar. 12
Capital	891,303	891,303	891,303	0.0%	0.0%
Reserves	51,539	51,539	51,539	0.0%	0.0%
Valuation adjustment	3,946	(15,210)	(7,831)	--%	--%
Retained Earnings:	1,081,823	1,138,363	931,456	16.1%	(5.0%)
Retained earnings prior periods	925,022	1,186,073	750,989	23.2%	(22.0%)
Income for the period	224,002	118,307	257,810	(13.1%)	89.3%
Provision for mandatory dividend	(67,201)	(166,017)	(77,343)	(13.1%)	(59.5%)
<b>Equity attributable to shareholders</b>	<b>2,028,611</b>	<b>2,065,995</b>	<b>1,866,467</b>	<b>8.7%</b>	<b>(1.8%)</b>
Non-controlling interest	31,272	34,554	31,171	0.3%	(9.5%)
<b>Total Equity</b>	<b>2,059,883</b>	<b>2,100,549</b>	<b>1,897,638</b>	<b>8.5%</b>	<b>(1.9%)</b>
<b>Quarterly ROAE</b>	<b>21.0%</b>	<b>23.3%</b>	<b>30.5%</b>		

**Shareholders equity** totaled Ch\$2,028,611 million (US\$4.0 billion) as of March 31, 2012. The Bank paid on April 25, 2012 its annual dividend equivalent to 60% of 2011 net income (Ch\$1.39/share and US\$2.953/ADR) equivalent to a dividend yield of 3.5% on the dividend record date in Chile. Our dividend payout ratio has remained unchanged for the past three years. The prudent management of the Bank's capital ratios and high profitability has permitted the Bank to continue paying attractive dividends without issuing new shares since 2002. **ROAE** in 2Q12 reached 21.0% and 22.2% in 1H12.

3 Dividend per ADR calculated based on the observed exchange rate of Ch\$487.15 / US\$ as of April 25, 2012, which was the dividend pay date in Chile.

**Investor Relations Department**

Bandera 140 19th Floor, Santiago, Chile, Tel: 562-320-8284, fax:  
562-671-6554,  
email: [rmorenoh@santander.cl](mailto:rmorenoh@santander.cl)

---

Capital Adequacy (Ch\$ million)	Quarter ended,			Change %	
	Jun-12	Mar-12	Jun-11	Jun. 12 / 11	Jun. / Mar. 12
Tier I (Core Capital)	2,028,611	2,065,995	1,866,467	8.7%	(1.8%)
Tier II	659,789	673,109	669,798	(1.5%)	(2.0%)
<b>Regulatory capital</b>	<b>2,688,400</b>	<b>2,739,104</b>	<b>2,536,265</b>	<b>6.0%</b>	<b>(1.9%)</b>
Risk weighted assets	19,572,225	18,509,191	18,964,803	3.2%	5.7%
<b>Tier I (Core capital) ratio</b>	<b>10.4%</b>	<b>11.2%</b>	<b>9.8%</b>		
<b>BIS ratio</b>	<b>13.7%</b>	<b>14.8%</b>	<b>13.4%</b>		

The **BIS ratio** reached 13.7% as of June 2012 compared to 14.8% as of March 2012 and 13.4% as of June 2011. The Bank's core capital ratio reached 10.4% as of June 2012. The QoQ decline was mainly due to our annual dividend payment mentioned above. The YoY increase in BIS and Core capital levels reflects the Bank's conservative stance regarding liquidity and capital. Voting common shareholders' equity is the sole component of our Tier I capital.

Additionally in the quarter, the Board of Santander Chile filed with the Superintendence of Banks and financial Institutions (SBIF), its capital management plan. Among other definitions, the Board formalized the Bank's internal limits regarding capital levels. The Board designated the Bank's Asset and Liability Committee, comprised of five Board members including three independent members, as the governing body that will determine and supervise the Bank's capital levels. The Board also established the Bank's minimum BIS ratio under current capital requirements at 12%. This is 100 basis points above the Bank's regulatory limits.

**Investor Relations Department**

Bandera 140 19th Floor, Santiago, Chile, Tel: 562-320-8284, fax:  
562-671-6554,  
email: rmorenoh@santander.cl

**SECTION 3: ANALYSIS OF QUARTERLY INCOME STATEMENT****NET INTEREST INCOME***Better asset mix and lower funding costs drives net interest income despite lower inflation*

Net Interest Income / Margin  (Ch\$ million)	Quarter			Change %	
	2Q12	1Q12	2Q11	2Q12 / 2Q11	2Q12 / 1Q12
Interest income	455,980	502,833	472,132	(3.4%)	(9.3%)
Interest expense	(201,040)	(236,761)	(224,718)	(10.5%)	(15.1%)
<b>Net interest income</b>	<b>254,940</b>	<b>266,072</b>	<b>247,414</b>	<b>3.0%</b>	<b>(4.2%)</b>
<b>Average interest-earning assets</b>	<b>20,362,279</b>	<b>20,119,312</b>	<b>19,099,828</b>	<b>6.6%</b>	<b>1.2%</b>
Average loans	18,127,164	17,537,743	17,146,712	5.7%	3.4%
Interest earning asset yield <sup>1</sup>	9.0%	10.0%	9.9%		
Cost of funds <sup>2</sup>	3.9%	4.8%	4.9%		
<b>Net interest margin (NIM)<sup>3</sup></b>	<b>5.0%</b>	<b>5.3%</b>	<b>5.2%</b>		
Avg. equity + non-interest bearing demand deposits / Avg. interest earning assets	33.2%	32.6%	33.6%		
Quarterly inflation rate <sup>4</sup>	0.42%	1.07%	1.44%		

## Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

Central Bank reference rate	5.00%	5.00%	5.25%
Avg. 10 year Central Bank yield (real)	2.49%	2.45%	2.90%

1. Interest income divided by interest earning assets.
2. Interest expense divided by interest bearing liabilities + demand deposits.
3. Net interest income divided by average interest earning assets annualized.
4. Inflation measured as the variation of the Unidad de Fomento in the quarter.

In 2Q12, **Net interest income** decreased 4.2% QoQ and increased 3.0% YoY. The **Net interest margin** (NIM) in 2Q12 reached 5.0% compared to 5.3% in 1Q12 and 5.2% in 2Q11.

Compared to 2Q11, the lower net interest margin was mainly due to **the lower inflation rates**, since the Bank has more assets than liabilities linked to inflation. Inflation, measured as the variation of the Unidad de Fomento (an inflation indexed currency unit), reached 0.42% in 2Q12 compared to 1.44% in 2Q11. For every 100 bp change in inflation, net interest income varies by approximately Ch\$30 billion. Despite this impact, net interest income still grew 3.0% YoY in 2Q12. This is a direct result of:

- i) **Higher lending volumes and loan spreads** (excluding the impacts of mismatches in inflation indexed assets and liabilities) helped to boost the Bank's NIM in the quarter. Average loans were up 5.7% and total earnings assets grew 6.6% YoY. Loan spreads began to rise in 2S11, as the Bank implemented a stricter pricing policy.

### Investor Relations Department

Bandera 140 19th Floor, Santiago, Chile, Tel: 562-320-8284, fax: 562-671-6554,

email: [rmorenoh@santander.cl](mailto:rmorenoh@santander.cl)

---

--	--

ii) **Improved funding mix** away from relatively expensive institutional depositors towards a more core client time deposit base has also helped to sustain margins in the quarter. This is a direct result of the Bank's efforts over the past two years to improve our funding mix and costs funding costs. This should give further stability to margins going forward.

\*Cost of funds: Quarterly interest expense annualized / interest bearing liabilities + demand deposits. Peer Group: Chile, BCI, BBVA, Corpbanca  
\*Core deposits: Demand deposits plus time deposits from non-institutional clients.

Compared to 1Q12, the net interest margin decreased 30 basis points. This was directly due to lower UF inflation QoQ. Funding costs benefitted from the positive evolution of the Bank's funding mix, as described above. Finally, the Bank took advantage of its excess liquidity cushion by paying liabilities that are more expensive and increasing the loan to asset ratio.

For the remainder of 2012, the evolution of margins will depend on various factors. The Bank will continue to focus on spreads. Funding costs should continue to stabilize or eventually fall in line with the outlook for short-term interest rates. On the other hand, inflation expectations, especially for 3Q12, have fallen considerably as international oil prices have dropped. The negative effects of possible regulations regarding maximum rates may have a negative impact on margins, mainly in 2013. Finally, this year Congress is expected to approve modifications to Chile's tax code and the pricing mechanism for gasoline, which may result in temporary deflation.

**Investor Relations Department**

Bandera 140 19th Floor, Santiago, Chile, Tel: 562-320-8284, fax: 562-671-6554,

email: rmorenoh@santander.cl



**PROVISION FOR LOAN LOSSES***Asset quality stable QoQ. Proactive risk measures in retail banking have been effective***Provision for loan losses**

<b>(Ch\$ million)</b>	<b>2Q12</b>	<b>Quarter 1Q12</b>	<b>2Q11</b>	<b>Change % 2Q12 / 2Q11</b>	<b>2Q12 / 1Q12</b>
Gross provisions	1,891	1,174	1,040	81.8%	61.1%
Charge-offs	(88,009)	(84,403)	(62,576)	40.6%	4.3%
<b>Gross provisions and charge-offs</b>	<b>(86,118)</b>	<b>(83,229)</b>	<b>(61,536)</b>	<b>39.9%</b>	<b>3.5%</b>
Loan loss recoveries	7,543	4,948	4,662	61.8%	52.4%
<b>Net provisions for loan losses</b>	<b>(78,575)</b>	<b>(78,281)</b>	<b>(56,874)</b>	<b>38.2%</b>	<b>0.4%</b>
Total loans <sup>1</sup>	18,374,472	17,792,081	17,422,040	5.5%	3.3%
Total reserves (RLL)	518,331	522,728	505,886	2.5%	(0.8%)
Non-performing loans <sup>2</sup> (NPLs)	529,869	519,283	452,149	17.2%	2.0%
NPLs commercial loans	277,742	263,843	227,149	22.3%	5.3%
NPLs residential mortgage loans	150,505	156,280	126,324	19.1%	(3.7%)
NPLs consumer loans	101,622	99,160	98,676	3.0%	2.5%
<b>Risk index<sup>3</sup> (RLL / Total loans)</b>	<b>2.82%</b>	<b>2.94%</b>	<b>2.90%</b>		

Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

<b>NPL / Total loans</b>	<b>2.88%</b>	<b>2.92%</b>	<b>2.60%</b>
NPL / Commercial loans	2.73%	2.73%	2.36%
NPL / Residential mortgage loans	2.88%	3.03%	2.57%
NPL / consumer loans	3.40%	3.35%	3.41%
<b>Coverage of NPLs<sup>4</sup></b>	<b>97.8%</b>	<b>100.7%</b>	<b>111.9%</b>
Coverage of commercial NPLs	84.9%	90.5%	102.0%
Coverage of residential mortgage NPLs	24.1%	23.1%	27.3%
Coverage of consumer NPLs	242.4%	249.9%	243.1%

1. Excludes interbank loans.

2. NPLs: Non-performing loans: full balance of loans with one installment 90 days or more overdue.

3. Risk Index: Loan loss allowances / Total loans; measures the percentage of loans the banks must provision for given their internal models and the Superintendency of Banks guidelines.

4. Loan loss allowances / NPLs.

**Net provision for loan losses** in the quarter were up 0.4% QoQ and increased 38.2% YoY. Total **charge-offs** increased 4.3% QoQ driven by an increase in charge-offs in retail banking. Since 3Q11, the Bank has been implementing more prudent credit risk policies in light of: (i) a possible deterioration of the macro environment, (ii) an increase in expected loss of the mass consumer market following the La Polar case and, (iii) the new regulations that temporarily reduced the effectiveness of the negative credit bureau. Following these events, the Bank has been redesigning its credit risk process in the mass consumer market, including:

**Investor Relations Department**

Bandera 140 19th Floor, Santiago, Chile, Tel: 562-320-8284, fax: 562-671-6554,

email: rmorenoh@santander.cl

12

1) **Restricting renegotiations.** In the short-term, this affects NPLs and charge-offs while lowering loan growth, but will lead to a healthier consumer loan book in the medium term. It is important to point out that QoQ, the non-performing loan ratio of the consumer loan book has been stable. As of June 2012, this ratio reached 3.4% compared to March 2012 and 3.41% in June 2011. The coverage ratio of consumer loan NPLs reached 242.4% as of June 2012.

2) **Improving the recovery process.** The Bank has overhauled its recovery units and increased the amount of recovery agents by 31.1% YoY. This has led to an 82% YoY increase in consumer loan loss recoveries in 2Q12. This pushed total recoveries up 52.4% QoQ and 61.8% YoY.

3) **Tightening of consumer risk provisioning model parameters.** Furthermore, the Bank, in 3Q12 will re-calibrate its expected loss model for consumer loans by increasing the upfront provision recognized at the moment a consumer loan is originated. We calculate the impact of this re-calibration of our consumer model to be Ch\$24.8 billion, which will be fully recognized in 3Q12. This will be partially offset by the expected decrease in charge-offs and the rise in recoveries going forward.

**Investor Relations Department**

Bandera 140 19th Floor, Santiago, Chile, Tel: 562-320-8284, fax: 562-671-6554,

email: [rmorenoh@santander.cl](mailto:rmorenoh@santander.cl)

13

The net provision expense by loan product was as follows:

Net provisions for loan losses by segment	Quarter			Change %	
	2Q12	1Q12	2Q11	2Q12 / 2Q11	2Q 12 / 1Q12
(Ch\$ million)					
Commercial loans	(16,024)	(11,746)	(3,866)	314.5%	36.4%
Residential mortgage loans	(3,855)	(3,888)	(8,904)	(56.7%)	(0.8%)
Consumer loans	(58,696)	(62,648)	(44,104)	33.1%	(6.3%)
<b>Net provisions for loan losses</b>	<b>(78,575)</b>	<b>(78,282)</b>	<b>(56,874)</b>	<b>38.2%</b>	<b>0.4%</b>

By product, the QoQ and YoY increase in net provision expense was driven by commercial loans. This was mainly due to loan growth, since the Bank set-asides provisions at the moment of loan origination and a slight increase in risk in the Bank's SME loan portfolio. Commercial loan NPLs were stable QoQ at 2.73%.

The Bank's **Non-performing loans ratio** (NPL) reached 2.88% as of June 2012 compared to 2.92% as of March 2012 and 2.60% as of June 2011. The **Coverage ratio** of total NPLs (loan loss allowances over non-performing loans) reached 97.8% as of June 30, 2012. The **Risk Index**, which measures the percentage of loans for which the Bank must set aside loan loss allowances, based on our internal models and Superintendency of Banks guidelines, decreased to 2.82% as of June 2012 compared to 2.94% in March 2012 and 2.90% in June 2011.

**Investor Relations Department**

Bandera 140 19th Floor, Santiago, Chile, Tel: 562-320-8284, fax: 562-671-6554,

email: rmorenoh@santander.cl



**NET FEE INCOME**

*Lower business activity in Banefe and negative impact of market downturn on asset management lowers fee income*

Fee Income (Ch\$ million)	Quarter			Change %	
	2Q12	1Q12	2Q11	2Q12 / 2Q11	2Q 12 / 1Q12
Collection fees	16,449	15,802	16,215	1.4%	4.1%
Credit, debit & ATM card fees	13,639	15,017	16,078	(15.2%)	(9.2%)
Asset management	8,488	8,609	10,179	(16.6%)	(1.4%)
Insurance brokerage	8,015	8,186	9,574	(16.3%)	(2.1%)
Checking accounts	7,350	7,238	7,078	3.8%	1.5%
Contingent operations	6,909	6,935	5,699	21.2%	(0.4%)
Fees from brokerage	3,303	1,982	2,592	27.4%	66.6%
Lines of credit	2,418	2,449	2,949	(18.0%)	(1.3%)
Other Fees	1,436	2,473	1,686	(14.8%)	(41.9%)
<b>Total fees</b>	<b>68,007</b>	<b>68,691</b>	<b>72,050</b>	<b>(5.6%)</b>	<b>(1.0%)</b>

**Net fee income** decreased 1.0% QoQ and 5.6% YoY in 2Q12. Fee income growth in the quarter decelerated as our asset management business was affected by the market downturn. At the same time, the Bank continued to increase its client base and cross-selling indicators, especially in the middle-upper income segments. The Bank's total client base has increased 3.8% in the past twelve-months and the amount of cross-sold clients in all segments, excluding Banefe, has risen 12.7% YoY. This also boosted checking account fees in the quarter. This was offset by a decline in total Banefe clients and cross-sold clients, as the Bank reduced its exposure to those clients that showed unhealthy financial behavior. This also had a short-term impact on certain fees in the quarter, specifically credit card, line of credit and insurance brokerage fees. The Bank's stock brokerage unit had a positive quarter led by its role in various equity transactions.

Cross-sold: For clients in Banefe cross-sold clients are clients with at least two products, one of which is a loan product plus direct deposit. In the Bank, excluding Banefe, a cross-sold client uses at least 4 products. The definition of cross-sold clients was changed in the quarter and the historical figures were restated.

Going forward, the Bank is in the midst of its Transformation Plan and the installation of a new CRM system. This is the largest overhaul and reorganization of the Bank's middle and lower income business segments in the last decade. Once completed, this should permit a more efficient and rapid growth of the client base, cross-selling indicators and fee income.

15

**Investor Relations Department**

Bandera 140 19th Floor, Santiago, Chile, Tel: 562-320-8284, fax: 562-671-6554,

email: [rmorenoh@santander.cl](mailto:rmorenoh@santander.cl)

---



--	--

**NET RESULTS FROM FINANCIAL TRANSACTIONS***Positive results from client treasury services*

Results from Financial Transactions*	Quarter			Change %	
	2Q12	1Q12	2Q11	2Q12 / 2Q11	2Q 12 / 1Q12
<b>(Ch\$ million)</b>					
Net income from financial operations	20,416	(34,196)	2,027	907.2%	--%
Foreign exchange profit (loss), net	5,224	53,499	27,049	(80.7%)	(90.2%)
<b>Net results from financial transactions</b>	<b>25,640</b>	<b>19,303</b>	<b>29,076</b>	<b>(11.8%)</b>	<b>32.8%</b>

\* These results mainly include the mark-to-market of the Available for sale investment portfolio, realized and unrealized gains of Financial investments held for trading, the interest revenue generated by the Held for trading portfolio, gains or losses from the sale of charged-off loans and the mark-to-market of derivatives. The results recorded as Foreign exchange profits (loss), net mainly includes the translation gains or losses of assets and a liability denominated in foreign currency.

**Net results from financial transactions** totaled a gain of Ch\$25,640 million in 2Q12, a 32.8% QoQ increase and an 11.8% YoY decrease. In order to comprehend more clearly these line items, we present them by business area in the table below.

Results from Financial Transactions	Quarter			Change %	
	2Q12	1Q12	2Q11	2Q12 / 2Q11	2Q 12 / 1Q12
<b>(Ch\$ million)</b>					
Santander Global Connect <sup>1</sup>	14,610	14,575	15,045	(2.9%)	0.2%
Market-making	7,430	11,310	6,013	23.6%	(34.3%)
<b>Client treasury services</b>	<b>22,040</b>	<b>25,885</b>	<b>21,058</b>	<b>4.7%</b>	<b>(14.9%)</b>
<b>Non-client treasury income</b>	<b>3,600</b>	<b>(6,582)</b>	<b>8,018</b>	<b>(55.1%)</b>	<b>--%</b>
<b>Net results from financial transactions</b>	<b>25,640</b>	<b>19,303</b>	<b>29,076</b>	<b>(11.8%)</b>	<b>32.8%</b>

1. Santander Global Connect is the Bank's commercial platform for selling treasury products to our clients.

**Client treasury services** totaled Ch\$22,040 million in 2Q12 and decreased 14.9% QoQ due to lower gains from our market-making business. Compared to 2Q12, client treasury services rose 4.7% due to an increase in client treasury services, which make up the bulk of our financial transaction results and reflects the recurring nature of this income line item.

## Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

The Bank recognized a Ch\$3,600 million gain from **Non-client treasury services** in the quarter compared to a loss of Ch\$6,582 million in 1Q12. In the quarter, as inflation descended, interest rates also declined, resulting in positive mark-to-market gains from the Bank's fixed income portfolio mainly comprised of Central Bank instruments. The 55.1% YoY decrease in non-client treasury income in 2Q12 was mainly due to the one-time gain of Ch\$5,705 million recognized in 2Q11 from the sale of shares in Visa Inc.

16

### Investor Relations Department

Bandera 140 19th Floor, Santiago, Chile, Tel: 562-320-8284, fax: 562-671-6554,

email: [rmorenoh@santander.cl](mailto:rmorenoh@santander.cl)

---

**OPERATING EXPENSES AND EFFICIENCY***Focus on improving efficiency in middle-income banking*

Operating Expenses	Quarter			Change %	
	2Q12	1Q12	2Q11	2Q12 / 2Q11	2Q 12 / 1Q12
<b>(Ch\$ million)</b>					
Personnel expenses	(78,395)	(69,460)	(70,655)	11.0%	12.9%
Administrative expenses	(45,115)	(44,084)	(41,535)	8.6%	2.3%
Depreciation, amortization and impairment	(14,232)	(12,126)	(12,971)	9.7%	17.4%
<b>Operating expenses</b>	<b>(137,742)</b>	<b>(125,670)</b>	<b>(125,161)</b>	<b>10.1%</b>	<b>9.6%</b>
<b>Efficiency ratio<sup>1</sup></b>	<b>41.0%</b>	<b>36.8%</b>	<b>36.5%</b>		

1. Operating expenses / Operating income. Operating income = Net interest income + Net fee income+ Net results from Financial transactions + Other operating income and expenses.

**Operating expenses** in 1Q12 increased 9.6% QoQ and 10.1% YoY. The QoQ rise in expenses is mainly seasonal as first quarter includes the reversal of paid personnel vacation expenses due to the holiday season and in April of each year, the Bank adjusts salaries by the annual rise in CPI (+3.5%). The 11.0% YoY increase in **personnel expenses** was mainly due to an increase in business activity, especially in the corporate and middle market banking segments. As of June 2012, headcount totaled 11,621 employees, flat QoQ and YoY.

**Administrative expenses** increased 8.6% YoY in 2Q12, as the Bank continued with its projects of investing in a new Client Relationship Management system and the Transformation Initiatives aimed at enhancing productivity, especially in middle-income banking. The CRM and Transformation Project should help to reverse this situation, leading to better long-term efficiency, growth and profitability in this segment.

**Investor Relations Department**

Bandera 140 19th Floor, Santiago, Chile, Tel: 562-320-8284, fax: 562-671-6554,

email: [rmorenoh@santander.cl](mailto:rmorenoh@santander.cl)

---

**OTHER INCOME AND EXPENSES**

Other Income and Expenses	2Q12	Quarter 1Q12	2Q11	Change %	
				2Q12 / 2Q11	2Q12 / 1Q12
<b>(Ch\$ million)</b>					
Other operating income	3,072	3,982	3,309	(7.2%)	(22.9%)
Other operating expenses	(15,464)	(16,365)	(8,800)	75.7%	(5.5%)
<b>Other operating income, net</b>	<b>(12,392)</b>	<b>(12,383)</b>	<b>(5,491)</b>	<b>125.7%</b>	<b>0.1%</b>
Income from investments in other companies	660	447	552	19.6%	47.7%
Income tax expense	(14,027)	(19,081)	(19,416)	(27.8%)	(26.5%)
Income tax rate	11.6%	13.8%	12.0%		

**Other operating income, net**, totaled Ch\$-12,392 million in 2Q12. The higher loss compared to 2Q11 was mainly due to lower reversal of non-credit contingencies recognized as other operating expenses in 2Q11.

The lower **income tax** expense in 2Q12 was mainly due to: (i) the reduction in the statutory corporate tax rate to 18.5% in 2012 from 20% in 2011 and, (ii) the Bank recognized a tax benefit from real estate taxes (*contribuciones*) paid over assets it has leased to clients. For these reason, the effective tax rate was only 11.6% in the quarter. For the rest of the year an effective tax rate of 15-16% is expected. Congress is currently discussing a law that would raise the statutory corporate tax rate to 20% this year, which would negatively affect income tax expense.

18

**Investor Relations Department**

Bandera 140 19th Floor, Santiago, Chile, Tel: 562-320-8284, fax: 562-671-6554,

email: [rmorenoh@santander.cl](mailto:rmorenoh@santander.cl)

**SECTION 4: CREDIT RISK RATINGS****International ratings**

The Bank has credit ratings from three leading international agencies.

<b>Moody s (Outlook negative)</b>	<b>Rating</b>
Foreign currency bank deposits	Aa3
Senior bonds	Aa3
Subordinated debt	A1
Bank Deposits in Local Currency	Aa3
Bank financial strength	B-
Short-term deposits	P-1

<b>Standard and Poor s (outlook negative)</b>	<b>Rating</b>
Long-term Foreign Issuer Credit	A
Long-term Local Issuer Credit	A
Short-term Foreign Issuer Credit	A-1
Short-term Local Issuer Credit	A-1

<b>Fitch (outlook negative)</b>	<b>Rating</b>
Foreign Currency Long-term Debt	A+
Local Currency Long-term Debt	A+
Foreign Currency Short-term Debt	F1
Local Currency Short-term Debt	F1
Viability rating	a+

**Local ratings:**

Our local ratings, the highest in Chile, are the following:

<b>Local ratings</b>	<b>Fitch Ratings</b>	<b>Feller Rate</b>
Shares	1CN1	1CN1
Short-term deposits	N1+	N1+

Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

Long-term deposits	AAA	AAA
Mortgage finance bonds	AAA	AAA
Senior bonds	AAA	AAA
Subordinated bonds	AA	AA+
Outlook	Negative	Stable

19

**Investor Relations Department**

Bandera 140 19th Floor, Santiago, Chile, Tel: 562-320-8284, fax: 562-671-6554,

email: [rmorenoh@santander.cl](mailto:rmorenoh@santander.cl)

---



**SECTION 5: SHARE PERFORMANCE**

As of June 2012

**Ownership Structure:**

**Average daily traded volumes 6M12**  
US\$ million

**ADR Price Evolution**

Santander ADR vs. Global 1200 Financial Index

(Base 100 = 06/30/2008)

**Local Share Price Evolution**

Santander vs IPSA Index

(Base 100 = 06/30/2008)

Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

**ADR price (US\$) 6M12**

06/30/12: 77.49  
 Maximum (3M12): 88.22  
 Minimum (3M12): 71.00

**Local share price (Ch\$) 6M12**

06/30/12: 37.34  
 Maximum (3M12): 41.00  
 Minimum (3M12): 34.74

**Market Capitalization:** US\$14,055 million

P/E 12 month trailing\*: 17.5  
 P/BV (06/30/12)\*\*: 3.47  
 Dividend yield\*\*\*: 3.5%

**Dividends:**

Year paid Ch\$/share % of

earnings

* Price as of June 30, 2012 / 12mth. earnings	2008: 1.06	65%
** Price as of June 30, 2012 / Book value as of 06/30/12	2009: 1.13	65%
*** Based on closing price on record date of last dividend payment.	2010: 1.37	60%
	2011: 1.52	60%
	2012: 1.39	60%

20

**Investor Relations Department**

Bandera 140 19th Floor, Santiago, Chile, Tel: 562-320-8284, fax: 562-671-6554,

email: rmorenoh@santander.cl

--	--

**ANNEX 1: BALANCE SHEET**

<b>Unaudited Balance Sheet</b>	<b>Jun-12</b>	<b>Jun-12</b>	<b>Dec-11</b>	<b>Jun 12 / Dec. 11</b>
<b>Assets</b>	US\$ths	Ch\$million		% Chg.
Cash and balances from Central Bank	4,411,396	2,210,330	2,793,701	(20.9%)
Funds to be cleared	952,733	477,367	276,454	72.7%
Financial assets held for trading	789,061	395,359	409,763	(3.5%)
Investment collateral under agreements to repurchase	9,492	4,756	12,928	(63.2%)
Derivatives	2,852,406	1,429,198	1,612,869	(11.4%)
Interbank loans	290,171	145,390	87,541	66.1%
<b>Loans, net of loan loss allowances</b>	<b>35,637,443</b>	<b>17,856,141</b>	<b>16,823,407</b>	<b>6.1%</b>
Available-for-sale financial assets	3,532,538	1,769,978	1,661,311	6.5%
Held-to-maturity investments	-	-	-	--%
Investments in other companies	17,671	8,854	8,728	1.4%
Intangible assets	146,494	73,401	80,739	(9.1%)
Fixed assets	302,704	151,670	153,059	(0.9%)
Current tax assets	48,261	24,181	37,253	(35.1%)
Deferred tax assets	279,894	140,241	147,754	(5.1%)
Other assets	1,221,207	611,886	546,470	12.0%
<b>Total Assets</b>	<b>50,491,471</b>	<b>25,298,752</b>	<b>24,651,977</b>	<b>2.6%</b>
<b>Liabilities and Equity</b>				
Demand deposits	9,229,758	4,624,570	4,413,815	4.8%
Funds to be cleared	594,494	297,871	89,486	232.9%
Investments sold under agreements to repurchase	738,284	369,917	544,381	(32.0%)
Time deposits and savings accounts	19,784,638	9,913,093	8,921,114	11.1%
Derivatives	2,346,035	1,175,481	1,292,148	(9.0%)
Deposits from credit institutions	3,408,432	1,707,795	1,920,092	(11.1%)
Marketable debt securities	8,685,073	4,351,656	4,623,239	(5.9%)
Other obligations	373,977	187,381	176,599	6.1%
Current tax liabilities	92	46	1,498	(96.9%)
Deferred tax liability	17,894	8,966	5,315	68.7%
Provisions	310,344	155,498	230,290	(32.5%)
Other liabilities	891,318	446,595	398,977	11.9%
<b>Total Liabilities</b>	<b>46,380,339</b>	<b>23,238,869</b>	<b>22,616,954</b>	<b>2.7%</b>
<b>Equity</b>				
Capital	1,778,870	891,303	891,303	0.0%
Reserves	102,862	51,539	51,539	0.0%
Unrealized gain (loss) Available-for-sale financial assets	7,875	3,946	2,832	39.3%
<b>Retained Earnings:</b>	<b>2,159,112</b>	<b>1,081,823</b>	<b>1,055,548</b>	<b>2.5%</b>
Retained earnings previous periods	1,846,167	925,022	750,989	23.2%
Net income	447,065	224,002	435,084	(48.5%)
Provision for mandatory dividend	(134,120)	(67,201)	(130,525)	(48.5%)
<b>Total Shareholders' Equity</b>	<b>4,048,719</b>	<b>2,028,611</b>	<b>2,001,222</b>	<b>1.4%</b>
Minority Interest	62,413	31,272	33,801	(7.5%)
<b>Total Equity</b>	<b>4,111,132</b>	<b>2,059,883</b>	<b>2,035,023</b>	<b>1.2%</b>
<b>Total Liabilities and Equity</b>	<b>50,491,471</b>	<b>25,298,752</b>	<b>24,651,977</b>	<b>2.6%</b>

Figures in US\$ have been translated at the exchange rate of Ch\$501.05

**Investor Relations Department**

Bandera 140 19th Floor, Santiago, Chile, Tel: 562-320-8284, fax: 562-671-6554,

email: [rmorenoh@santander.cl](mailto:rmorenoh@santander.cl)

---

**ANNEX 2: YEAR-TO-DATE INCOME STATEMENTS**

<b>YTD Income Statement Unaudited</b>	<b>Jun-12</b>	<b>Jun-12</b>	<b>Jun-11</b>	<b>Jun 12 / Jun 11</b>
	US\$ths.	Ch\$million		% Chg.
Interest income	1,913,607	958,813	850,549	12.7%
Interest expense	(873,767)	(437,801)	(374,452)	16.9%
<b>Net interest income</b>	<b>1,039,840</b>	<b>521,012</b>	<b>476,097</b>	<b>9.4%</b>
Fee and commission income	362,988	181,875	183,890	(1.1)%
Fee and commission expense	(90,165)	(45,177)	(40,451)	11.7%
<b>Net fee and commission income</b>	<b>272,823</b>	<b>136,698</b>	<b>143,439</b>	<b>(4.7)%</b>
Net income from financial operations	(27,502)	(13,780)	51,402	--%
Foreign exchange profit (loss), net	117,200	58,723	3,867	1418.6%
<b>Total financial transactions, net</b>	<b>89,698</b>	<b>44,943</b>	<b>55,269</b>	<b>(18.7)%</b>
Other operating income	14,078	7,054	5,859	20.4%
<b>Net operating profit before loan losses</b>	<b>1,416,439</b>	<b>709,707</b>	<b>680,664</b>	<b>4.3%</b>
<b>Provision for loan losses</b>	<b>(313,055)</b>	<b>(156,856)</b>	<b>(105,548)</b>	<b>48.6%</b>
<b>Net operating profit</b>	<b>1,103,384</b>	<b>552,851</b>	<b>575,116</b>	<b>(3.9)%</b>
Personnel salaries and expenses	(295,090)	(147,855)	(133,496)	10.8%
Administrative expenses	(178,024)	(89,199)	(81,037)	10.1%
Depreciation and amortization	(52,430)	(26,270)	(26,284)	(0.1)%
Impairment	(176)	(88)	(32)	175.0%
<b>Operating expenses</b>	<b>(525,720)</b>	<b>(263,412)</b>	<b>(240,849)</b>	<b>9.4%</b>
Other operating expenses	(63,525)	(31,829)	(29,413)	8.2%
Total operating expenses	(589,245)	(295,241)	(270,262)	9.2%
<b>Operating income</b>	<b>514,139</b>	<b>257,610</b>	<b>304,854</b>	<b>(15.5)%</b>
Income from investments in other companies	2,209	1,107	1,127	(1.8)%
<b>Income before taxes</b>	<b>516,348</b>	<b>258,717</b>	<b>305,981</b>	<b>(15.4)%</b>
Income tax expense	(66,077)	(33,108)	(45,917)	(27.9)%
<b>Net income from ordinary activities</b>	<b>450,271</b>	<b>225,609</b>	<b>260,064</b>	<b>(13.2)%</b>
Net income discontinued operations	-	-	-	--%
<b>Net income attributable to:</b>				
Minority interest	3,207	1,607	2,254	(28.7)%
<b>Net income attributable to shareholders</b>	<b>447,065</b>	<b>224,002</b>	<b>257,810</b>	<b>(13.1)%</b>

Figures in US\$ have been translated at the exchange rate of Ch\$501.05

**Investor Relations Department**

Bandera 140 19th Floor, Santiago, Chile, Tel: 562-320-8284, fax: 562-671-6554,

email: [rmorenoh@santander.cl](mailto:rmorenoh@santander.cl)

---

**ANNEX 3: QUARTERLY INCOME STATEMENTS**

Unaudited Quarterly Income Statement	2Q12	2Q12	1Q12	2Q11	2Q12 / 2Q11	2Q12 / 1Q12
	US\$ths.		Ch\$mn		% Chg.	
Interest income	910,049	455,980	502,833	472,132	(3.4%)	(9.3%)
Interest expense	(401,237)	(201,040)	(236,761)	(224,718)	(10.5%)	(15.1%)
<b>Net interest income</b>	<b>508,812</b>	<b>254,940</b>	<b>266,072</b>	<b>247,414</b>	<b>3.0%</b>	<b>(4.2%)</b>
Fee and commission income	181,499	90,940	90,935	92,652	(1.8%)	0.0%
Fee and commission expense	(45,770)	(22,933)	(22,244)	(20,602)	11.3%	3.1%
<b>Net fee and commission income</b>	<b>135,729</b>	<b>68,007</b>	<b>68,691</b>	<b>72,050</b>	<b>(5.6%)</b>	<b>(1.0%)</b>
Net income from financial operations	40,746	20,416	(34,196)	2,027	907.2%	--%
Foreign exchange profit (loss), net	10,426	5,224	53,499	27,049	(80.7%)	(90.2%)
<b>Total financial transactions, net</b>	<b>51,172</b>	<b>25,640</b>	<b>19,303</b>	<b>29,076</b>	<b>(11.8%)</b>	<b>32.8%</b>
Other operating income	6,131	3,072	3,982	3,309	(7.2%)	(22.9%)
<b>Net operating profit before loan losses</b>	<b>701,844</b>	<b>351,659</b>	<b>358,048</b>	<b>351,849</b>	<b>(0.1%)</b>	<b>(1.8%)</b>
<b>Provision for loan losses</b>	<b>(156,821)</b>	<b>(78,575)</b>	<b>(78,281)</b>	<b>(56,874)</b>	<b>38.2%</b>	<b>0.4%</b>
<b>Net operating profit</b>	<b>545,023</b>	<b>273,084</b>	<b>279,767</b>	<b>294,975</b>	<b>(7.4%)</b>	<b>(2.4%)</b>
Personnel salaries and expenses	(156,461)	(78,395)	(69,460)	(70,655)	11.0%	12.9%
Administrative expenses	(90,041)	(45,115)	(44,084)	(41,535)	8.6%	2.3%
Depreciation and amortization	(28,336)	(14,198)	(12,072)	(12,944)	9.7%	17.6%
Impairment	(68)	(34)	(54)	(27)	25.9%	(37.0%)
<b>Operating expenses</b>	<b>(274,906)</b>	<b>(137,742)</b>	<b>(125,670)</b>	<b>(125,161)</b>	<b>10.1%</b>	<b>9.6%</b>
Other operating expenses	(30,863)	(15,464)	(16,365)	(8,800)	75.7%	(5.5%)
Total operating expenses	(305,769)	(153,206)	(142,035)	(133,961)	14.4%	7.9%
<b>Operating income</b>	<b>239,254</b>	<b>119,878</b>	<b>137,732</b>	<b>161,014</b>	<b>(25.5%)</b>	<b>(13.0%)</b>
Income from investments in other companies	1,317	660	447	552	19.6%	47.7%
<b>Income before taxes</b>	<b>240,571</b>	<b>120,538</b>	<b>138,179</b>	<b>161,566</b>	<b>(25.4%)</b>	<b>(12.8%)</b>
Income tax expense	(27,995)	(14,027)	(19,081)	(19,416)	(27.8%)	(26.5%)
<b>Net income from ordinary activities</b>	<b>212,576</b>	<b>106,511</b>	<b>119,098</b>	<b>142,150</b>	<b>(25.1%)</b>	<b>(10.6%)</b>
Net income discontinued operations	-	-	-	-	--%	--%
<b>Net income attributable to:</b>						
Minority interest	1,629	816	791	638	27.9%	3.2%
<b>Net income attributable to shareholders</b>	<b>210,947</b>	<b>105,695</b>	<b>118,307</b>	<b>141,512</b>	<b>(25.3%)</b>	<b>(10.7%)</b>

Figures in US\$ have been translated at the exchange rate of Ch\$501.05

**Investor Relations Department**

Bandera 140 19th Floor, Santiago, Chile, Tel: 562-320-8284, fax: 562-671-6554,

email: [rmorenoh@santander.cl](mailto:rmorenoh@santander.cl)

---



**ANNEX 4: QUARTERLY EVOLUTION OF MAIN RATIOS AND OTHER INFORMATION**

(Ch\$ millions)	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12
<b>Loans</b>						
Consumer loans	2,815,117	2,893,037	2,925,659	2,943,846	2,963,104	2,987,880
Residential mortgage loans	4,758,711	4,909,630	5,016,420	5,115,663	5,162,473	5,221,914
Commercial loans	9,200,539	9,619,373	9,738,277	9,287,585	9,666,504	10,164,678
<b>Total loans</b>	<b>16,774,367</b>	<b>17,422,040</b>	<b>17,680,356</b>	<b>17,347,094</b>	<b>17,792,081</b>	<b>18,374,472</b>
Allowance for loan losses	(489,034)	(505,886)	(520,566)	(523,687)	(522,728)	(518,331)
<b>Total loans, net of allowances</b>	<b>16,285,333</b>	<b>16,916,154</b>	<b>17,159,790</b>	<b>16,823,407</b>	<b>17,269,353</b>	<b>17,856,141</b>
<b>Loans by segment</b>						
Individuals	8,652,205	9,026,697	9,187,526	9,289,345	9,376,934	9,534,018
SMEs	2,467,951	2,455,349	2,522,698	2,560,736	2,604,565	2,658,077
<b>Total retail lending</b>	<b>11,120,156</b>	<b>11,482,046</b>	<b>11,710,224</b>	<b>11,850,081</b>	<b>11,981,499</b>	<b>12,192,095</b>
Institutional lending	352,593	372,939	351,644	355,199	347,818	366,862
Middle-Market & Real estate	3,562,558	3,625,439	3,731,980	3,650,709	3,692,576	3,848,479
Corporate	1,757,732	1,950,992	1,905,005	1,494,752	1,881,429	2,006,270
<b>Customer funds</b>						
Demand deposits	4,315,563	4,450,290	4,496,757	4,413,815	4,566,890	4,624,570
Time deposits	8,408,818	8,856,185	9,395,246	8,921,114	8,825,599	9,913,093
<b>Total deposits</b>	<b>12,724,381</b>	<b>13,306,475</b>	<b>13,892,003</b>	<b>13,334,929</b>	<b>13,392,489</b>	<b>14,537,663</b>
Mutual funds (Off balance sheet)	3,142,373	3,138,177	2,852,379	2,941,773	2,995,292	2,944,482
<b>Total customer funds</b>	<b>15,866,754</b>	<b>16,444,652</b>	<b>16,744,382</b>	<b>16,276,702</b>	<b>16,387,781</b>	<b>17,482,145</b>
<b>Loans / Deposits<sup>1</sup></b>	<b>96.9%</b>	<b>96.8%</b>	<b>94.8%</b>	<b>95.4%</b>	<b>98.4%</b>	<b>96.5%</b>
<b>Average balances</b>						
Avg. interest earning assets	17,866,010	19,099,828	20,068,323	19,836,214	20,119,312	20,362,279
Avg. loans	16,150,015	17,146,712	17,460,992	17,494,801	17,537,743	18,127,164
Avg. assets	22,679,590	24,435,586	24,961,680	25,245,472	24,918,317	24,957,219
Avg. demand deposits	4,271,464	4,560,188	4,372,511	4,374,397	4,527,917	4,749,885
Avg equity	1,857,339	1,853,926	1,901,447	1,964,850	2,035,332	2,014,260
Avg. free funds	6,128,803	6,414,114	6,273,958	6,339,246	6,563,249	6,764,145
<b>Capitalization</b>						
Risk weighted assets	18,013,990	18,964,803	18,954,147	18,243,142	18,509,191	19,572,225
Tier I (Shareholders equity)	1,905,690	1,866,467	1,927,498	2,001,222	2,065,994	2,028,612
Tier II	642,221	669,798	715,184	686,171	673,110	659,788
Regulatory capital	2,547,912	2,536,265	2,642,682	2,687,393	2,739,104	2,688,400
Tier I ratio	10.6%	9.8%	10.2%	11.0%	11.2%	10.4%
BIS ratio	14.1%	13.4%	13.9%	14.7%	14.8%	13.7%
<b>Profitability &amp; Efficiency</b>						
Net interest margin	5.1%	5.2%	4.6%	5.3%	5.3%	5.0%
Efficiency ratio	37.5%	36.5%	41.3%	38.5%	36.8%	41.0%
	34.3%	33.6%	31.3%	32.0%	32.6%	33.2%

Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

Avg. Free funds / interest earning  
assets

Return on avg. equity	25.0%	30.5%	15.8%	20.8%	23.3%	21.0%
Return on avg. assets	2.1%	2.3%	1.2%	1.6%	1.9%	1.7%

**Investor Relations Department**

24

Bandera 140 19th Floor, Santiago, Chile, Tel: 562-320-8284, fax: 562-671-6554,  
email: rmoreno@santander.cl

---

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12
<b>Asset quality</b>						
Non-performing loans (NPLs) <sup>2</sup>	413,775	452,149	496,786	511,357	519,283	529,869
Past due loans <sup>3</sup>	216,072	214,483	223,948	237,573	255,417	284,716
Risk index <sup>4</sup>	489,034	505,886	520,566	523,687	522,728	518,331
NPLs / total loans	2.47%	2.60%	2.81%	2.95%	2.92%	2.88%
PDL / total loans	1.29%	1.23%	1.27%	1.37%	1.44%	1.55%
Coverage of NPLs (Loan loss allowance / NPLs)	118.19%	111.88%	104.79%	102.41%	100.66%	97.82%
Coverage of PDLs (Loan loss allowance / PDLs)	226.3%	235.9%	232.4%	220.4%	204.7%	182.1%
Risk index (Loan loss allowances / Loans)	2.92%	2.90%	2.94%	3.02%	2.94%	2.82%
Cost of credit (prov. expense / loans)	1.16%	1.31%	2.04%	2.00%	1.76%	1.71%
<b>Network</b>						
Branches	506	487	494	499	499	499
ATMs	2,017	1,946	1,892	1,920	1,949	1,966
Employees	11,115	11,516	11,706	11,566	11,572	11,621
<b>Market information (period-end)</b>						
Net income per share (Ch\$)	0.62	0.75	0.40	0.54	0.63	0.56
<b>Net income per ADR (US\$)</b>	<b>1.33</b>	<b>1.66</b>	<b>0.80</b>	<b>1.08</b>	<b>1.33</b>	<b>1.14</b>
Stock price	40.1	42.2	37.5	37.4	40.54	37.34
ADR price	86.8	93.8	73.5	75.7	86.09	77.49
Market capitalization (US\$mn)	15,734	17,015	13,327	13,730	15,614	14,055
Shares outstanding	188,446.1	188,446.1	188,446.1	188,446.1	188,446.1	188,446.1
ADRs (1 ADR = 1,039 shares)	181.4	181.4	181.4	181.4	181.4	181.4
<b>Other Data</b>						
Quarterly inflation rate <sup>5</sup>	0.57%	1.44%	0.56%	1.28%	1.07%	0.42%
Central Bank monetary policy reference rate (nominal)	4.00%	5.25%	5.25%	5.25%	5.00%	5.00%
Avg. 10 year Central Bank yield (real)	3.09%	2.90%	2.63%	2.61%	2.45%	2.49%
Avg. 10 year Central Bank yield (nominal)	6.67%	6.31%	5.64%	5.21%	5.40%	5.58%
Observed Exchange rate (Ch\$/US\$) (period-end)	482.08	471.13	515.14	521.46	489.76	509.73

1 Ratio = Loans - marketable securities / Time deposits + demand deposits

2 Capital + future interest of all loans with one installment 90 days or more overdue.

3 Total installments plus lines of credit more than 90 days overdue

4 Based on internal credit models and SBIF guidelines. Banks must have a 100% coverage of risk index

5 Calculated using the variation of the Unidad de Fomento (UF) in the period

**Investor Relations Department**

25

Bandera 140 19th Floor, Santiago, Chile, Tel: 562-320-8284, fax: 562-671-6554,  
email: rmorenoh@santander.cl

---







**CONTENT**

**Intermediate Consolidated Financial Statements**

<u>CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION</u>	3
<u>CONSOLIDATED INTERIM STATEMENTS OF INCOME</u>	4
<u>CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME</u>	5
<u>CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY</u>	6
<u>CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW</u>	7

**Notes to the Consolidated Interim Financial Statements**

<u>NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES:</u>	9
<u>NOTE 2 - ACCOUNTING CHANGES:</u>	34
<u>NOTE 3 - SIGNIFICANT EVENTS:</u>	35
<u>NOTE 4 - BUSINESS SEGMENTS:</u>	37
<u>NOTE 5 - CASH AND CASH EQUIVALENTS:</u>	43
<u>NOTE 6 - TRADING INVESTMENTS:</u>	44
<u>NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING:</u>	45
<u>NOTE 8 - INTERBANK LOANS:</u>	51
<u>NOTE 9 - LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS:</u>	52
<u>NOTE 10 - AVAILABLE FOR SALE INVESTMENTS:</u>	57
<u>NOTE 11 - INTANGIBLE ASSETS:</u>	58
<u>NOTE 12 - PROPERTY, PLANT, AND EQUIPMENT:</u>	60
<u>NOTE 13 - CURRENT AND DEFERRED TAXES:</u>	63
<u>NOTE 14 - OTHER ASSETS:</u>	66
<u>NOTE 15 - TIME DEPOSITS AND OTHER TIME LIABILITIES:</u>	67
<u>NOTE 16 - ISSUED DEBT INSTRUMENTS AND OTHER OBLIGATIONS:</u>	68
<u>NOTE 17 - MATURITIES OF ASSETS AND LIABILITIES:</u>	74
<u>NOTE 18 - OTHER LIABILITIES:</u>	76
<u>NOTE 19 - CONTINGENCIES AND COMMITMENTS:</u>	77
<u>NOTE 20 - EQUITY:</u>	79
<u>NOTE 21 - CAPITAL REQUIREMENTS (BASEL):</u>	82
<u>NOTE 22 - NON CONTROLLING INTEREST:</u>	84
<u>NOTE 23 - INTEREST INCOME AND EXPENSE:</u>	87
<u>NOTE 24 - FEES AND COMMISSIONS:</u>	90
<u>NOTE 25 - NET INCOME FROM FINANCIAL OPERATIONS:</u>	91
<u>NOTE 26 - NET FOREIGN EXCHANGE PROFIT (LOSS):</u>	91
<u>NOTE 27 - PROVISION FOR LOAN LOSSES:</u>	92
<u>NOTE 28 - PERSONNEL SALARIES AND EXPENSES:</u>	94
<u>NOTE 29 - ADMINISTRATIVE EXPENSES:</u>	95
<u>NOTE 30 - DEPRECIATION AMORTIZATION AND IMPAIRMENT:</u>	96
<u>NOTE 31 - OTHER OPERATING INCOME AND EXPENSES:</u>	97
<u>NOTE 32 - TRANSACTIONS WITH RELATED PARTIES:</u>	99
<u>NOTE 33 - FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES:</u>	104
<u>NOTE 34 - SUBSEQUENT EVENTS:</u>	107



**BANCO SANTANDER CHILE AND SUBSIDIARIES****CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**

For periods ending

		<b>As of June 30,</b>	<b>As of December 31,</b>
		<b>2012</b>	<b>2011</b>
	<b>NOTE</b>	<b>MCh\$</b>	<b>MCh\$</b>
<b>ASSETS</b>			
Cash and deposits in banks	5	2,210,330	2,793,701
Cash items in process of collection	5	477,367	276,454
Trading investments	6	395,359	409,763
Investments under resale agreements		4,756	12,928
Financial derivative contracts	7	1,429,198	1,612,869
Interbank loans, net	8	145,390	87,541
Loans and accounts receivable from customers, net	9	17,856,141	16,823,407
Available for sale investments	10	1,769,978	1,661,311
Held to maturity investments	10	-	-
Investments in other companies		8,854	8,728
Intangible assets	11	73,401	80,739
Property, plant, and equipment	12	151,670	153,059
Current tax	13	24,181	37,253
Deferred taxes	13	140,241	147,754
Other assets	14	611,886	546,470
<b>TOTAL ASSETS</b>		<b>25,298,752</b>	<b>24,651,977</b>
<b>LIABILITIES</b>			
Deposits and other demand liabilities	15	4,624,570	4,413,815
Cash items in process of being cleared	5	297,871	89,486
Obligations under repurchase agreements		369,917	544,381
Time deposits and other time liabilities	15	9,913,093	8,921,114
Financial derivative contracts	7	1,175,481	1,292,148
Interbank borrowings		1,707,795	1,920,092
Issued debt instruments	16	4,351,656	4,623,239
Other financial liabilities	16	187,381	176,599
Current tax	13	46	1,498
Deferred taxes	13	8,966	5,315
Provisions		155,498	230,290
Other liabilities	18	446,595	398,977
<b>TOTAL LIABILITIES</b>		<b>23,238,869</b>	<b>22,616,954</b>

Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

<b>EQUITY</b>				
<b>Attributable to the Bank's shareholders</b>			<b>2,028,611</b>	<b>2,001,222</b>
Capital			891,303	891,303
Reserves			51,539	51,539
Valuation adjustments			3,946	2,832
<b>Retained earnings</b>			<b>1,081,823</b>	<b>1,055,548</b>
Retained earnings of prior years			925,022	750,989
Income for the period			224,002	435,084
Minus: Provision for mandatory dividends			(67,201)	(130,525)
<b>Non-controlling interest</b>	22		<b>31,272</b>	<b>33,801</b>
<b>TOTAL EQUITY</b>			<b>2,059,883</b>	<b>2,035,023</b>
<b>TOTAL LIABILITIES AND EQUITY</b>			<b>25,298,752</b>	<b>24,651,977</b>

## BANCO SANTANDER CHILE AND SUBSIDIARIES

## CONSOLIDATED INTERIM STATEMENTS OF INCOME

		For the quarter ending as of June 30,		For the 6-month period ending as of June 30,	
	NOTE	2012 MCh\$	2011 MCh\$	2012 MCh\$	2011 MCh\$
<b>OPERATING INCOME</b>					
Interest income	23	455,980	472,132	958,813	850,549
Interest expense	23	(201,040)	(224,718)	(437,801)	(374,452)
<b>Net interest income</b>		<b>254,940</b>	<b>247,414</b>	<b>521,012</b>	<b>476,097</b>
Fee and commission income	24	90,940	92,652	181,875	183,890
Fee and commission expense	24	(22,933)	(20,602)	(45,177)	(40,451)
<b>Net fee and commission income</b>		<b>68,007</b>	<b>72,050</b>	<b>136,698</b>	<b>143,439</b>
Net income from financial operations (net trading income)	25	20,416	2,027	(13,780)	51,402
Foreign exchange profit net	26	5,224	27,049	58,723	3,867
Other operating income	31	3,072	3,309	7,054	5,859
<b>Net operating profit before loan losses</b>		<b>351,659</b>	<b>351,849</b>	<b>709,707</b>	<b>680,664</b>
Provisions for loan losses	27	(78,575)	(56,874)	(156,856)	(105,548)
<b>NET OPERATING PROFIT</b>		<b>273,084</b>	<b>294,975</b>	<b>552,851</b>	<b>575,116</b>
Personnel salaries and expenses	28	(78,395)	(70,655)	(147,855)	(133,496)
Administrative expenses	29	(45,115)	(41,535)	(89,199)	(81,037)
Depreciation and amortization	30	(14,198)	(12,944)	(26,270)	(26,284)
Impairment	12	(34)	(27)	(88)	(32)
Other operating expenses	31	(15,464)	(8,800)	(31,829)	(29,413)
<b>Total operating expenses</b>		<b>(153,206)</b>	<b>(133,961)</b>	<b>(295,241)</b>	<b>(270,262)</b>
<b>OPERATING INCOME</b>		<b>119,878</b>	<b>161,014</b>	<b>257,610</b>	<b>304,854</b>
Income from investments in other companies		660	552	1,107	1,127
<b>Income before tax</b>		<b>120,538</b>	<b>161,566</b>	<b>258,717</b>	<b>305,981</b>
Income tax	13	(14,027)	(19,416)	(33,108)	(45,917)
<b>NET INCOME FOR THE PERIOD</b>		<b>106,511</b>	<b>142,150</b>	<b>225,609</b>	<b>260,064</b>

Attributable to:

Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

Bank shareholders		105,695	141,512	224,002	257,810
Non-controlling interest	22	816	638	1,607	2,254
Earnings per share attributable to Bank shareholders: (expressed in Chilean pesos)					
Basic earnings		0.561	0.751	1.189	1.368
Diluted earnings		0.561	0.751	1.189	1.368

## BANCO SANTANDER CHILE AND SUBSIDIARIES

## CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

	NOTE	For the quarter ended as of June 30,		For the 6-month period ending as of June 30,	
		2012 MCh\$	2011 MCh\$	2012 MCh\$	2011 MCh\$
<b>NET INCOME FOR THE PERIOD</b>		<b>106,511</b>	<b>142,150</b>	<b>225,609</b>	<b>260,064</b>
<b>OTHER COMPREHENSIVE INCOME</b>					
Available for sale investments	10	18,819	6,607	(2,180)	(1,075)
Cash flow hedge	7	4,704	(529)	3,608	(2,023)
<b>Other comprehensive income before income tax</b>		<b>23,523</b>	<b>6,078</b>	<b>1,428</b>	<b>(3,098)</b>
Income tax related to other comprehensive income	13	(4,255)	(1,180)	(237)	657
<b>Total other comprehensive income</b>		<b>19,268</b>	<b>4,898</b>	<b>1,191</b>	<b>(2,441)</b>
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>125,779</b>	<b>147,048</b>	<b>226,800</b>	<b>257,623</b>
Attributable to:					
Bank shareholders (Equity holders of the Bank)		124,851	146,377	225,116	255,159
Non-controlling interest	22	928	671	1,684	2,464

**BANCO SANTANDER CHILE AND SUBSIDIARIES**  
**CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY**

	RESERVES			VALUATION ADJUSTMENTS			RETAINED EARNINGS					Total equity MCh\$
	Capital	Reserves and other retained earnings	Merger of companies under common control	Available for sale investments	Cash flow hedge	Income tax	Retained earnings of prior years	Income for the period	Provision for mandatory dividends	Total attributable to shareholders	Non controlling interest	
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	
<b>Balances as of December 31, 2010</b>	891,303	53,763	(2,224)	(18,341)	11,958	1,203	560,128	477,155	(143,147)	1,831,798	31,809	1,863,607
Distribution of income from previous period	-	-	-	-	-	-	477,155	(477,155)	-	-	-	-
<b>Balances as of January 1, 2011</b>	891,303	53,763	(2,224)	(18,341)	11,958	1,203	1,037,283	-	(143,147)	1,831,798	31,809	1,863,607
Increase or decrease of capital and reserves	-	-	-	-	-	-	-	-	-	-	-	-
Dividends distributions / Withdrawals made	-	-	-	-	-	-	(286,294)	-	143,147	(143,147)	(3,122)	(146,263)
Other changes in equity	-	-	-	-	-	-	-	-	-	-	20	20
Provisions for mandatory dividends	-	-	-	-	-	-	-	-	(77,343)	(77,343)	-	(77,343)
<b>Subtotals</b>	-	-	-	-	-	-	(286,294)	-	65,804	(220,490)	(3,102)	(223,592)
Other comprehensive income	-	-	-	(1,328)	(2,023)	700	-	-	-	(2,651)	210	(2,441)
Income for the period	-	-	-	-	-	-	-	257,810	-	257,810	2,254	260,064
<b>Subtotals</b>	-	-	-	(1,328)	(2,023)	700	-	257,810	-	255,159	2,464	257,623
<b>Balances as of June 30, 2011</b>	891,303	53,763	(2,224)	(19,669)	9,935	1,903	750,989	257,810	(77,343)	1,866,467	31,171	1,897,638
<b>Balances as of December 31, 2011</b>	891,303	53,763	(2,224)	3,077	394	(639)	750,989	435,084	(130,525)	2,001,222	33,801	2,035,022
Distribution of income from previous period	-	-	-	-	-	-	435,084	(435,084)	-	-	-	-
<b>Balances as of January 1, 2012</b>	891,303	53,763	(2,224)	3,077	394	(639)	1,186,073	-	(130,525)	2,001,222	33,801	2,035,022

Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

Increase or decrease of capital and reserves	-	-	-	-	-	-	-	-	-	-	-	-
Dividends distributions / Withdrawals made	-	-	-	-	-	-	(261,051)	-	130,525	(130,526)	(4,210)	(134,736)
Other changes in equity	-	-	-	-	-	-	-	-	-	-	(3)	(3)
Provision for mandatory dividends	-	-	-	-	-	-	-	-	(67,201)	(67,201)	-	(67,201)
<b>Subtotals</b>	-	-	-	-	-	-	<b>(261,051)</b>	-	<b>63,324</b>	<b>(197,727)</b>	<b>(4,213)</b>	<b>(201,940)</b>
Other comprehensive income	-	-	-	(2,276)	3,608	(218)	-	-	-	1,114	77	1,191
Income for the period	-	-	-	-	-	-	-	224,002	-	224,002	1,607	225,609
<b>Subtotals</b>	-	-	-	<b>(2,276)</b>	<b>3,608</b>	<b>(218)</b>	-	<b>224,002</b>	-	<b>225,116</b>	<b>1,684</b>	<b>226,808</b>
<b>Balances as of June 30, 2012</b>	<b>891,303</b>	<b>53,763</b>	<b>(2,224)</b>	<b>801</b>	<b>4,002</b>	<b>(857)</b>	<b>925,022</b>	<b>224,002</b>	<b>(67,201)</b>	<b>2,028,611</b>	<b>31,272</b>	<b>2,059,889</b>

<b>Period</b>	<b>Total attributable to shareholders</b>	<b>Allocated to reserves or retained earnings</b>	<b>Allocated to dividends</b>	<b>Percentage distributed</b>	<b>Number of shares</b>	<b>Dividend per share (in pesos)</b>
	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	<b>%</b>		
Year 2011 (Shareholders Meeting April 2012)	435,084	174,033	261,051	60%	188,446,126,794	1.385
Year 2010 (Shareholders Meeting April 2011)	477,155	190,861	286,294	60%	188,446,126,794	1.519

**BANCO SANTANDER CHILE AND SUBSIDIARIES**  
**CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW**

For periods ending

	NOTE	2012 MCh\$	As of June 30, 2011 MCh\$
<b>A - CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>CONSOLIDATED INCOME BEFORE TAX</b>			
<b>Debits (credits) to income that do not represent cash flows</b>		<b>(450,048)</b>	<b>(469,842)</b>
Depreciation and amortization	30	26,270	26,284
Impairment of property, plant, and equipment	12	88	32
Provision for loan losses	27	169,347	115,845
Mark to market of trading investments		(5,605)	(2,119)
Income from investments in other companies		(1,107)	(1,127)
Net gain on sale of assets received in lieu of payment	31	(5,995)	(3,864)
Provisions for assets received in lieu of payment	31	2,966	1,277
Net gain on sale of investments in other companies	31	-	-
Net gain on sale of property, plant and equipment	31	(571)	(809)
Charge off of assets received in lieu of payment	31	4,505	5,331
Net interest income	23	(521,012)	(476,097)
Net fee and commission income	24	(136,698)	(143,439)
Debits (credits) to income that do not represent cash flows		6,828	8,850
Changes in assets and liabilities due to deferred taxes	13	10,936	(6)
<b>Increase/decrease in operating assets and liabilities</b>		<b>(90,361)</b>	<b>(204,417)</b>
Decrease (increase) of loans and accounts receivables from customers, net		(994,089)	(1,661,122)
Decrease (increase) of financial investments		(94,263)	(1,432,311)
Decrease (increase) due to resale agreements (assets)		8,172	166,974
Decrease (increase) of interbank loans		(57,847)	(17,986)
Decrease of assets received or awarded in lieu of payment		22,500	21,268
Increase of debits in checking accounts		74,482	70,120
Increase (decrease) of time deposits and other time liabilities		1,001,798	1,544,313
Increase (decrease) of obligations with domestic banks		-	54,000
Increase of other demand liabilities or time obligations		136,273	83,837
Increase (decrease) of obligations with foreign banks		(211,985)	192,925
Decrease of obligations with Central Bank of Chile		(312)	(315)
Increase (decrease) due to repurchase agreements (liabilities)		(174,464)	23,918
Increase (decrease) of other short-term liabilities		10,782	1,580
Net increase of other assets and liabilities		(161,763)	31,305
Issuance of letters of credit		-	-
Redemption of letters of credit		(26,354)	(37,917)
Senior bond issuances		134,128	319,886
Redemption of senior bonds and payments of interest		(381,361)	(135,946)
Interest received		968,633	848,203
Interest paid		(449,091)	(375,367)
Dividends received from investments in other companies		810	696
Fees and commissions received	24	181,875	183,890
Fees and commissions paid	24	(45,177)	(40,451)
Income tax	13	(33,108)	(45,917)
<b>Net cash flow from operating activities</b>		<b>(281,692)</b>	<b>(368,278)</b>





**BANCO SANTANDER CHILE AND SUBSIDIARIES**  
**CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW**

For periods ending

		<b>As of June 30</b>	
	<b>NOTE</b>	<b>2012 MCh\$</b>	<b>2011 MCh\$</b>
<b>B - CASH FLOWS FROM INVESTMENT ACTIVITIES:</b>			
Purchases of property, plant, and equipment	12	(8,893)	(4,844)
Sales of property, plant, and equipment		144	5,863
Purchases of investments in other companies		-	-
Sales of investments in other companies		-	-
Purchases of intangibles assets	11	(8,743)	(10,896)
<b>Net cash flow used in investment activities</b>		<b>(17,492)</b>	<b>(9,877)</b>
<b>C - CASH FLOW FROM FINANCING ACTIVITIES:</b>			
<b>From shareholders financing activities</b>		<b>(279,861)</b>	<b>(228,989)</b>
Increase of other obligations		77	-
Issuance of subordinated bonds		-	66,859
Redemption of subordinated bonds and payments of interest		(18,887)	(9,554)
Dividends paid		(261,051)	(286,294)
<b>From non controlling interest financing activities</b>		<b>(4,210)</b>	<b>(3,122)</b>
Increases of capital		-	-
Dividends and/or withdrawals paid		(4,210)	(3,122)
<b>Net cash flows used in financing activities</b>		<b>(284,071)</b>	<b>(232,111)</b>
<b>D NET DECREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b>		<b>(583,255)</b>	<b>(610,266)</b>
<b>E EFFECTS OF FOREIGN EXCHANGE RATE FLUCTUATIONS</b>		<b>(7,588)</b>	<b>(39,451)</b>
<b>F - INITIAL BALANCE OF CASH AND CASH EQUIVALENTS</b>		<b>2,980,669</b>	<b>1,836,441</b>
<b>FINAL BALANCE OF CASH AND CASH EQUIVALENTS</b>	<b>5</b>	<b>2,389,826</b>	<b>1,186,724</b>

1) Supplemental information:

	<b>As of June 30</b>	
<b>Reconciliation of provisions for Consolidated Interim Statements of Cash Flow</b>	<b>2012</b>	<b>2011</b>

Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

	MCH\$	MCH\$
Provisions for loan losses for cash flow	169,347	115,845
Recovery of loans previously charged off	(12,491)	(10,297)
<b>Expenses on allowances for loan losses</b>	<b>156,856</b>	<b>105,548</b>

BANCO SANTANDER CHILE AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

**Corporate Information**

Banco Santander Chile (formerly Banco Santiago) is a corporation (sociedad anónima bancaria) organized under the laws of the Republic of Chile, addressed at 140 Bandera St., that provides a broad range of general banking services to its customers, from individuals to major corporations. Banco Santander Chile and its affiliates (collectively referred to herein as the Bank or Banco Santander Chile ) offer commercial and consumer banking services, besides other services, including factoring, collection, leasing, securities and insurance brokerage, mutual and investment fund management, and investment banking.

A Special Meeting of Shareholders of Banco Santiago was held on July 18, 2002, the minutes of which were notarized as a public deed on July 19, 2002 at the Notarial Office of Santiago before Notary Nancy de la Fuente Hernández, and it was agreed to merge Banco Santander Chile with Banco Santiago by merging the former into the latter, which acquired the former's assets and liabilities. It was likewise agreed to dissolve Banco Santander Chile in advance and change the name of Banco Santiago to Banco Santander Chile. This change was authorized by Resolution No.79 of the Superintendency of Banks and Financial Institutions, adopted on July 26, 2002, published in the Official Journal on August 1, 2002 and registered on page 19,992 under number 16,346 for the year 2002 in the Registry of Commerce of the Curator of Real Estate of Santiago.

In addition to the amendments to the bylaws discussed above, the bylaws have been amended on multiple occasions, the last time at the Special Shareholders Meeting of April 24, 2007, the minutes of which were notarized as a public deed on May 24, 2007 at the Notarial Office of Nancy de la Fuente Hernández. This amendment was approved pursuant to Resolution No.61 of June 6, 2007 of the Superintendence of Banks and Financial Institutions. An extract thereof and the resolution were published in the Official Journal of June 23, 2007 and registered in the Registry of Commerce for 2007 on page 24,064 under number 17,563 of the aforementioned Curator.

By means of this last amendment, Banco Santander Chile, pursuant to its bylaws and as approved by the Superintendency of Banks and Financial Institutions, may also use the names Banco Santander Santiago or Santander Santiago or Banco Santander or Santander.

Banco Santander Spain controls Banco Santander-Chile through its share in Teatinos Siglo XXI Inversiones Ltda. and Santander-Chile Holding S.A., which are subsidiaries controlled by Banco Santander Spain. As of June 30, 2012 Banco Santander Spain owns or controls directly and indirectly 99.5% of the Santander-Chile Holding S.A. and 100% of Teatinos Siglo XXI Inversiones Ltda. This grants Banco Santander Spain control over 67.18% of the Bank's shares.

**a) Basis of preparation**

## Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

These Consolidated Interim Financial Statements have been prepared in accordance with the Compendium of Accounting Standards issued by the Superintendency of Banks and Financial Institutions (SBIF), a regulatory agency. Article 15 of the General Banking Law states that, in accordance with the laws, banks must abide by the accounting criteria issued by the Superintendency and that, in any situation not provided for therein if it is not contrary to its instructions must abide by the generally accepted accounting principles, which correspond with the technical standards issued by the Colegio de Contadores de Chile AG (Association of Chilean Accountants), which coincide with the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standard Board (IASB). In the event of discrepancies between the accounting principles and the accounting criteria issued by the SBIF (Compendium of Accounting Standard), the latter will prevail.

### **b) Basis of preparation for the Consolidated Interim Financial Statements**

The Consolidated Interim Financial Statements include the preparation of separate (individual) financial statements of the Bank and the companies that participate in the consolidation as of June 30, 2012 and 2011, and they include the adjustments and reclassifications needed to make the accounting policies and valuation criteria applied by Bank to abide by the Compendium of Accounting Regulations issued by the SBIF.

### **Subsidiaries**

Subsidiaries are defined as entities over which the Bank has the ability to exercise control, which is generally but not exclusively reflected by the direct or indirect ownership of at least 50% of the investee's voting rights, or even if this percentage is lower or zero when the Bank is granted control pursuant to agreements with the investee's shareholders. Control is the power to govern the financial and operating policies of an entity, so as to benefit from its activities

## BANCO SANTANDER CHILE AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES continued:**

Financial Statements of depending companies are consolidated together with those of the Bank. Accordingly, all the balances and transactions between the consolidated companies are eliminated through the consolidation process.

In addition, third parties' shares in the Consolidated Bank's equity are presented as Non controlling interests in the Consolidated Interim Statement of Financial Position. Their shares in the year's income are presented under Non controlling interests in the Consolidated Interim Statement of Income.

The following companies are considered Subsidiaries in which the Bank has the ability to exercise control and are therefore within the scope of consolidation:

Subsidiaries	As of June 30, 2012			Percentage share As of December 31, 2011			As of June 30, 2011		
	Direct	Indirect	Total	Direct	Indirect	Total	Direct	Indirect	Total
	%	%	%	%	%	%	%	%	%
Santander Corredora de Seguros Limitada	99.75	0.01	99.76	99.75	0.01	99.76	99.75	0.01	99.76
Santander S.A. Corredores de Bolsa	50.59	0.41	51.00	50.59	0.41	51.00	50.59	0.41	51.00
Santander Asset Management S.A. Administradora General de Fondos	99.96	0.02	99.98	99.96	0.02	99.98	99.96	0.02	99.98
Santander Agente de Valores Limitada	99.03	-	99.03	99.03	-	99.03	99.03	-	99.03
Santander S.A. Sociedad Securitizadora	99.64	-	99.64	99.64	-	99.64	99.64	-	99.64
Santander Servicios de Recaudación y Pagos Limitada	99.90	0.10	100.00	99.90	0.10	100.00	99.90	0.10	100.00

**Special Purpose Entities**

According to IFRS, the Bank must continuously analyze its perimeter of consolidation. The key criterion for such analysis is the degree of control held by the Bank over a given entity, not the percentage of holding in such entity's equity.

In particular, as set forth by International Accounting Standard 27 Consolidated and Separate Financial Statements (IAS 27) and by the Standard Interpretations Committee 12 Consolidation Special Purpose Entities (SIC 12), issued by the IASB, the Bank must determine the existence of Special Purpose Entities (SPEs), which must be included in its scope of consolidation. The following are the main criteria for SPEs that should be

## Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

included in the scope of consolidation:

- The SPEs activities have essentially been conducted on behalf of the company that presents the Consolidated Financial Statements and in response to its specific business needs.
- The necessary decision making authority is held to obtain most of the benefits from these entities activities, as well as the rights to obtain most of the benefits or other advantages from such entities.
- The entity essentially retains most of the risks inherent to the ownership or residuals of the SPEs or its assets, for the purpose of obtaining the benefits from its activities.

This assessment is based on methods and procedures which consider the risks and profits retained by the Bank, for which all the relevant factors, including the guarantees furnished or the losses associated with collection of the related assets retained by the Bank, are taken into account. As a consequence of this assessment, the Bank concluded that it exercised control over the following entities, which therefore are included within the scope of consolidation:

- 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).
- Fiscalex Limitada (collection services).
- Multiservicios de Negocios Limitada (call center).
- Bansa Santander S.A. (management of repossessed assets and leasing of properties)

### **Associates**

Associated entities are those entities over which the Bank exercises significant influence but not control or joint control, usually because it holds 20% or more of the entity's voting power. Investments in associated entities are accounted for using the equity method.

BANCO SANTANDER CHILE AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:**

The following companies are considered Associates in which the Bank accounts for its participation using the equity method:

Associates	As of June 30,	Percentage share	As of June 30,
	2012	As of December 31,	2011
	%	%	%
Redbanc S.A.	33.43	33.43	33.43
Transbank S.A.	32.71	32.71	32.71
Centro de Compensación Automatizado	33.33	33.33	33.33
Sociedad Interbancaria de Depósito de Valores S.A.	29.28	29.28	29.28
Cámara Compensación de Alto Valor S.A.	11.52	11.52	11.52
Administrador Financiero del Transantiago S.A.	20.00	20.00	20.00
Sociedad Nexus S.A.	12.90	12.90	12.90

In the case of Nexus S.A. and Cámara Compensación de Alto Valor S.A. the Bank has a representative on the Board of Directors. According to this, the Bank has concluded that it exerts significant influence over these entities.

**Share or rights in other companies**

The Bank and its subsidiaries have certain investments in share because they are required to obtain the right to operate according to its line of business the ownership interest in these companies is lesser than 1% and are accounted at the acquisition cost.

**c) Non controlling interest**

Non controlling interest represents the portion of gains and losses and net assets which the Bank does not own, either directly or indirectly. It is presented separately in the Consolidated Interim Statement of Income, and separately from shareholders equity in the Consolidated Interim Statement of Financial Position.



## Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

In the case of Special Purpose Entities (SPEs), 100% of their Income and Equity is presented in Non-controlling interest, since the Bank only has control but not actual ownership thereof.

### d) Operating segments

The Bank discloses separate information for each operating segment that:

- i. has been identified;
- ii. exceeds the quantitative thresholds stipulated for a segment.

Operating segments with similar economic characteristics often have a similar long-term financial performance. Two or more segments can be combined only if aggregation is consistent with the basic principles of the International Financial Reporting Standards 8 Operating Segments (IFRS 8) and the segments have similar economic characteristics and are similar in each of the following respects:

- i. nature of the products and services;
- ii. nature of the production processes;
- iii. the type or class of customers that use their products and services;
- iv. the methods used to distribute their products or services; and
- v. if applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities.

BANCO SANTANDER CHILE AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:**

The Bank reports separately on each operating segment that exceeds any of the following quantitative thresholds:

- i. Its reported revenue, from both external customers and intersegment sales or transfers, is 10% or more of the combined internal and external revenue of all the operating segments.
- ii. The absolute amount of its reported profit or loss is 10% or more of the greater in absolute amount of: (i) the combined reported profit of all the operating segments that did not report a loss; (ii) the combined reported loss of all the operating segments that reported a loss.
- iii. Its assets represent 10% or more of the combined assets of all the operating segments.

Operating segments that do not meet any of the quantitative thresholds may be treated as segments to be reported, in which case the information must be disclosed separately if management believes it could be useful for the users of the financial statements.

Information about other business activities of the operating segments not separately reported is combined and disclosed in the Other segments category.

According to the information presented, the Bank's segments were determined under the following definitions:

An operating segment is a component of an entity:

- i. that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses from transactions with other components of the same entity);
- ii. whose operating results are regularly reviewed by the entity's chief executive officer, who makes decisions about resources allocated to the segment and assess its performance; and
- iii. for which discrete financial information is available.

**e) Functional and presentation currency**

According to International Accounting Standard No.21 The Effects of Changes in Foreign Exchange Rates (IAS 21), the Chilean peso, which is the currency of the primary economic environment in which the Bank operates and the currency which influences its costs and revenues structure,

has been defined as the Bank's functional and presentation currency.

Accordingly, all balances and transactions denominated in currencies other than the Chilean Peso are treated as foreign currency.

**f) Foreign currency transactions**

The Bank grants loans and accepts deposits in amounts denominated in foreign currencies, mainly the U.S. dollar. Assets and liabilities denominated in foreign currencies and only held by the Bank are translated to Chilean pesos based on the market rate published by Reuters at 1:30 p.m. on the last business day of every month. The rate used was Ch\$501.05 per US\$1 as of June 30, 2012 (Ch\$467.35 for Banks and 468.15 informed by the Chilean Central Bank for subsidiaries). The Subsidiaries record their foreign currency positions at the exchange rate reported by the Central Bank of Chile at the close of operations on the last business day of the month, amounting to Ch\$520.35 per US\$1 for Banks and Ch\$521.46 informed by the Chilean Central Bank for subsidiaries) as of December 31, 2011.

The amounts of net foreign exchange profits and losses includes recognition of the effects that exchange rate variations have on assets and liabilities denominated in foreign currencies and the profits and losses on foreign exchange spot and forward transactions undertaken by the Bank.

**g) Definitions and classification of financial instruments**

**i. Definitions**

A financial instrument is any contract that gives rise to a financial asset of one entity, and a financial liability or equity instrument of another entity.

An equity instrument is a legal transaction that evidences a residual interest in the assets of an entity deducting all of its liabilities.

BANCO SANTANDER CHILE AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:**

A financial derivative is a financial instrument whose value changes in response to the changes in an observable market variable (such as an interest rate, a foreign exchange rate, a financial instrument's price, or a market index, including credit ratings), which initial investment is very small compared to other financial instruments having a similar response to changes in market factors, and which is generally settled at a future date.

Hybrid financial instruments are contracts that simultaneously include a non-derivative host contract together with a financial derivative, known as an embedded derivative, which is not separately transferable and has the effect that some of the cash flows of the hybrid contract vary in a way similar to a stand-alone derivative.

**ii. Classification of financial assets for measurement purposes**

The financial assets are initially classified into the various categories used for management and measurement purposes.

Financial assets are included for measurement purposes in one of the following categories:

- Portfolio of trading investments (at fair value through profit and loss): This category includes the financial assets acquired for the purpose of generating a profit in the short term from fluctuations in their prices. This category includes the portfolio of trading investments and financial derivative contracts not designated as hedging instruments.
- Available for sale investment portfolio: Debt instruments not classified as a) held-to-maturity investments, b) Credit investments (loans and accounts receivable from customers or interbank loans) or c) Financial assets at fair value through profit or loss. Available for sale (AFS) investments are initially recorded at cost, which includes transaction costs. AFS instruments are subsequently measured at fair value, or based on appraisals made with the use of internal models when appropriate. Unrealized gains or losses stemming from changes in fair value are recorded as a debit or credit to Other Comprehensive Income under the heading Valuation Adjustments within equity. When these investments are disposed of or become impaired, the cumulative gains or losses previously recognized in Other Comprehensive Income are transferred to the Consolidated Interim Statement of Income under Net income from financial operations.
- Held to maturity instruments portfolio: this category includes debt securities traded on an active market, with a fixed maturity, and with fixed or determinable payments, for which the Bank has both the intent and a proven ability to hold to maturity. Held to maturity investments are recorded at their amortized cost plus interest earned, minus any impairment losses established when their carrying amount exceeds the present value of estimated future cash flows.
- Credit investments (loans and accounts receivable from customers or interbank loans): this category includes financing granted to third parties, based on their nature, regardless of the type of borrower and the form of financing. It includes loans and accounts receivable from customers, interbank loans, and financial lease transactions in which the consolidated entities act as lessor.

**iii. Classification of financial assets for presentation purposes**

Financial assets are classified by their nature into the following line items in the consolidated interim financial statements:

- Cash and deposits in banks: This line includes cash balances, checking accounts and on-demand deposits with the Central Bank of Chile and other domestic and foreign financial institutions. Amounts placed in overnight transactions will continue to be reported in this line item and in the lines or items to which they correspond. If there is no special item for these transactions, they will be included with the related account as indicated above.
- Cash items in process of collection: This item includes the values of executed transactions which contractually defer the payment of purchase-sale transactions or the delivery of the foreign currency acquired.
- Trading investments: This item includes financial instruments held-for-trading and investments in mutual funds which must be adjusted to their fair value in the same way as instruments acquired for trading.
- Financial derivative contracts: Financial derivative contracts with positive fair values are presented in this item. It includes both independent contracts as well as derivatives that should and can be separated from a host contract, whether they are for trading or hedging, as shown in Note 7 to the Consolidated Interim Financial Statements.
  
- Trading derivatives: Includes the fair value of derivatives which do not qualify for hedge accounting, including embedded derivatives separated from hybrid financial instruments.

BANCO SANTANDER CHILE AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:**

- Hedging derivatives: Includes the fair value of derivatives designated as hedging instruments in hedge accounting, including the embedded derivatives separated from the hybrid financial instruments designated as hedging instruments in hedge accounting.
- Interbank loans: This item includes the balances of transactions with domestic and foreign banks, including the Central Bank of Chile, other than those reflected in the preceding items.
- Loans and accounts receivables from customers: These loans are non-derivative financial assets for which fixed or determined amounts are charged, that are not listed on an active market and which the Bank does not intend to sell immediately or in the short term. When the Bank is the lessor in a lease, and it substantially transfers the risks and benefits incidental to the leased asset, the transaction is presented in loans and accounts receivable from customers.
- Investment instruments: These are classified into two categories; held-to-maturity investments, and available-for-sale investments. The held-to-maturity investment category includes only those instruments for which the Bank has the ability and intent to hold them until their maturity. The remaining investments are treated as available for sale.

**iv. Classification of financial liabilities for measurement purposes**

Financial liabilities are initially classified into the various categories used for management and measurement purposes.

Financial liabilities are included, for measurement purposes, in one of the following categories:

- Financial liabilities held for trading (at fair value through profit or loss): financial liabilities issued to generate a short-term profit from fluctuations in their prices, financial derivatives not deemed to qualify for hedge accounting and financial liabilities arising from firm commitment of financial assets purchased under repurchase agreements or borrowed ( short positions ).
- Financial liabilities at amortized cost: financial liabilities, regardless of their type and maturity, not included in any of the aforementioned categories which arise from the borrowing activities of financial institutions.

**v. Classification of financial liabilities for presentation purposes**

Financial liabilities are classified by their nature into the following line items in the consolidated interim financial statements:

## Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

- Deposits and other demand liabilities this item includes all on-demand obligations except for term savings accounts, which are not considered on-demand instruments in view of their special characteristics. Obligations whose payment may be required during the period are deemed to be on-demand obligations. Operations which become callable the day after the closing date are not treated as on-demand obligations.
- Cash items in process of being cleared: This item includes the balances of asset purchases that are not settled on the same day and for sales of foreign currencies not delivered.
- Obligations under repurchase agreements: This item includes the balances of sales of financial instruments under securities repurchase and loan agreements. Pursuant to the current regulations, the Bank does not record instruments acquired under repurchase agreements as its own portfolio.
- Time deposits and other demand liabilities: This item shows the balances of deposit transactions in which a term at the end of which they become callable has been stipulated.
- Financial derivative contracts: this item includes financial derivative contracts with negative fair values (i.e. against the Bank), whether they are for trading or for hedge accounting, as set forth in Note 7.
  - Trading derivatives: Includes the fair value of derivatives which do not qualify for hedge accounting, including embedded derivatives separated from hybrid financial instruments.
  - Hedging derivatives: Includes the fair value of the derivatives designated as hedging instruments, including embedded derivatives separated from hybrid financial instruments and designated as hedging instruments.
- Interbank borrowings: This item includes obligations due to other domestic banks, foreign banks, or the Central Bank of Chile, which were not classified in any of the previous categories.

BANCO SANTANDER CHILE AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:**

- Debt instruments issued: This encompasses three items; Obligations under letters of credit, Subordinated bonds and senior bonds placed in the local and foreign market.

- Other financial liabilities: This item includes credit obligations to persons other than domestic banks, foreign banks, or the Central Bank of Chile, for financing purposes or operations in the normal course of business.

**h) Valuation of financial assets and liabilities and recognition of fair value changes**

In general, financial assets and liabilities are initially recorded at fair value which, in the absence of evidence to the contrary, is deemed to be the transaction price. Financial instruments not measured at fair value through profit or loss include transaction costs. Subsequently, and at the end of each reporting period, they are measured pursuant to the following criteria:

**i. Valuation of financial assets**

Financial assets are measured according to their fair value, gross of any transaction costs that may be incurred for their sale, except for loans and accounts receivable.

The fair value of a financial instrument on a given date is the amount for which it could be bought or sold on that date by two knowledgeable, willing parties in an arm's length transaction. The most objective and common reference for the fair value of a financial instrument is the price that would be paid on an active, transparent, and deep market (quoted price or market price).

If there is no market price for a given financial instrument, its fair value is estimated based on the price established in recent transactions involving similar instruments and, in the absence thereof, of valuation techniques commonly used by the international financial community, considering the specific features of the instrument to be valued and, particularly, the various classes of risk associated with it.



## Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

All derivatives are recorded in the Consolidated Interim Statements of Financial Position at the fair value from their trade date. If their fair value is positive, they are recorded as an asset, and if their fair value is negative, they are recorded as a liability. The fair value of the trade date is deemed, in the absence of evidence to the contrary, to be the transaction price. The changes in the fair value of derivatives from the trade date are recorded in Net income from financial operations in the Consolidated Interim Statement of Income.

Specifically, the fair value of financial derivatives included in the portfolios of financial assets or liabilities held for trading is deemed to be their daily quoted price. If, for exceptional reasons, the quoted price cannot be determined on a given date, the fair value is determined using similar methods to those used to measure over the counter (OTC) derivatives. The fair value of OTC derivatives is the sum of the future cash flows resulting from the instrument, discounted to present value at the date of valuation ( present value or theoretical close ) using valuation techniques commonly used by the financial markets: net present value (NPV) and option pricing models, among other methods.

Loans and accounts receivable from customers and Held-to-maturity instrument portfolio are measured at amortized cost using the effective interest method. Amortized cost is the acquisition cost of a financial asset or liability plus or minus, as appropriate, prepayments of principal and the cumulative amortization (recorded in the income statement) of the difference between the initial cost and the maturity amount. For financial assets, amortized cost also includes any reductions for impairment or uncollectibility. For loans and accounts receivable designated as hedged items in fair value hedges, the changes in their fair value related to the risk or risks being hedged are recorded in Net income from financial operations .

The effective interest rate is the discount rate that exactly matches the initial amount of a financial instrument to all its estimated cash flows over its remaining life. For fixed-rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition date plus, where applicable, the fees and transaction costs that, because of their nature, are a part of the financial return. For floating-rate financial instruments, the effective interest rate coincides with the rate of return prevailing until the next benchmark interest reset date.

BANCO SANTANDER CHILE AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:**

Equity instruments whose fair value cannot be determined in a sufficiently objective manner and financial derivatives that have those instruments as their underlying assets and are settled by delivery of those instruments are measured at acquisition cost, adjusted, where appropriate, by any related impairment loss.

The amounts at which the financial assets are recorded represent, in all material respects, the Bank's maximum exposure to credit risk at each reporting date. The Bank has also received collateral and other credit enhancements to mitigate its exposure to credit risk, which consist mainly of mortgage guarantees, equity instruments and personal securities, assets leased out under leasing and rental agreements, assets acquired under repurchase agreements, securities loans and derivatives.

**ii. Valuation of financial liabilities**

In general, financial liabilities are measured at amortized cost, as defined above, except for those financial liabilities designated as hedged items (or hedging instruments) and financial liabilities held for trading, which are measured at fair value.

**iii. Valuation techniques**

Financial instruments at fair value, determined on the basis of quotations in active markets, include government debt securities, private sector debt securities, shares, short positions, and fixed-income securities issued.

In cases where quotations cannot be observed, the Management makes its best estimate of the price that the market would set using its own internal models. In most cases, these models use data based on observable market parameters as significant inputs and, in very specific cases, they use significant inputs not observable in market data. Various techniques are employed to make these estimates, including the extrapolation of observable market data.

The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, unless the value of the instrument can be obtained from other market transactions performed with the same or similar instruments or can be measured by using a valuation technique in which the variables used include only observable market data, mainly interest rates.

## Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

The main techniques used as of June 30, 2012 and 2011 and as of December 31, 2011 by the Bank's internal models to determine the fair value of the financial instruments are as follows:

- i. In the valuation of financial instruments permitting static hedging (mainly forwards and swaps), the present value method is used. Estimated future cash flows are discounted using the interest rate curves of the related currencies. The interest rate curves are generally observable market data.
- ii. In the valuation of financial instruments requiring dynamic hedging (mainly structured options and other structured instruments), the Black-Scholes model is normally used. Where appropriate, observable market inputs are used to obtain factors such as the bid-offer spread, exchange rates, volatility, correlation indexes and market liquidity.
- iii. In the valuation of certain financial instruments exposed to interest rate risk, such as interest rate futures, caps and floors, the present value method (futures) and the Black-Scholes model (plain vanilla options) are used. The main inputs used in these models are observable market data, including the related interest rate curves, volatilities, correlations and exchange rates.

The fair value of the financial instruments arising from the abovementioned internal models considers contractual terms and observable market data, which include interest rates, credit risk, exchange rates, and the quoted market price of shares, volatility and prepayments, among other things. The valuation models are not significantly subjective, since these methodologies can be adjusted and evaluated, as appropriate, through the internal calculation of fair value and the subsequent comparison with the related actively traded price.

#### **iv. Recording results**

As a general rule, changes in the carrying amount of financial assets and liabilities are recorded in the Intermediate Consolidated Statement of Income, distinguishing between those arising from the accrual of interests, which are recorded under Interest income or Interest expense, as appropriate, and those arising from other reasons, which are recorded at their net amount under Net income from financial operations.

In the case of trading investments, the fair value adjustments, interest income, indexation and foreign exchange, are included in the Consolidated Interim Statement of Income under Net income from financial operations.

BANCO SANTANDER CHILE AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:**

Adjustments due to changes in fair value from:

- Available-for-sale financial instruments are recorded in Other Comprehensive Income and accumulated under the heading Valuation adjustments within Equity.

- When the AFS instruments are disposed of or are determined to be impaired, the cumulative gain or loss previously accumulated as Valuation Adjustment is reclassified to the Consolidated Interim Statement of Income.

**v. Hedging transactions**

The Bank uses financial derivatives for the following purposes:

- i) to sell to customers who request these instruments in the management of their market and credit risks,
- ii) to use these derivatives in the management of the risks of the Bank entities own positions and assets and liabilities ( hedging derivatives ), and
- iii) to obtain profits from changes in the price of these derivatives ( trading derivatives ).

All financial derivatives that do not qualify for hedge accounting are accounted for as trading derivatives.

A derivative qualifies for hedge accounting if all the following conditions are met:

1. The derivative hedges one of the following three types of exposure:

## Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

- a. Changes in the value of assets and liabilities due to fluctuations, among others, in the interest rate and/or exchange rate to which the position or balance to be hedged is subject ( fair value hedge );
- b. Changes in the estimated cash flows arising from financial assets and liabilities, commitments and highly probable forecasted transactions ( cash flow hedge );
- c. The net investment in a foreign operation ( hedge of a net investment in a foreign operation ).

2. It is effective in offsetting exposure inherent in the hedged item or position throughout the expected term of the hedge, which means that:

- a. At the date of arrangement the hedge is expected, under normal conditions, to be highly effective ( prospective effectiveness ).
- b. There is sufficient evidence that the hedge was actually effective during the life of the hedged item or position ( retrospective effectiveness ).

3. There must be adequate documentation evidencing the specific designation of the financial derivative to hedge certain balances or transactions and how this effective hedge was expected to be achieved and measured, provided that this is consistent with the Bank's management of own risks.

The changes in the value of financial instruments qualifying for hedge accounting are recorded as follows:

- a. In fair value hedges, profits or losses arising on both the hedging instruments and the hedged items (attributable to the type of risk being hedged) are recorded directly in the Consolidated Interim Statement of Income.
- b. In fair value hedges of interest rate risk in a portfolio of financial instruments, gains or losses that arise in measuring the hedging instruments are recorded directly in the Consolidated Interim Statement of Income, whereas the gains or losses due to changes in the fair value of the hedged amount (attributable to the hedged risk) are recorded in the Consolidated Interim Statement of Income with an offset to Net income from financial operations .
- c. In cash flow hedges, the effective portion of the change in value of the hedging instrument is recorded temporarily in Other Comprehensive Income under the heading Cash flow hedge within Equity component Valuation adjustments , until the forecasted transaction occurs, thereafter being recorded in the Consolidated Interim Statement of Income, unless the forecasted transaction results in the recognition of non-financial assets or liabilities, in which case it is included in the cost of the non-financial asset or liability.
- d. The differences in valuation of the hedging instrument corresponding to the ineffective portion of the cash flow hedging transactions are recorded directly in the Consolidated Interim Statement of Income under Income from financial operations .



BANCO SANTANDER CHILE AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:**

If a derivative designated as a hedge no longer meets the requirements described above due to expiration, ineffectiveness or for any other reason, the derivative is classified as a trading derivative. When the Fair value hedging is discontinued, the fair value adjustments to the carrying amount of the hedged item arising from the hedged risk is amortized to gain or loss from that date.

When cash flow hedges are discontinued, any cumulative gain or loss of the hedging instrument recognized in other comprehensive income under Valuation adjustments (from the period when the hedge was effective) remains recorded in equity until the hedged transaction occurs, at which time it is recorded in the Consolidated Interim Statement of Income, unless the transaction is no longer expected to occur, in which case any cumulative profit or loss is recorded immediately in the Consolidated Interim Statement of Income.

**vi. Derivatives embedded in hybrid financial instruments**

Derivatives embedded in other financial instruments or in other host contracts are accounted for separately as derivatives if their risks and characteristics are not closely related to those of the host contracts, provided that the host contracts are not classified as Other financial assets (liabilities) at fair value through profit or loss or as Portfolio of trading investments.

**vii. Offsetting of financial instruments**

Financial asset and liability balances are offset, i.e., reported in the Consolidated Interim Statements of Financial Position at their net amount, only if the subsidiaries currently have a legally enforceable right to offset the recorded amounts and intend either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

**viii. Derecognition of financial assets and liabilities**

The accounting treatment of transfers of financial assets depends on the extent and the manner in which the risks and rewards associated with the transferred assets are transferred to third parties:

## Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

i. If the Bank transfers substantially all the risks and rewards to third parties, as in the case of unconditional sales of financial assets, sales under repurchase agreements at fair value at the date of repurchase, sales of financial assets with a purchased call option or written put option deeply out of the money, utilization of assets in which the assignor does not retain subordinated debt nor grants any credit enhancement to the new holders, and other similar cases, the transferred financial asset is removed from the Consolidated Interim Statements of Financial Position and any rights or obligations retained or created in the transfer are simultaneously recorded.

ii. If the Bank retains substantially all the risks and rewards associated with the transferred financial asset, as in the case of sales of financial assets under repurchase agreements to repurchase at a fixed price or at the sale price plus interest, securities lending agreements under which the borrower undertakes to return the same or similar assets, and other similar cases, the transferred financial asset is not removed from the Consolidated Interim Statements of Financial Position and continues to be measured by the same criteria as those used before the transfer. However, the following items are recorded:

1. An associated financial liability for an amount equal to the consideration received; this liability is subsequently measured at amortized cost.
2. Both the income from the transferred (but not removed) financial asset as well as any expenses incurred on the new financial liability.

iii. If the Bank neither transfers nor substantially retains all the risks and rewards associated with the transferred financial asset as in the case of sales of financial assets with a purchased call option or written put option that is not deeply in or out of the money, securitization of assets in which the transferor retains a subordinated debt or other type of credit enhancement for a portion of the transferred asset, and other similar cases the following distinction is made:

1. If the transferor does not retain control of the transferred financial asset: the asset is removed from the Consolidated Interim Statements of Financial Position and any rights or obligations retained or created in the transfer are recorded.
2. If the transferor retains control of the transferred financial asset: it continues to be recorded in the Consolidated Interim Statements of Financial Position for an amount equal to its exposure to changes in value and a financial liability associated with the transferred financial asset is recorded. The net carrying amount of the transferred asset and the associated liability is the amortized cost of the rights and obligations retained, if the transferred asset is measured at amortized cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

Accordingly, financial assets are only removed from the Consolidated Interim Statements of Financial Position when the rights over the cash flows they generate have terminated or when all the inherent risks and rewards have been substantially transferred to third parties. Similarly, financial liabilities are only derecognized in the Consolidated Interim Statements of Financial Position when the obligations specified in the contract are discharged, cancelled or expire.



BANCO SANTANDER CHILE AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:**

**i) Recognizing income and expenses**

The most significant criteria used by the Bank to recognize its revenues and expenses are summarized as follows:

**i. Interest revenue, interest expense, and similar items**

Interest revenue and expense are recorded on an accrual basis using the effective interest method.

However, when a given operation or transaction is past due by 90 days or more, when it originated from a refinancing or renegotiation, or when the Bank believes that the debtor poses a high risk of default, the interest and adjustments pertaining to these transactions are not recorded directly in the Consolidated Interim Statement of Income unless they have actually been received.

These interests and adjustments are generally referred to as *suspended* and are recorded in memorandum accounts which are not part of the Consolidated Interim Statements of Financial Position but are reported as part of the complementary information thereto (Note 23). This interest is recognized as income, when collected, as a reversal of the related impairment losses.

Dividends received from companies classified as *Investments in other companies* are recorded as income when the right to receive them arises.

**ii. Commissions, fees, and similar items**

Fee and commission income and expenses are recognized in the Consolidated Interim Statement of Income using criteria that vary according to their nature. The main criteria are:

## Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

- Fee and commission income and expenses relating to financial assets and liabilities measured at fair value with changes in results are acknowledged when paid.
- Those arising from transactions or services that are performed over a period of time are recognized over the life of these transactions or services.
- Those relating to services provided in a single act are recognized when the single act is performed.

### iii. Non-finance income and expenses

These are recognized for accounting purposes on an accrual basis.

### iv. Loan arrangement fees

Fees that arise as a result of the origination of a loan, mainly application and analysis-related fees, are accrued and recorded in the Consolidated Interim Statement of Income over the term of the loan. Regarding fees arising as a result of opening products, the Bank immediately records within the Consolidated Interim Statements of Income the portion that corresponds to direct costs related to loan origination.

### j) Impairment

#### i. Financial assets:

A financial asset, other than that a fair value through profit and loss, is evaluated on each financial statement filing date to determine whether objective evidence of impairment exists.

A financial asset or group of financial assets will be impaired if, and only if, objective evidence of impairment exists as a result of one or more events that occurred after initial recognition of the asset ( event causing the loss ), and this event or events causing the loss have an impact on the estimated future cash flows of a financial asset or group of financial assets.

An impairment loss relating to financial assets recorded at amortized cost is calculated as the difference between the recorded amount of the asset and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

BANCO SANTANDER CHILE AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:**

An impairment loss relating to a financial asset available for sale is calculated based on a significant extended decline in its fair value.

Individually significant financial assets are individually tested to determine their impairment. The remaining financial assets are evaluated collectively in groups that share similar credit risk characteristics.

All impairment losses are recorded in income. Any cumulative loss relating to a financial asset available for sale previously recorded in equity is transferred to profit or loss as a reclassification adjustment.

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 financial assets recorded at amortized cost and for the financial assets available for sale that are securities for sale, the reversal is recorded in income. In the case of financial assets that are variable-rate securities, the reversal is directly recorded in equity.

**ii. Non-financial assets:**

The Bank's non-financial assets, excluding investment properties, are reviewed at reporting date to determine whether they show signs of impairment (i.e. its carrying amount exceeds its recoverable amount). If such evidence exists, the amount to be recovered from the assets is then estimated.

In connection to other assets, impairment losses recorded in prior periods are assessed at each reporting date in search of any indication that the loss has decreased or disappeared and should be reversed. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years

**k) Property, plant, and equipment**

This category includes the amount of buildings, land, furniture, vehicles, computer hardware and other fixtures owned by the consolidated entities or acquired under finance leases. Assets are classified according to their use as follows:

**i. Property, plant and equipment for own use**

Property, plant and equipment for own use (including, among other things, tangible assets received by the consolidated entities in full or partial satisfaction of financial assets representing accounts receivable from third parties which are intended to be held for continuing own use and tangible assets acquired under finance leases) are presented at acquisition cost less the related accumulated depreciation and, if applicable, any impairment losses (net carrying amount higher than recoverable amount).

The acquisition cost of awarded assets is equivalent to the net amount of the financial assets surrendered in exchange for its award.

The Bank and its subsidiaries elected to measure certain items of property, plant and equipment at the date of transition to IFRS both at their fair value and at their previous GAAP revalued amount and use that fair value and that previous GAAP revalued amount as their deemed cost at that date in accordance with paragraphs D5 and D6 of IFRS 1. Accordingly, the price-level restatement applied until December 31, 2007 was not reversed.

Depreciation is calculated using the straight line method over the acquisition cost of assets less their residual value, assuming that the land on which buildings and other structures stand has an indefinite life and, therefore, is not subject to depreciation.

BANCO SANTANDER CHILE AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:**

The Bank must apply the following useful lives for the tangible assets that comprise its assets:

ITEM	Useful Life (Months)
Land	-
Paintings and works of art	-
Assets retired for disposal	-
Carpets and curtains	36
Computers and hardware	36
Vehicles	36
Computer systems and software	36
ATM s	60
Machines and equipment in general	60
Office furniture	60
Telephone and communication systems	60
Security systems	60
Rights over telephone lines	60
Air conditioning systems	84
Installations in general	120
Security systems (acquisitions up to October 2002)	120
Buildings	1,200

The consolidated entities assess at each reporting date whether there is any indication that the carrying amount of any of their tangible assets exceeds its recoverable amount. If this is the case, the carrying amount of the asset is reduced to its recoverable amount and future depreciation charges are adjusted in proportion to the revised carrying amount and to the new remaining useful life, if the useful life needs to be revised.

Similarly, if there is an indication of a recovery in the value of a tangible asset, the consolidated entities record the reversal of the impairment loss recorded in prior periods and adjust the future depreciation charges accordingly. In no circumstance may the reversal of an impairment loss on an asset increase its carrying value above the one it would have had if no impairment losses had been recorded in prior years.

The estimated useful lives of the items of property, plant and equipment held for own use are reviewed at least at the end of each reporting period to detect significant changes therein. If changes are detected, the useful lives of the assets are adjusted by correcting the depreciation charge to be recorded in the Consolidated Interim Statement of Income in future years on the basis of the new useful lives.

Maintenance expenses relating to tangible assets (property, plant and equipment) held for own use are recorded as an expense in the period in which they are incurred.

**ii. Assets leased out under operating leases**

The criteria used to record the acquisition cost of assets leased out under operating leases, to calculate their depreciation and their respective estimated useful lives, and to record the impairment losses thereof, are consistent with those described in relation to property, plant and equipment held for own use.

**l) Leasing**

**i. Finance leases**

Finance leases are leases that substantially transfer all the risks and rewards incidental to ownership of the leased asset to the lessee.

When the consolidated entities act as the lessor of an asset, the sum of the present value of the lease payments receivable from the lessee plus the guaranteed residual value, which is generally the exercise price of the lessee's purchase option at the end of the lease term, is recognized as loans to third parties and it is therefore included under Loans and accounts receivable from customers in the Consolidated Interim Statements of Financial Position.

BANCO SANTANDER CHILE AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:**

When the consolidated entities act as lessees, they show the cost of the leased assets in the Consolidated Interim Statements of Financial Position based on the nature of the leased asset, and simultaneously record a liability for the same amount (which is the lower of the fair value of the leased asset and the sum of the present value of the lease payments payable to the lessor plus, if appropriate, the exercise of the purchase option). The depreciation policy for these assets is consistent with that for property, plant and equipment for own use.

In both cases, the finance revenues and finance expenses arising from these contracts are credited and debited, respectively, to Interest income and Interest expense in the in the Consolidated Interim Statement of Income so as to achieve a constant rate of return over the lease term.

**ii. Operating leases**

In operating leases, ownership of the leased asset and substantially all the risks and rewards incidental thereto remain with the lessor.

When the consolidated entities act as the lessor, they present the acquisition cost of the leased assets under Property, plant and equipment. The depreciation policy for these assets is consistent with that for similar items of property, plant and equipment held for own use and revenues from operating leases is recorded on a straight line basis under Other operating income in the Consolidated Interim Statement of Income.

When the consolidated entities act as the lessees, the lease expenses, including any incentives granted by the lessor, are charged on a straight line basis to Administrative expenses in the Consolidated Interim Statement of Income.

**iii. Sale and leaseback transactions**

For sale at fair value and operating leasebacks, the profit or loss generated is recorded at the time of sale. In the case of finance leasebacks, the profit or loss generated is amortized over the lease term.

**m) Factored receivables**

## Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

Factored receivables are valued at the amount disbursed by the Bank in exchange of invoices or other commercial instruments representing the credit which the transferor assigns to the Bank. The price difference between the amounts disbursed and the actual face value of the credits is recorded as interest income in the Consolidated Interim Statement of Income through the effective interest method over the financing period.

When the assignment of these instruments involves no liability for the assignor, the Bank assumes the risks of insolvency of the parties responsible for payment.

### n) **Intangible assets**

Intangible assets are identified as non-monetary assets (separately identifiable from other assets) without physical substance which arise as a result of a legal transaction (contractual terms) or are developed internally by the consolidated entities. They are assets whose cost can be estimated reliably and from which the consolidated entities have control and consider it probable that future economic benefits will be generated.

Intangible assets are recorded initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortization and any accumulated impairment losses.

#### Internally developed computer software

Internally developed computer software is recorded as an intangible asset if, among other requirements (basically the Bank's ability to use or sell it), it can be identified and its ability to generate future economic benefits can be demonstrated. The estimated useful life for software is 3 years.

Intangible assets are amortized on a straight-line basis over their estimated useful life.

Expenditure on research activities is recorded as an expense in the year in which it is incurred and cannot be subsequently capitalized.

### o) **Cash and cash equivalents**

For the preparation of the cash flow statement, the indirect method was used, beginning with the Bank's consolidated pre-tax income and incorporating non-cash transactions, as well as income and expenses associated with cash flows, which are classified as investment or financing activities.



BANCO SANTANDER CHILE AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:**

For the preparation of the cash flow statement, the following items are considered:

- i. Cash flows: Inflows and outflows of cash and cash equivalents, such as deposits with the Central Bank of Chile, deposits in domestic banks, and deposits in foreign banks
- ii. Operating Activities: Principal revenue-producing activities performed by banks and other activities that cannot be classified as investing or financing activities.
- iii. Investing Activities: The acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
- iv. Financing activities: Activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

**p) Allowances for loan losses**

The Bank records allowances for loan losses in accordance with its internal models. These internal models for rating and evaluating credit risk were approved by the Bank's Board of Directors

The Bank has developed models to determine allowances for loan losses according to the type of portfolio or operations. Loans and accounts receivables from customers are divided into three categories:

- i. Consumer loans,
- ii. Mortgage loans, and
- iii. Commercial loans.

The specialization of the Santander Bank's risk function is based on the type of customer and, accordingly, a distinction is made between individualized customers that are individually evaluated and standardized customers, evaluated in groups in the risk management process.

The models used to determine credit risk provisions are described below:

**I. Allowances for individual evaluations on commercial loans**

## Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

An individual assessment of debtors is necessary in the case of companies which, due to their size, complexity or level of exposure regarding the entity, must be known and analyzed in detail.

The risk factors used are: industry or sector of the borrower, owners or managers of the borrower, their financial situation and payment capacity, and payment behavior.

The portfolio categories and their definitions are as follows:

- i. Normal Compliance Portfolio, which corresponds to debtors with a payment capacity that allows them to comply with their obligations and commitments and this is not likely to change, based on the current economic and financial situation. The classifications assigned to this portfolio are categories from A1 to A6.
- ii. Substandard Portfolio: includes debtors with financial difficulties or a significant worsening of their payment capacity and about which are reasonable doubts about the total refund of the capital and interest within the agreed terms, showing low comfort in fulfilling their short-term financial obligations. Debtors who in the last period have slow their payments in more than 90 days. The classifications assigned to this portfolio are categories from B1 to B4.
- iii. Default Portfolio: includes debtors and their credits from which payment is considered remote since they show a deteriorated or null payment capacity. Debtors with manifest signs of a possible break, those who required a forced debt restructuring, and any debtor who has been in default for over 90 days in his payment of interest or capital, are included in this portfolio. The classifications assigned to this portfolio are categories from C1 to C6.

BANCO SANTANDER CHILE AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:**

**Normal and Substandard Compliance Portfolio**

As part of individual debtor analysis, the Bank classifies debtors in the following categories, assigning them a percentage for probability of default and loss given default, which result in the expected loss percentages.

Type of Portfolio	Debtor s Category	Probability of default (%)	Loss given Default (%)	Expected Loss (%)
Normal portfolio	A1	0.04	90.0	0.03600
	A2	0.10	82.5	0.08250
	A3	0.25	87.5	0.21875
	A4	2.00	87.5	1.75000
	A5	4.75	90.0	4.27500
	A6	10.00	90.0	9.00000
Substandard Portfolio	B1	15.00	92.5	13.87500
	B2	22.00	92.5	20.35000
	B3	33.00	97.5	32.17500
	B4	45.00	97.5	43.87500

To establish the amount of the provisions, the Bank first determines the provisionable exposure, which includes the accounting value of the loans and accounts receivable from the client plus contingent loans, minus income that can be recovered through executing the guarantees. This exposure is applied the respective loss percentages.

The formula established for this calculation is as follows:

$$\text{Provision debtor} = (\text{PE} - \text{GE}) \times (\text{PDdebtor}/100) \times (\text{LGDdebtor}/100) + \text{GE} \times (\text{PDguarantee}/100) \times (\text{LGDguarantee}/100)$$

In which:

PE = Provisionable exposure

GE = Guaranteed exposure

PE = (Loans + Contingent Loans) Financial or real guarantees

Notwithstanding the latter, the Bank keeps a minimum provision percentage of 0.5% over allocations and contingent credits of the normal portfolio, which is accounted for as minimum provision adjustment within the item Provisions by Liability Contingencies.

#### **Default Portfolio**

To constitute allowances over the Default Portfolio, first an expected loss rate is created, deducting the amounts that are possible to recover by executing guarantees and the present value of recoveries received through collection actions, net of associated expenses.

Once the expected loss range is established, the respective allowance percentage is applied over the exposure amount constituted by loans plus contingent credits by the same debtor.

BANCO SANTANDER CHILE AND  
SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:**

The allowance percentage applied over exposure is as follows:

Classification	Estimated range of loss	Allowance
C1	Up to 3%	2%
C2	More than 3% and up to 20%	10%
C3	More than 20% and up to 30%	25%
C4	More than 30% and up to 50%	40%
C5	More than 50% and up to 80%	65%
C6	More than 80%	90%

The formula established for this calculation is as follows:

$$\text{Expected Loss Rate} = (E-R)/E$$

$$\text{Allowance} = \text{Ex} (\text{AP}/100)$$

In which:

E = Exposure amount

R = Receivable amount

AP = Allowance percentage

**II. Allowances for group evaluations**

Banco Santander Chile uses group analysis for determining the provisioning levels for certain types of loans. These models are intended to be used primarily to analyze loans to individuals (including consumer loans, lines of credit, mortgage loans and commercial loans to individuals) and

## Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

commercial loans, primarily to small and some mid-sized companies.

The required provisions have been established by the Bank, according to the establishment of credit loss, through the classification of the allowance portfolio by a model based on the debtor's characteristics, payment record and outstanding loans. Debtors and allocations with similar characteristics may be grouped and each group will be assigned a risk level.

These group evaluations requires the creation of credit groups with homogeneous characteristics in terms of type of debtor and agreed conditions, so as to establish, through technically-based estimated and following prudent criteria, both the group's behavior and recovery of its deteriorated credits; and, consequently, constitute the necessary provisions to hedge the portfolio's risk.

Banco Santander Chile uses provision methodologies for the Group portfolio, in which it includes business credits for debtors with no individual evaluation, mortgage loans, and consumer loans (including installments, credit cards, and credit lines). The model used applies historical loss rates by segment and risk profile over the corresponding Loans and accounts receivables from customers to each portfolio for their respective provision constitution.

### **Allocations of commercial loans**

The provisioning model for consumer loans separates these loans in four groups, each with its own model:

- New clients, not renegotiated
- Old clients, not renegotiated
- New clients, renegotiated
- Old clients, renegotiated

BANCO SANTANDER CHILE AND  
SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:**

Each consumer model is separated by risk profile which is based on a scorecard statistical model that establishes a relation through regressions between 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 non-performance. Once the scorecards have been determined, risk profiles are established that are statistically significant with similar estimated incurred loss levels or charge-off vintage.

The estimated incurred loss rates for consumer loans correspond to charge-offs net of recoveries. This methodology establishes the period in which the estimated incurred loss is maximized. Once this period is obtained, it is applied to each risk profile of each model to obtain the net charge-off level associated with this period.

**Allowances of mortgage and commercial loans**

Allowances of mortgage loans are directly related to the maturity of the loans.

In the case of the mortgage and commercial loan models, business segments, risk profiles and delinquency tranches, creating a matrix where loss rates are located for each combination of segment, profile and delinquency. Loss rates are created by historical measurements and statistical estimations, depending on the segment and the portfolio or product.

**III. Additional provisions**

According to the SBIF regulation, banks are allowed to establish provisions over the limits described below so as to protect themselves from the risk of non-predictable economical fluctuations that could affect the macroeconomic environment or the situation of a specific economical sector.

According to no. 10 of Chapter B-1 from the SBIF Compendium of Accounting Regulations, these provisions will be informed in liabilities, like provisions for contingent loans.

**IV. Charge-offs**

## Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

As a general rule, charge-offs should be done when the contract rights over cash flow expire. In the case of allocations, even if this does not happen, the respective balances will be charged off according to Title II of Chapter B-2 of the SBIF Compendium of Accounting Regulations.

Charge-offs refers to derecognition in the Consolidated Statements of Financial Position of assets corresponding to a loan. This includes a portion of a loan that might not be past due in the case of a loan paid in installments or in a leasing operation (no partial charges offs).

Charge-offs are always recorded with a charge to credit risk allowances. Any payments received on the charged-off accounts will be recorded on the Consolidated Statements of Income as recovery of loans charged-off.

Loan and accounts receivable charge-offs are recorded on overdue, past due, and current installments based on the past due deadlines presented below.

<b>Type of loan</b>	<b>Term</b>
Consumer loans with or without real guarantees	6 months
Other transactions without real guarantees	24 months
Business credits with real guarantees	36 months
Mortgage loans	48 months
Consumer leasing	6 months
Other non mortgage leasing transactions	12 months
Mortgage leasing (household and business)	36 months



BANCO SANTANDER CHILE AND  
SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:**

Any renegotiation of an already charged-off loan will not create income--as long as the operation is still deteriorated and the effective payments received must be treated as recovery from loans previously charged off.

The renegotiated credit could only be re-entered to assets if it stops being deteriorated, also acknowledging the activation income as recovery from Loans previously charged off .

**V. Recovery of loans previously charged off and accounts receivable from clients**

Recovery of previously charged off loans and accounts receivable from customers, are recorded in the Consolidated Interim Statement of Income as a reduction of provision for loan losses.

**q) Provisions, contingent assets, and contingent liabilities**

Provisions are liabilities of uncertain timing or amount. Provisions are recognized in the Consolidated Interim Statements of Financial Position when:

- i. the Bank has a present obligation (legal or constructive) as a result of past events, and
- ii. It is probable that an outflow of resources will be required to settle these obligations and the amount of these resources can be readily measured.

Contingent assets or contingent liabilities are any potential rights or obligations arising from past events whose existence will be confirmed only by the occurrence or nonoccurrence if one or more uncertain future events that are not wholly under control of the Bank.

The following are classified as contingent in the supplementary information:

## Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

- i. Guarantees and bonds: Encompasses guarantees, bonds, and standby letters of credit. In addition, guarantees of payment from buyers in factored receivables. It also includes payment guarantees from factoring transactions.
  
- ii. Confirmed foreign letters of credit: Encompasses letters of credit confirmed by the Bank.
  
- iii. Documentary letters of credit: Includes documentary letters of credit issued by the Bank, which have not yet been negotiated.
  
- iv. Documented guarantees: Guarantees with promissory notes.
  
- v. Interbank guarantee: Guarantees issued.
  
- vi. Unrestricted credit lines: The unused amount of credit lines that allow customers to draw without prior approval by the Bank (for example, using credit cards or overdrafts in checking accounts).
  
- vii. Other credit commitments: Amounts not yet lent under committed loans, which must be disbursed at an agreed future date when events contractually agreed upon with the customer occur, such as in the case of lines of credit linked to the progress of a construction or similar projects.
  
- viii. Other contingent credits: Includes any other kind of commitment by the Bank which may exist and give rise to lending when certain future events occur. In general, this includes unusual transactions such as pledges made to secure the payment of loans among third parties or derivative contracts made by third parties that may result in a payment obligation and are not covered by deposits.

BANCO SANTANDER CHILE AND  
SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:**

The consolidated annual accounts reflect all significant provisions for which it is estimated that the probability of having to meet the obligation is more likely than not.

Provisions are quantified using the best available information on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each year and are used to address the specific liabilities for which they were originally recognized. Partial or total reversals are recorded when such liabilities cease to exist or decrease.

Provisions are classified according to the obligation covered as follows:

- Provision for employee salaries and expenses.
- Provision for mandatory dividends
- Allowance for contingent credit risks
- Provisions for contingencies

**r) Deferred income taxes and other deferred taxes**

The Bank records, when appropriate, deferred tax assets and liabilities for the estimated future tax effects attributable to differences between the carrying amount of assets and liabilities and their tax bases. The measurement of deferred tax assets and liabilities is based on the tax rate, according to the applicable tax laws, using the tax rate that applies to the period when the deferred asset and liability is settled. The future effects of changes in tax legislation or tax rates are recorded in deferred taxes beginning on the date on which the law approving such changes is published.

**s) Use of estimates**

The preparation of the financial statements requires Management to make estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

## Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

In certain cases, generally accepted accounting principles require that assets or liabilities be recorded or disclosed at their fair values. The fair value is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable parties, in an arm's length transaction. Where available, quoted market prices in active markets have been used as the basis for measurement. Where quoted market prices in active markets are not available, the Bank has estimated such values based on the best information available, including the use of internal valuation models and other valuation techniques.

The Bank has established allowances to cover incurred losses in accordance with regulations issued by the Superintendency of Banks and Financial Institutions. These regulations require that, to estimate the allowances, they must be regularly evaluated taking into consideration factors such as changes in the nature and volume of the loan portfolio, trends in forecasted portfolio quality, credit quality and economic conditions that may adversely affect the borrowers' ability to pay. Increases in the allowances for loan losses are reflected as Provisions for loan losses in the Consolidated Intermediate Statement of Income. Loans are charged-off when management determines that a loan or a portion thereof is uncollectible. Charge-offs are recorded as a reduction of the provisions for loan losses.

The relevant estimates and assumptions are regularly reviewed by the Bank's Management to quantify certain assets, liabilities, revenues, expenses, and commitments. Revised accounting estimates are recorded in the period in which the estimate is revised and in any affected future period.

These estimates, made on the basis of the best available information, mainly refer to:

- Impairment losses of certain assets (Notes 7, 8, 9, and 30)
- The useful lives of tangible and intangible assets (Notes 11, 12, and 30)
- The fair value of assets and liabilities (Notes 6, 7, 10, and 33)
- Commitments and contingencies (Note 19)
- Current and deferred taxes (Note 13)

BANCO SANTANDER CHILE AND  
SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:**

**t) Non-current assets held for sale**

Non-current assets (or a group which includes assets and liabilities for disposal) expected to be recovered mainly through sales rather than through continued use, are classified as held for sale. Immediately prior to this classification, assets (or elements of a disposable group) are re-measured in accordance with the Bank's policies. The assets (or disposal group) are measured at the lower of carrying value or fair value minus cost of sale. From that moment on, the assets (or divestiture group) are measured at the minimum value between the book value and the fair value minus sale cost.

Any impairment loss on disposal is first allocated to goodwill and then to the remaining assets and liabilities on a pro rata basis, except when no losses have been recorded in financial assets, deferred assets, employee benefit plan assets, and investment property, which are still evaluated according to the Bank's accounting policies. Impairment losses on the initial classification of held-for-sale assets, and profits and losses from the revaluation are recorded in income. Profits are not recorded if they outweigh any cumulative loss.

As of June 30, 2012 and 2011 and December 31, 2011 the Bank has not classified any non-current assets as held for sale.

Assets received or awarded in lieu of payment

Assets received or awarded in lieu of payment of loans and accounts receivable from customers are reorganized, at the price agreed by the parties, or otherwise, when the parties do not reach an agreement, at the amount at which the Bank is awarded those assets at a judicial auction.

These assets are subsequently measured at the lower of initially recorded value or net realizable value, which corresponds to their fair value (liquidity value determined through an independent appraisal) less cost of sale.

At least once a year, the Bank carries out the necessary analysis to update these assets' cost to sale. According to the Bank's survey, as of June 30, 2012 and December 31, 2011 the average cost to sale (the cost of maintaining and selling the asset) was estimated at 5.2% of the appraised value. As of June 30, 2011 the average cost to sale used was at 5.5%.

In general, it is estimated that these assets will be divested within one year since their awarding date. To comply with article 84 of the General Banking Law, those assets which are not sold during that period, will be charge-off in a single payment.

**u) Earnings per share**

Basic earnings per share are determined by dividing the net income attributable to the Bank shareholders for the period by the weighted average number of shares outstanding during the period.

Diluted earnings per share are determined in the same way as Basic Earnings, but the weighted average number of outstanding shares is adjusted to take into account the potential diluting effect of stock options, warrants, and convertible debt.

As of June 30, 2012 and 2011 and December 31, 2011 and 2010 the Bank did not have instruments that generated diluting effects over equity.

**v) Temporary acquisition (assignment) of assets**

Purchases (sales) of financial assets under non-optional resale (repurchase) agreements at a fixed price ( repos ) are recorded in the Intermediate Consolidated Statements of Financial Position as financial assignments (receipts) based on the nature of the debtor (creditor) under Deposits in the Central Bank of Chile, Deposits in financial institutions or Loans and accounts receivable from customers ( Central Bank of Chile deposits, Deposits from financial institutions or Customer deposits ).

Differences between the purchase and sale prices are recorded as financial interest over the term of the contract.

**w) Assets under management and investment funds managed by the Bank**

Assets owned by third parties and managed by certain companies that are within the Bank's scope of consolidation (Santander Asset Management S.A., Administradora General de Fondos and Santander S.A. Sociedad Securitizadora), are not included in the Consolidated Interim Statements of Financial Position. Management fees are included in Fee and commission income in the Consolidated Interim Statement of Income.

BANCO SANTANDER CHILE AND  
SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:**

**x) Provision for mandatory dividends**

As of June 2011 and 2010, and December 31, 2011 the Bank recorded a provision for mandatory dividends. This provision is made pursuant to Article 79 of the Corporations Act, which is in accordance with the Bank's internal policy. Under Article 79 of the Corporations Act, at least 30% of net income for the period should be distributed, except in the case of a contrary resolution adopted at the respective shareholders' meeting by unanimous vote of the outstanding shares. This provision is recorded, as a deduction under the Retained earnings - Provisions for mandatory dividends line of the Consolidated Statement of Changes in Equity.

**Employee benefits**

**i. Post-employment benefits Defined Benefit Plan:**

According to current collective bargaining and other agreements, the Bank has undertaken to supplement the benefits granted by the public systems corresponding to certain employees and other beneficiary right holders, for retirement, permanent disability or death, outstanding salaries or compensations, contributions to pension funds for active employees and post-employment social benefits.

Features of the Plan:

The main features of the Post-Employment Benefits Plan promoted by the Santander Chile Group are:

- a. Aimed at the Group's management
- b. The general requisite to apply for this benefit is that the employee must be carrying out his/her duties when turning 60 years old.
- c. The Bank will take on insurance (pension fund) on the employee's behalf, for which it will regularly the respective premium (contribution).
- d. The Bank will be directly responsible for granting benefits.

The Bank recognizes under line item Provisions in the Consolidated Interim Statements of Financial Position (or in assets under Other assets, depending on the funded status of the plan) the present value of its post-employment defined benefit obligations, net of the fair value of the plan

## Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

assets and of the net recognized cumulative actuarial gains or losses, disclosed in the valuation of these obligations, which are deferred using corridor approach, net of the past service cost, which is deferred in time as explained below.

Plan assets are defined as those which will be used to settle the obligations and which meet the following requirements:

- They are not owned by the consolidated entities, but by a legally separate third party not related to the Bank.
- They are available only to pay or fund post-employment benefits and cannot be returned to the consolidated entities except when the assets remaining in the plan are sufficient to meet all the obligations of the plan or the entity in relation to the benefits due to current or former employees or to reimburse employee benefits previously paid by the Bank.

Actuarial gains and losses are defined as those arising from the differences between previous actuarial assumptions and what has actually occurred, and from changes in the actuarial assumptions used. For the plans, the Bank applies the corridor approach criterion, whereby it recognizes in the Consolidated Statement of Income, the amount resulting from dividing by five the higher of the net value of the accumulated actuarial gains and/or losses not recognized at the beginning of each period and exceeding 10% of the present value of the obligations or 10% of the fair value of the assets at the beginning of the period.

Past service cost which arise from changes made to existing post-employment benefits or from the introduction of new benefits is recognized in the Consolidated Statement of Income on a straight line basis over the period beginning on the date on which the new commitments arose to the date on which the employee has an irrevocable right to receive the new benefits.

Post-employment benefits are recognized in the Consolidated Interim Statement of Income as follows:

- Current service cost, defined as the increase in the present value of the obligations arising as a consequence of the services provided by the employees during the period under the Personnel salaries and expenses item.
- Interest cost, defined as the increase in the present value of the obligations as a consequence of the passage of time which occurs during the period. When the obligations are shown in liabilities in the Consolidated Interim Statements of Financial Position net of the plan assets, the cost of the liabilities which are recorded in the Consolidated Interim Statement of Income reflects exclusively the obligations recorded in liabilities.
- The expected return on the plan's assets and the gains and losses in their value, less any cost arising from their management and the taxes to which they are subject.
- The actuarial gains and losses calculated using the corridor approach and unrecognized past service cost the cost are recorded under Personnel salaries and expenses in the Consolidated Interim Statement of Income.



BANCO SANTANDER CHILE AND  
SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:**

**ii. Severance Provision:**

Severance provisions for years of employment are recorded only when they actually occur or upon the availability of a formal and detailed plan in which the fundamental modifications to be made are identified, provided that such plan has already started to be implemented or its principal features have been publicly announced, or objective facts about its execution are known.

**iii. Share-based compensation:**

The allocation of equity instruments to executives of the Bank and its Subsidiaries as a form of compensation for their services, when those instruments are provided at the end of a specific period of employment, is recorded as an expense in the Consolidated Interim Statement of Income under the Personnel wages and expenses item, as the relevant executives provide their services over the course of the period.

These benefits do not generate diluting effects, since they are based on shares of Banco Santander S.A. (the parent company of Banco Santander Chile, headquartered in Spain).

**z) New accounting pronouncements**

**i. Incorporation of new accounting regulations and instructions issued by the SBIF as well as by the IASB**

As of the date of issuance of these Consolidated Interim Financial Statements, the following accounting pronouncements have been issued by the both the SBIF and the IASB, which have been fully incorporated by the Bank and are detailed as follows:

**1) Accounting Regulations Issued by the SBIF**

Accounting Regulations Issued by the SBIF

2) **Accounting Regulations Issued by the International Accounting Standards Board**

**Annual Improvements to Financial Information** On May 17, 2012 the IASB issued Annual Improvements to IFRS: 2009-2011 Cycle , incorporating amendments to 5 standards. The amendments are effective for annual periods beginning on or after 1 January 2013, although entities are permitted to apply them earlier. *Management has not had the opportunity to consider the potential impact of the adoption of these amendments.*

**Amendments to IFRS 10, IFRS 11 and IFRS 12** - On June 28, 2012 the IASB issued Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance . These amendments provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12 , limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments are effective for annual periods beginning on or after 1 January 2013, although entities are permitted to apply them earlier. *Management has not had the opportunity to consider the potential impact of the adoption of these amendments.*

**Amendment to IAS 12, Income Taxes** On December 20, 2010 the IASB published Deferred Taxes: *Recovery of Underlying Assets Modifications to IAS 12*. The modifications establish an exemption to the IAS 12 general principle that the measurement of assets and liabilities by deferred taxes should reflect the tax consequences that would continue the way the entity expects to recover the book value of an asset. The exemption applies specifically to assets and liabilities by deferred taxes originating from investment properties measured using the fair value model from IAS 40 and investment properties acquired in a business combination, if this is afterwards measured using the IAS 40 fair value model. The modification incorporates the assumption that the current value of the investment property will be recovered when sold, except when the property is depreciable and kept within a business model that aims at consuming substantially all economic benefits through time rather than through sale. This modification should be back applied demanding a back re issuance of all assets and liabilities by deferred taxes within the reach of this modification, including those initially recorded in a business combination. These modifications will be mandatorily applied for yearly periods beginning on or after January 1, 2012. In-advance enforcement is allowed. In-advance enforcement is allowed. *These amendments did not have a material impact on our consolidated financial statements.*

**Amendment to IFRS 1, First Time Adoption of IFRS** On December 20, 2010 the IASB published certain modifications to IFRS 1, specifically:

(i) Elimination of Set Dates for First Time Adopters - These modifications help first time adopters of IFRS by replacing the back application date of the un-record of financial assets and liabilities of January 1, 2004 with the transition date to IFRS . In this way, first time IFRS adopters do not have to apply the un-record requirements of IAS 39 retrospectively to a previous date and it frees adopters from recalculating profit and losses of day 1 over transactions that took place before the transition date to IFRS.

BANCO SANTANDER CHILE AND  
SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:**

(ii) Severe Hyperinflation These modifications provide guidelines for entities coming from a severe hyperinflation, allowing them at the date of transaction of entities, to measure all assets and liabilities held before the normalization of functional currency date to fair value on the transition date to IFRS and use that fair value as the attributed cost for those assets and liabilities in the statements of opening financial position under IFRS. Entities using this exemption will have to describe the circumstances of how and why their functional currency was subjected to severe hyperinflation and the circumstances that led to end those conditions.

These modifications were mandatory for annual periods beginning on or after July 1, 2011, with early adoption allowed. *These amendments did not have a material impact on our consolidated financial statements.*

**Amendment to IFRS 7, Financial Instruments: Disclosures** On October 7, 2010 the IASB issued Disclosures - Transfer of Financial Assets (Modifications to IFRS 7 Financial Instruments - Disclosures) which increases the disclosure requirements for transactions involving the transfer of financial assets. These modifications aim at providing a bigger transparency over risk exposure of transactions where a financial asset is transferred but the transferring party retains some level of continuous exposure (referred to as continuous involvement ) in the asset. Modifications also require to disclosure when the transfers of financial assets have not been evenly distributed during the period (i.e., when transfers take place close to the report period). The modifications are effective for yearly periods beginning on or after July 1, 2011.

Early adoption is permitted. Disclosures are not required for any of the periods presented starting before the initial application date of the modifications. These amendments did not have a material impact on our consolidated financial statements.

**ii. New accounting regulations and instructions issued by the SBIF as well as by the IASB not enforced as of June 30, 2012.**

At the end date of these financial statements new IFRS had been published as well as interpretations of these regulations that were not mandatory as of June 30, 2012. Though in some cases, the IASB has allowed for their in advance adoption, the Bank has not done so up to said date.

**1) Accounting Regulations Issued by the SBIF**

**Circular Letter No. 3,532** On June 28, 2012 the SBIF issued a letter granting Banks the future possibility of establishing the most appropriate collection methods to the respective segments in which on demand and savings accounts are offered. These methods will include collection according to a number of transactions, establishing the annual limit for totaling collections and transactions in what is left of the annual period after reaching the limit, they will be free of payment. *The Bank is assessing the potential impact this regulation will have on the Bank's financial statements.*

**Circular Letter No. 3,530** On June 21, 2012 the SBIF issued the letter together with the Chilean Securities and Insurance Supervisor (General Regulation No. 330) which controls the individual and collective hiring of insurances associated to mortgage loans, the minimum conditions to be included in the bidding procedure and the minimum information that credit entities, insurance brokers and insurance companies must provide to the debtors regarding cover and functioning. These regulations are effective starting on July 1, 2012 for hiring, renovation, etc. *The Bank is assessing the potential impact these regulations will have on the Bank's financial statements.*

## 2) Accounting Regulations Issued by the International Accounting Standards Board

**Amendments to IFRS 10, IFRS 11 and IFRS 12** - On June 28, 2012 the IASB issued Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance . These amendments provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12 , limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments are effective for annual periods beginning on or after 1 January 2013, although entities are permitted to apply them earlier. Management has not had the opportunity to consider the potential impact of the adoption of these amendments.

**Annual Improvements to Financial Information** On May 17, 2012 the IASB issued Annual Improvements to IFRS: 2009-2011 Cycle , incorporating amendments to 5 standards. The amendments are effective for annual periods beginning on or after 1 January 2013, although entities are permitted to apply them earlier. Management has not had the opportunity to consider the potential impact of the adoption of these amendments.

BANCO SANTANDER CHILE AND  
SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:**

**IFRS 7, Financial Instruments: Information to Disclosure** On December 16, 2011, the IASB issued an amendment to IFRS 7 Financial Instruments: Offsetting of Financial Assets and Financial Liabilities, the new disclosure will require disclosing gross amounts subject to rights of set-off and the related net credit exposure. This information will help investors understand the extent to which an entity has set off in its balance sheet and the effects of rights of set-off on the entity's right and obligation. The disclosure are effective for annual periods beginning on or after January 1, 2013, retrospective application will be required to maximize comparability between periods.

*The Bank is assessing the potential impact this regulation will have on the Bank's financial statements.*

**IAS 32, Financial Instruments: Presentation** On December 16, 2011 together with the amendment to IFRS 7, IASB issued an amendment to IAS 32 Offsetting of Financial Assets and Financial Liabilities, which clarifies aspects related to the diversity of applications offsetting requirements, the main affected areas are: clarification of the meaning of "has a legally enforceable right to set off the recognized amounts", clarification of the criterion to realize the asset and settle the liability simultaneously, offsetting collateral amounts and unit of account when applying offsetting requirements. The effective date of these amendments is for annual periods beginning on or after January 1, 2014. An entity shall apply those amendments retrospectively, early application is permitted. *Management has not had the opportunity to consider the potential impact of the adoption of these amendments.*

**IAS 1, Presentation of Financial Statements** On June 16, 2011 the IASB issued an amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of the Other Comprehensive Income, the main change is that entities will be required to group items presented in other comprehensive income (OCI) on the basis of whether they would be reclassified to profit or loss at a later date, when specified conditions are met, the amendments do not address which items are presented in OCI or which items need to be reclassified. The effective date is for the annual period beginning on or after July 1, 2012 with early adoption permitted. *Management believes these amendments will have no significant impact over the Bank's Consolidated Financial Statements.*

**IAS 19 Employee Benefits** On June 16, 2011 the IASB issued an amendment to IAS 19 *Employee Benefits*, the amendments focus on three key areas:

Recognition the elimination of the option to defer the recognition of gains and losses resulting from defined benefit plans (corridor approach)

Presentation the elimination of options for the presentation of gains and losses relating to those plans

Disclosure the improvement of disclosure requirements that will better show the characteristics of defined plans and the risks arising from those plans.

The effective date is for the annual period beginning on or after January 1, 2013, with early adoption permitted. Management has not had the opportunity to consider the potential impact of the adoption of these amendments

**IFRS 10, Intermediate Consolidated Financial Statements** On May 12, 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, which is a replacement of IAS 27 *Consolidated and Separate Financial Statements* and SIC 12 *Consolidation - Special Purpose Entities*. The objective of IFRS 10 is to have a single basis for consolidation for all entities, regardless of the nature of the investee, and that basis is control. The

## Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

definition of control includes three elements: power over an investee, exposure or rights to variable returns of the investee and the ability to use power over the investee to affect the investor's returns. IFRS 10 provides a detailed guide on how to apply the control principle in a number of situations, including agency relationships and holdings of potential voting rights. An investor would reassess whether it controls an investee if there is a change in facts and circumstances. IFRS 10 replaces those parts of IAS 27 that address when and how an investor should prepare consolidated financial statements and replaces SIC 12 in its entirety. The effective date of IFRS 10 is January 01, 2013 with earlier application permitted under certain circumstances. *The Bank is assessing the potential impact this regulation will have on the Bank's financial statements.*

**IFRS 11, Joint Agreements** - On May 12, 2011, the IASB issued IFRS 11 *Joint Arrangements* which supersedes IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. IFRS 11 classifies joint arrangements as either joint operations (combining the existing concepts of jointly controlled assets and jointly controlled operations) or joint ventures (equivalent to the existing concept of a jointly controlled entity). A *joint operation* is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A *joint venture* is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. IFRS 11 requires the use of the equity method of accounting for interests in joint ventures thereby eliminating the proportionate consolidation method. The effective date of IFRS 11 is January 1, 2013, with earlier application permitted under certain circumstances. *The Bank is assessing the potential impact this regulation will have on the Bank's financial statements.*

**IFRS 12, Disclosure of Interests in Other Entities** - On May 12, 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities* which requires extensive disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 establishes disclosure objectives and specifies minimum disclosures that an entity must provide to meet those objectives. An entity should disclose information that helps users of its financial statements evaluate the nature and risks associated with interests in other entities and the effects of those interests on its financial statements. The disclosure requirements are extensive and significant effort may be required to accumulate the necessary information. The effective date of IFRS 12 is January 1, 2013 but entities are permitted to incorporate any of the new disclosures into their financial statements before that date. *The Bank is assessing the potential impact this regulation will have on the Bank's financial statements.*

BANCO SANTANDER CHILE AND  
SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:**

**IFRS 13, Fair Value Measurement** On May 12, 2011, the IASB issued IFRS 13 Fair Value Measurement, which establishes a single source of guidance for fair value measurement under IFRS. The Standard applies to both financial and non-financial items measured at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, and applies prospectively from the beginning of the annual period in which the Standard is adopted. *The Bank is assessing the potential impact this regulation will have on the Bank's financial statements.*

**IAS 27 Separate Financial Statements (revised in 2011)** - On May 12, IAS 27 *Consolidated and Separate Financial Statements* has been amended for the issuance of IFRS 10 but retains the guidance for separate financial statements. Effective date is January 01, 2013 though its early adoption is permitted as the new regulations are adopted. *Management believes that this new standard will be adopted in its financial statements for the period beginning January 1, 2013, but would not lead to any changes as the Bank presents consolidated financial statements*

**IAS 28, Investments in Associates and Joint Ventures (revised in 2011)** On May 12, 2011, IAS 28 Investment in Associates has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11. *Management believes that this new standard will be adopted in its financial statements for the period beginning January 1, 2013*

**Amendments to IFRS 9 Financial Instruments** On October 28, 2010 the IFRS published a revised version of IFRS 9, Financial Instruments. The revised Standard keeps the requirements for classification and measurement of financial assets published on November 2009 but it adds guidelines on classification and measurement of financial liabilities. As part of the restructuring of IFRS 9, the IASB has also reproduced the guidelines on un-record of financial instruments and related implementation guidelines from IAS 39 to IFRS 9. These new guidelines constitute the first stage of the IASB project to replace IAS 39. The other stages, impairment and hedge accounting, have not been finished yet.

The guidelines included in IFRS 9 about the classification and measurement of financial assets have not changed from those established in IAS 39. In other words, financial liabilities will continue to be measured whether by amortized cost or fair value with change in income. The concept of bifurcation of embedded derivatives in a contract by financial asset has not change either. Financial liabilities held for trade will continue to be measured at fair value with changes in profit and loss, and all other financial assets will be measured at amortized cost unless the fair value option is applied using currently existing criteria in IAS 39.

Notwithstanding the latter, there are two differences with regards to IAS 39:

- The presentation of effects from changes in fair value attributable to a liability's credit risk; and
- The elimination of the cost exemption for liability derivatives to be settled by giving non traded equity instruments.

*The Bank management, according to SBIF, will not apply this regulation in advance; furthermore, this regulation will not be applied as long as the SBIF does not set it as mandatory standard for all balances.*

**IFRS 9, Financial Instruments** On November 12, 2009 the IASB issued IFRS 9, Financial Instruments. This regulation incorporates new requirements for the classification and measurement of financial assets and it is effective for yearly periods beginning on or after January 2015, allowing its early adoption. IFRS 9 specifies how an entity should classify and measure its financial assets. It requires that all financial assets be classified in their entirety on the basis of the entity's business model for the management of financial assets and the features of the financial assets agreement cash flows. Financial assets are measured whether by amortized cost or fair value. Only financial assets classified as measured to amortized cost will be tested for Impairment. *The Bank management, according to SBIF, will not apply this regulation in advance; furthermore, this regulation will not be applied as long as the SBIF does not set it as mandatory use standard for all balances.*

**NOTE 2 ACCOUNTING CHANGES:**

As of June 30, 2012, there have not been accounting changes that significantly affect the presentation of these statements.



BANCO SANTANDER CHILE AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
 As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 3 - SIGNIFICANT EVENTS:**

As of June 30, 2012, the following significant events have occurred and had an impact on the Bank's operations or the financial statements:

**a) The Board**

A Shareholders Meeting of Banco Santander Chile was held on April 24, 2012, chaired by Mr. Mauricio Larraín Garcés (Chairman), and attended by Jesús María Zabalza Lotina (First Vice President), Oscar von Chrismar Carvajal (Second Vice President), Víctor Arbulú Crousillat, Lisandro Serrano Spoerer, Marco Colodro Hadjes, Vittorio Corbo Lioi, Carlos Olivos Marchant, Roberto Méndez Torres, Lucía Santa Cruz Sutil, Roberto Zahler Mayanz, Raimundo Monge Zegers (Alternate Director), and Juan Manuel Hoyos Martínez de Irujo (Alternate Director) Also, the CEO Claudio Melandri Hinojosa and CAO Felipe Contreras Fajardo attended the meeting.

In Extraordinary Board Session No. 103 held on May 24, 2012, Mr. Juan Manuel Hoyos Martínez de Irujo resigned from his position as Alternate Director. As of the date in which the financial statements were created, no one has been appointed in his place.

**Use of income and Distribution of Dividends**

According to the information presented in the aforementioned meeting, 2011 net income (designated in the financial statements as Income attributable to equity holders of the Bank) amounted Ch\$ 435,084 million. The Board approved to distribute 60% of such net income which divided by the amount of shares issued corresponds to a Ch\$ \$1.385 dividend per share, which was payable starting on April 25, 2012. In addition, the Board approved that 40% of the remaining profit be destined to increase the Bank's reserves.

**b) Issuance of Bonds during 2012**

In 2012, the Bank issued senior bonds in the amount of USD 250,000,000 and UF 4,000,000. The placement detail in 2012 is included in Note 16.

Series	Amount	Term	Interest Rate	Date of Issuance	Maturity date
Senior bonds	USD 250,000,000	2 years	Libor (3 months) + 102 bp	02-14-2012	02-14-2014
<b>Total</b>	<b>USD 250,000,000</b>				
E6	UF 4,000,000	10 years	3.50 % per annum simple	04-01-2012	04-01-2022
<b>Total</b>	<b>UF 4,000,000</b>				

c) Sales of loans previously charged off

In 2012, Banco Santander Chile signed assignment agreements of loans previously charged off with Fondo de Inversiones Cantábrico. As of June 30, 2012 following portfolio sales have been performed:

Date of agreement	Nominal portfolio sale		Nominal portfolio sale MCh\$	Selling price MCh\$
	Commercial MCh\$	Consumer MCh\$		
01-24-2012	603	12,527	13,130	853
02-21-2012	411	12,946	13,357	868
03-20-2012	412	13,226	13,638	887
<b>Total</b>	<b>1,426</b>	<b>38,699</b>	<b>40,125</b>	<b>2,608</b>

BANCO SANTANDER CHILE AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
 As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 3 - SIGNIFICANT EVENTS, continued:**

d) **Sales of Current Mortgage Loans**

In 2012, Banco Santander Chile signed assignment agreements of mortgage loans with Metlife Chile Seguros de Vida S.A. As of June 30, 2012 the following portfolio sales have been performed:

<b>Date of agreement</b>	<b>Book-value sale MCh\$</b>	<b>Selling price MCh\$</b>
01-19-2012	9,032	9,349
02-02-2012	7,849	8,252
<b>Total</b>	<b>16,881</b>	<b>17,601</b>

BANCO SANTANDER CHILE AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 4 - BUSINESS SEGMENTS:**

The Bank manages and measures the performance of its operations by business segment. The information disclosed in this note is not necessarily comparable to that of other financial institutions, since it is based on management's segment internal information system which has been adopted by the Bank.

Inter-segment transactions are conducted under normal arm's length commercial terms and conditions. Each segment's assets, liabilities, and income include items directly attributable to the segment to which they can be allocated on a reasonable basis.

The Bank has the following business segments:

**Individuals**

**a. Santander Banefe**

Serves individuals with monthly incomes from Ch\$150,000 to Ch\$400,000, who receive services through Santander Banefe. This segment gives customers a variety of services, including consumer loans, credit cards, auto loans, mortgage loans, debit cards, savings products, mutual funds, and insurance.

**b. Commercial banking**

Serves individuals with monthly incomes over Ch\$400,000 pesos. This segment gives customers a variety of services, including consumer loans, credit cards, auto loans, mortgage loans, debit cards, savings products, mutual funds, commercial loans, foreign trade, checking accounts, insurance and stock brokerage.

**Small and mid-sized companies (PYMEs)**

Serves small companies with annual sales of less than Ch\$1,200 million. This segment gives customers a variety of products, including commercial loans, government-guaranteed loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, savings products, mutual funds, and insurance.

**Institutional**

Serves institutions such as universities, government agencies, and municipal and regional governments. This segment provides a variety of products, including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, transactional services, treasury services, savings products, mutual funds, and insurance.

**Companies**

The Associated segment is composed of Commercial Banking and Company Banking, where sub-segments of medium-sized companies (Companies), real estate companies (Real Estate) and large corporations are found:

**a. Companies**

Serves companies with annual sales exceeding Ch\$1,200 million and up to Ch\$10,000 million. This segment provides a wide variety of 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.

**b. Real estate**

This segment also includes all the companies engaged in the real estate industry who carry out projects to sell properties to third parties and all builders with annual sales exceeding Ch\$800 million with no ceiling. These clients are offered not only the traditional banking services but also specialized services to finance projects, chiefly residential, with the aim of expanding sales of mortgage loans.

**c. Large corporations**

Serves companies with annual sales exceeding Ch\$10,000 million. This segment provides a wide variety of 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.

BANCO SANTANDER CHILE AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 4 - BUSINESS SEGMENTS, continued:**

**Global Banking and Markets**

The Global Banking and Markets segment is comprised of:

**a. Corporate**

Foreign multinational corporations or Chilean corporations with sales over Ch\$10,000 million. This segment provides a wide variety of 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.

**b. Treasury**

The Treasury Division 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. The Treasury area also handles intermediation of positions and manages the Bank's investment portfolio.

**Corporate Activities ( Other )**

This segment includes Financial Management, which develops global foreign exchange structural position management functions, involving the parent company's structural interest risk and liquidity risk. The latter, through issuances and utilizations. 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 the same as 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, the highest decision making authority 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.

## Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

To achieve the strategic objectives adopted by the top management and adapt to changing market conditions, the Bank makes changes in its organization from time to time, which in turn have a greater or lesser impact on how it is managed or administered. Hence, this disclosure furnishes information on how the Bank is managed as of June 30, 2012. Regarding the information corresponding to the previous year (2011) this has been prepared with the valid criteria at the time of reporting these financial statements to achieve the dully comparability of figures.

Below are the tables showing the Bank s results by business segment, for the periods ending as of June 30, 2012 and 2011 in addition to the corresponding balances of loans and accounts receivable from customers as of June 30, 2012 and December 31, 2011.

BANCO SANTANDER CHILE AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 4 - BUSINESS SEGMENTS, continued:**

	Net interest income	Net fee and commission income	For the quarter ending as of June 30, 2012			Segment s net contribution
			ROF	Provisions	Support	
			(1)		(2)	
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Segments</b>						
<b>Individuals</b>	<b>152,586</b>	<b>44,466</b>	<b>1,399</b>	<b>(56,384)</b>	<b>(88,533)</b>	<b>53,534</b>
Santander Banefe	31,229	9,120	34	(21,475)	(16,120)	2,788
Commercial Banking	121,357	35,346	1,365	(34,909)	(72,413)	50,746
<b>Small and mid-sized companies (PYMEs)</b>	<b>56,795</b>	<b>9,900</b>	<b>1,107</b>	<b>(14,728)</b>	<b>(19,478)</b>	<b>33,596</b>
<b>Institutional</b>	<b>7,561</b>	<b>660</b>	<b>121</b>	<b>(590)</b>	<b>(3,343)</b>	<b>4,409</b>
<b>Companies</b>	<b>37,703</b>	<b>6,494</b>	<b>2,888</b>	<b>(5,563)</b>	<b>(12,675)</b>	<b>28,847</b>
Companies	17,860	3,467	1,275	(4,592)	(6,401)	11,609
Large Corporations	14,457	2,016	1,428	(1,289)	(4,733)	11,879
Real estate	5,386	1,011	185	318	(1,541)	5,359
<b>Commercial Banking</b>	<b>254,645</b>	<b>61,520</b>	<b>5,515</b>	<b>(77,265)</b>	<b>(124,029)</b>	<b>120,386</b>
<b>Global Banking and Markets</b>	<b>14,971</b>	<b>3,140</b>	<b>16,179</b>	<b>(540)</b>	<b>(8,856)</b>	<b>24,894</b>
Corporate	17,112	4,233	151	(540)	(3,450)	17,506
Treasury	(2,141)	(1,093)	16,028	-	(5,406)	7,388
<b>Other</b>	<b>(14,676)</b>	<b>3,347</b>	<b>3,946</b>	<b>(770)</b>	<b>(4,857)</b>	<b>(13,010)</b>
<b>Total</b>	<b>254,940</b>	<b>68,007</b>	<b>25,640</b>	<b>(78,575)</b>	<b>(137,742)</b>	<b>132,270</b>
Other operating income						3,072
Other operating expenses						(15,464)
Income from investments in other companies						660
Income tax						(14,027)
<b>Consolidated income for the period</b>						<b>106,511</b>

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

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



BANCO SANTANDER CHILE AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
 As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 4 - BUSINESS SEGMENTS, continued:**

	For the quarter ending as of June 30, 2011					Segment's net contribution MCh\$
	Net interest income	Net fee and commission income	ROF (1)	Provisions	Support expenses (2)	
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	
<b>Segments</b>						
<b>Individuals</b>	<b>135,116</b>	<b>50,115</b>	<b>3,174</b>	<b>(45,395)</b>	<b>(79,388)</b>	<b>63,622</b>
Santander Banefe	29,234	9,047	255	(14,030)	(26,325)	(1,819)
Commercial Banking	105,882	41,068	2,919	(31,365)	(53,063)	65,441
<b>Small and mid-sized companies (PYMEs)</b>	<b>49,907</b>	<b>9,662</b>	<b>2,642</b>	<b>(16,530)</b>	<b>(18,681)</b>	<b>27,000</b>
<b>Institutional</b>	<b>6,998</b>	<b>419</b>	<b>141</b>	<b>(81)</b>	<b>(2,843)</b>	<b>4,634</b>
<b>Companies</b>	<b>30,688</b>	<b>5,192</b>	<b>3,103</b>	<b>1,804</b>	<b>(10,835)</b>	<b>29,952</b>
Companies	15,091	3,193	1,726	(2,422)	(6,148)	11,440
Large Corporations	10,823	1,200	1,225	(368)	(3,521)	9,359
Real estate	4,774	799	152	4,594	(1,166)	9,153
<b>Commercial Banking</b>	<b>222,709</b>	<b>65,388</b>	<b>9,060</b>	<b>(60,202)</b>	<b>(111,747)</b>	<b>125,208</b>
<b>Global Banking and Markets</b>	<b>15,720</b>	<b>6,914</b>	<b>14,558</b>	<b>3,231</b>	<b>(9,063)</b>	<b>31,360</b>
Corporate	20,244	5,376	(301)	3,231	(3,552)	24,998
Treasury	(4,524)	1,538	14,859	-	(5,511)	6,362
<b>Others</b>	<b>8,985</b>	<b>(252)</b>	<b>5,458</b>	<b>97</b>	<b>(4,351)</b>	<b>9,937</b>
<b>Total</b>	<b>247,414</b>	<b>72,050</b>	<b>29,076</b>	<b>(56,874)</b>	<b>(125,161)</b>	<b>166,505</b>
Other operating income						3,309
Other operating expenses						(8,800)
Income from investments in other companies						552
Income tax						(19,416)
<b>Consolidated income for the period</b>						<b>142,150</b>

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

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

BANCO SANTANDER CHILE AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 4 - BUSINESS SEGMENTS, continued:**

	For the 6-month period ending as of June 30, 2012						Segment s net contribution  MCh\$
	Loans and accounts receivable from customers, net (1) MCh\$	Net interest income  MCh\$	Net fee and commission income MCh\$	ROF (2)  MCh\$	Provisions  MCh\$	Support expenses (3)  MCh\$	
<b>Segments</b>							
<b>Individuals</b>	<b>9,534,018</b>	<b>309,455</b>	<b>90,634</b>	<b>3,260</b>	<b>(117,950)</b>	<b>(169,543)</b>	<b>115,856</b>
Santander Banefe	812,128	63,056	17,870	38	(39,926)	(33,903)	7,135
Commercial Banking	8,721,890	246,399	72,764	3,222	(78,024)	(135,640)	108,721
<b>Small and mid-sized companies (PYMEs)</b>	<b>2,658,077</b>	<b>113,105</b>	<b>19,692</b>	<b>2,876</b>	<b>(30,101)</b>	<b>(37,590)</b>	<b>67,982</b>
<b>Institutional</b>	<b>366,862</b>	<b>15,193</b>	<b>1,213</b>	<b>358</b>	<b>(691)</b>	<b>(6,324)</b>	<b>9,749</b>
<b>Companies</b>	<b>3,848,479</b>	<b>74,473</b>	<b>13,178</b>	<b>5,829</b>	<b>(7,349)</b>	<b>(23,286)</b>	<b>62,845</b>
Companies	1,606,051	35,492	6,950	2,767	(8,250)	(11,965)	24,994
Large Corporations	1,544,236	28,531	4,497	2,825	(416)	(8,669)	26,768
Real estate	698,192	10,450	1,731	237	1,317	(2,652)	11,083
<b>Commercial Banking</b>	<b>16,407,436</b>	<b>512,226</b>	<b>124,717</b>	<b>12,323</b>	<b>(156,091)</b>	<b>(236,743)</b>	<b>256,432</b>
<b>Global Banking and Markets</b>	<b>2,006,270</b>	<b>27,926</b>	<b>7,450</b>	<b>35,841</b>	<b>(1)</b>	<b>(17,481)</b>	<b>53,735</b>
Corporate	2,006,270	32,388	9,194	364	(1)	(6,997)	34,948
Treasury	-	(4,462)	(1,744)	35,477	-	(10,484)	18,787
<b>Others</b>	<b>106,435</b>	<b>(19,140)</b>	<b>4,531</b>	<b>(3,221)</b>	<b>(764)</b>	<b>(9,188)</b>	<b>(27,782)</b>
<b>Total</b>	<b>18,520,141</b>	<b>521,012</b>	<b>136,698</b>	<b>44,943</b>	<b>(156,856)</b>	<b>(263,412)</b>	<b>282,385</b>
Other operating income							7,054
Other operating expenses							(31,829)
Income from investments in other companies							1,107
Income tax							(33,108)
<b>Consolidated income for the period</b>							<b>225,609</b>

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

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

(3) Corresponds to the sum of Personnel salaries and expenses, administrative expenses, amortization, and impairment.



BANCO SANTANDER CHILE AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 4 - BUSINESS SEGMENTS, continued:**

	<b>As of December 31, 2011</b>	<b>For the 6-month period ending as of June 30, 2011</b>					<b>Segment s net contribution</b>
	<b>Loans and accounts receivable from customers, net</b>	<b>Net interest income</b>	<b>Net fee and commission income</b>	<b>ROF (2)</b>	<b>Provisions</b>	<b>Support expenses (3)</b>	
	<b>(1) MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	
<b>Segments</b>							
<b>Individuals</b>	<b>9,289,345</b>	<b>269,446</b>	<b>97,266</b>	<b>4,174</b>	<b>(88,759)</b>	<b>(155,017)</b>	<b>127,110</b>
Santander Banefe	804,852	55,891	18,743	258	(30,712)	(33,002)	11,178
Commercial Banking	8,484,493	213,555	78,523	3,916	(58,047)	(122,015)	115,932
<b>Small and mid-sized companies (PYMEs)</b>	<b>2,560,736</b>	<b>98,284</b>	<b>19,388</b>	<b>5,165</b>	<b>(26,884)</b>	<b>(36,032)</b>	<b>59,921</b>
<b>Institutional</b>	<b>355,199</b>	<b>12,502</b>	<b>1,059</b>	<b>433</b>	<b>320</b>	<b>(5,391)</b>	<b>8,923</b>
<b>Companies</b>	<b>3,650,709</b>	<b>67,598</b>	<b>12,225</b>	<b>6,564</b>	<b>2,347</b>	<b>(20,045)</b>	<b>68,689</b>
Companies	1,583,895	30,927	6,328	3,513	(2,629)	(11,300)	26,839
Large Corporations	1,470,447	27,445	4,323	2,671	586	(6,582)	28,443
Real estate	596,367	9,226	1,574	380	4,390	(2,163)	13,407
<b>Commercial Banking</b>	<b>15,855,989</b>	<b>447,830</b>	<b>129,938</b>	<b>16,336</b>	<b>(112,976)</b>	<b>(216,485)</b>	<b>264,643</b>
<b>Global Banking and Markets</b>	<b>1,494,752</b>	<b>26,998</b>	<b>13,676</b>	<b>32,600</b>	<b>7,362</b>	<b>(16,470)</b>	<b>64,166</b>
Corporate	1,479,838	32,841	12,438	247	7,362	(6,621)	46,267
Treasury	14,914	(5,843)	1,238	32,353	-	(9,849)	17,899
<b>Others</b>	<b>84,041</b>	<b>1,269</b>	<b>(175)</b>	<b>6,333</b>	<b>66</b>	<b>(7,894)</b>	<b>(401)</b>
<b>Total</b>	<b>17,434,782</b>	<b>476,097</b>	<b>143,439</b>	<b>55,269</b>	<b>(105,548)</b>	<b>(240,849)</b>	<b>328,408</b>
Other operating income							5,859
Other operating expenses							(29,413)
Income from investments in other companies							1,127
Income tax							(45,917)
<b>Consolidated income for the period</b>							<b>260,064</b>

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

Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

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

(3) Corresponds to the sum of Personnel salaries and expenses, administrative expenses, amortization, and impairment.

BANCO SANTANDER CHILE AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 5 - CASH AND CASH EQUIVALENTS**

a) The detail of the balances included under cash and cash equivalents is as follows:

	<b>As of June 30, 2012 MCh\$</b>	<b>As of December 31, 2011 MCh\$</b>
<b>Cash and deposits in banks</b>		
Cash	390,592	369,585
Deposits in the Central Bank of Chile	1,551,174	2,142,550
Deposits in domestic banks	323	465
Deposits in foreign banks	268,241	281,101
<b>Subtotals</b>	<b>2,210,330</b>	<b>2,793,701</b>
Unsettled transactions, net	179,496	186,968
<b>Cash and cash equivalents</b>	<b>2,389,826</b>	<b>2,980,669</b>

The level of funds in cash and at the Central Bank of Chile, which are included in the Deposits in the Central Bank of Chile line, reflects regulations governing the reserves that the Bank must maintain on average in monthly periods.

b) Cash in process of collection:

Cash in process of collection are transactions in which only settlement remains pending, which will increase (assets) or decrease (liabilities) funds in the Central Bank of Chile or in foreign banks, normally within the next 24 to 48 business hours from the end of each period. These transactions are presented according to the following detail:

	<b>As of June 30, 2012 MCh\$</b>	<b>As of December 31, 2011 MCh\$</b>
<b>Assets</b>		
Documents held by other banks (documents to be exchanged)	202,183	188,907
Funds receivable	275,184	87,547
<b>Subtotals</b>	<b>477,367</b>	<b>276,454</b>
<b>Liabilities</b>		
Funds payable	297,871	89,486
<b>Subtotals</b>	<b>297,871</b>	<b>89,486</b>
<b>Cash in process of collection, net</b>	<b>179,496</b>	<b>186,968</b>



BANCO SANTANDER CHILE AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 6 - TRADING INVESTMENTS:**

The detail of the instruments deemed as financial trading investments is as follows:

	<b>As of June 30, 2012 MCh\$</b>	<b>As of December 31, 2011 MCh\$</b>
<b>Chilean Central Bank and Government securities:</b>		
Chilean Central Bank Bonds	298,264	311,503
Chilean Central Bank Notes	7,938	60,233
Other Chilean Central Bank and Government securities	52,518	15,789
<b>Subtotals</b>	<b>358,720</b>	<b>387,525</b>
<b>Other Chilean securities:</b>		
Time deposits in Chilean financial institutions	10,075	-
Mortgage finance bonds of Chilean financial institutions	-	-
Chilean financial institutions bonds	-	-
Chilean corporate bonds	-	-
Other Chilean securities	-	-
<b>Subtotals</b>	<b>10,075</b>	<b>-</b>
<b>Foreign financial securities:</b>		
Foreign Central Banks and Government securities	-	-
Other foreign financial instruments	-	-
<b>Subtotals</b>	<b>-</b>	<b>-</b>
<b>Investments in mutual funds:</b>		
Funds managed by related entities	26,564	22,238
Funds managed by others	-	-
<b>Subtotals</b>	<b>26,564</b>	<b>22,238</b>
<b>Total</b>	<b>395,359</b>	<b>409,763</b>



BANCO SANTANDER CHILE AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING:**

a) As of June 30, 2012 and December 31, 2011 the Bank holds the following portfolio of derivative instruments:

**As of June 30, 2012**

	Notional amount			Total MCh\$	Fair value	
	Up to 3 months MCh\$	More than 3 months to 1 year MCh\$	More than 1 year MCh\$		Assets MCh\$	Liabilities MCh\$
<b>Fair value hedge derivatives</b>						
Currency forwards	-	-	-	-	-	-
Interest rate swaps	54,566	520,148	478,619	1,053,333	23,486	990
Cross currency swaps	-	35,749	259,001	294,750	11,401	1,215
Call currency options	-	-	-	-	-	-
Call interest rate options	-	-	-	-	-	-
Put currency options	-	-	-	-	-	-
Put interest rate options	-	-	-	-	-	-
Interest rate futures	-	-	-	-	-	-
Other derivatives	-	-	-	-	-	-
<b>Subtotals</b>	<b>54,566</b>	<b>555,897</b>	<b>737,620</b>	<b>1,348,083</b>	<b>34,887</b>	<b>2,205</b>
<b>Cash flow hedge derivatives</b>						
Currency forwards	-	13,576	-	13,576	-	191
Interest rate swaps	-	-	-	-	-	-
Cross currency swaps	349,382	1,056,571	588,202	1,994,155	29,223	28,022
Call currency options	-	-	-	-	-	-
Call interest rate options	-	-	-	-	-	-
Put currency options	-	-	-	-	-	-
Put interest rate options	-	-	-	-	-	-
Interest rate futures	-	-	-	-	-	-
Other derivatives	-	-	-	-	-	-
<b>Subtotals</b>	<b>349,382</b>	<b>1,070,147</b>	<b>588,202</b>	<b>2,007,731</b>	<b>29,223</b>	<b>28,213</b>
<b>Trading derivatives</b>						
Currency forwards	14,415,333	11,743,330	874,747	27,033,410	193,344	191,431
Interest rate swaps	4,564,755	9,627,489	14,129,865	28,322,109	229,614	265,763
Cross currency swaps	1,069,845	3,102,100	10,972,465	15,144,410	937,242	683,330
Call currency options	298,243	23,465	-	321,708	932	1,678
Call interest rate options	8,937	9,198	17,615	35,750	12	91
Put currency options	285,403	16,427	-	301,830	3,469	2,436
Put interest rate options	-	-	-	-	-	-
Interest rate futures	-	-	-	-	-	-
Other derivatives	348,020	1,720	-	349,740	475	334
<b>Subtotals</b>	<b>20,990,536</b>	<b>24,523,729</b>	<b>25,994,692</b>	<b>71,508,957</b>	<b>1,365,088</b>	<b>1,145,063</b>
<b>Total</b>	<b>21,394,484</b>	<b>26,149,773</b>	<b>27,320,514</b>	<b>74,864,771</b>	<b>1,429,198</b>	<b>1,175,481</b>



BANCO SANTANDER CHILE AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
 As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING, continued:****As of December 31, 2011**

	Notional amount			Fair value		
	Up to 3 months MCh\$	More than 3 months to 1 year MCh\$	More than 1 year MCh\$	Total MCh\$	Assets MCh\$	Liabilities MCh\$
<b>Fair value hedge derivatives</b>						
Currency forwards	-	-	-	-	-	-
Interest rate swaps	-	368,885	444,845	813,730	22,376	35
Cross currency swaps	30,989	-	277,469	308,458	20,499	869
Call currency options	-	-	-	-	-	-
Call interest rate options	-	-	-	-	-	-
Put currency options	-	-	-	-	-	-
Put interest rate options	-	-	-	-	-	-
Interest rate futures	-	-	-	-	-	-
Other derivatives	-	-	-	-	-	-
<b>Subtotals</b>	<b>30,989</b>	<b>368,885</b>	<b>722,314</b>	<b>1,122,188</b>	<b>42,875</b>	<b>904</b>
<b>Cash flow hedge derivatives</b>						
Currency forwards	-	-	-	-	-	-
Interest rate swaps	-	-	-	-	-	-
Cross currency swaps	284,875	1,234,882	394,050	1,913,807	94,562	713
Call currency options	-	-	-	-	-	-
Call interest rate options	-	-	-	-	-	-
Put currency options	-	-	-	-	-	-
Put interest rate options	-	-	-	-	-	-
Interest rate futures	-	-	-	-	-	-
Other derivatives	-	-	-	-	-	-
<b>Subtotals</b>	<b>284,875</b>	<b>1,234,882</b>	<b>394,050</b>	<b>1,913,807</b>	<b>94,562</b>	<b>713</b>
<b>Trading derivatives</b>						
Currency forwards	14,305,612	8,473,390	604,935	23,383,937	264,712	216,978
Interest rate swaps	5,527,118	11,459,132	13,716,043	30,702,293	265,482	302,292
Cross currency swaps	1,405,419	2,511,430	10,688,479	14,605,328	943,457	769,031
Call currency options	36,180	23,502	-	59,682	741	560
Call interest rate options	5,855	18,773	29,672	54,300	68	256
Put currency options	14,416	17,503	-	31,919	750	1,017
Put interest rate options	-	-	-	-	-	-
Interest rate futures	-	-	-	-	-	-
Other derivatives	102,084	1,694	-	103,778	222	397
<b>Subtotals</b>	<b>21,396,684</b>	<b>22,505,424</b>	<b>25,039,129</b>	<b>68,941,237</b>	<b>1,475,432</b>	<b>1,290,531</b>
<b>Total</b>	<b>21,712,548</b>	<b>24,109,191</b>	<b>26,155,493</b>	<b>71,977,232</b>	<b>1,612,869</b>	<b>1,292,148</b>



## BANCO SANTANDER CHILE AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING, continued:****b) Hedge Accounting****Fair value hedges:**

The Bank uses cross-currency swaps, interest rate swaps, and call money swaps to hedge its exposure to changes in fair value of hedged items attributable to interest rates. The aforementioned hedging instruments change the effective cost of long-term issuances from a fixed interest rate to a variable interest rate, decreasing the duration and modifying the sensitivity to the shortest segments of the curve.

Below is a detail of the hedged elements and hedge instruments under fair value hedges as of June 30, 2012 and December 31, 2011 classified by term to maturity:

	<b>As of June 30, 2012</b>				
	<b>Within 1 year</b>	<b>Between 1 and 3 years</b>	<b>Between 3 and 6 years</b>	<b>Over 6 years</b>	<b>Total</b>
	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>
<b>Hedged item</b>					
Corporate bonds	10,773	-	-	-	10,773
Subordinated bonds	-	150,315	-	-	150,315
Short-term loans	-	25,000	-	-	25,000
Interbank loans	-	-	-	-	-
Mortgage bonds	-	-	-	27,526	27,526
Senior bonds	350,735	-	316,850	198,083	865,668
Time deposits	248,955	14,835	-	-	263,790
Yankee Bond	-	-	-	5,011	5,011
<b>Total</b>	<b>610,463</b>	<b>190,150</b>	<b>316,850</b>	<b>230,620</b>	<b>1,348,083</b>
<b>Hedging instrument</b>					
Cross currency swap	35,749	165,150	66,325	27,526	294,750
Interest rate swap	390,508	-	250,525	5,011	646,044
Call money swap	184,206	25,000	-	198,083	407,289
<b>Total</b>	<b>610,463</b>	<b>190,150</b>	<b>316,850</b>	<b>230,620</b>	<b>1,348,083</b>

	<b>As of December 31, 2011</b>				
	<b>Within 1 year</b>	<b>Between 1 and 3 years</b>	<b>Between 3 and 6 years</b>	<b>Over 6 years</b>	<b>Total</b>
	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>
<b>Hedged item</b>					
Corporate bonds	-	11,188	-	-	11,188
Subordinated bonds	-	158,124	-	-	158,124
Short-term loans	-	25,000	-	-	25,000
Interbank loans	-	-	-	-	-
Mortgage bonds	-	-	-	28,339	28,339
Senior bonds	35,629	25,050	-	-	60,679
Time deposits	364,245	-	326,129	148,484	838,858
Yankee Bond	-	-	-	-	-
<b>Total</b>	<b>399,874</b>	<b>219,362</b>	<b>326,129</b>	<b>176,823</b>	<b>1,122,188</b>
<b>Hedging instrument</b>					
Cross currency swap	30,989	183,174	65,956	28,339	308,458
Interest rate swap	364,245	11,188	260,173	-	635,606
Call money swap	4,640	25,000	-	148,484	178,124
<b>Total</b>	<b>399,874</b>	<b>219,362</b>	<b>326,129</b>	<b>176,823</b>	<b>1,122,188</b>

## BANCO SANTANDER CHILE AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING, continued:****Cash flow hedges:**

The Bank uses cross currency swaps to hedge the risk from variability of cash flows attributable to changes in the interest rates of bonds and interbank loans at a variable rate. The cash flows of the cross currency swaps equal the cash flows of the hedged items, which modify uncertain cash flows to known cash flows derived from a fixed interest rate.

Below is the nominal amount of the hedged items as of June 30, 2012 and December 31, 2011 and the period when the cash flows will be generated:

	<b>As of June 30, 2012</b>				<b>Total</b>
	<b>Within 1 year</b>	<b>Between 1 and 3 years</b>	<b>Between 3 and 6 years</b>	<b>Over 6 years</b>	
	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>
<b>Hedged item</b>					
Interbank loans	1,158,077	172,862	-	-	1,330,939
Bonds	135,764	135,764	-	-	271,528
Deposits	50,530	-	-	-	50,530
FRN Bonds	75,158	279,576	-	-	354,734
<b>Total</b>	<b>1,419,529</b>	<b>588,202</b>	<b>-</b>	<b>-</b>	<b>2,007,731</b>
<b>Hedging instrument</b>					
Cross currency swap	1,405,953	588,202	-	-	1,994,155
Forward	13,576	-	-	-	13,576
<b>Total</b>	<b>1,419,529</b>	<b>588,202</b>	<b>-</b>	<b>-</b>	<b>2,007,731</b>

	<b>As of December 31, 2011</b>				<b>Total</b>
	<b>Within 1 year</b>	<b>Between 1 and 3 years</b>	<b>Between 3 and 6 years</b>	<b>Over 6 years</b>	
	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>
<b>Hedged item</b>					
Interbank loans	1,142,238	147,329	-	-	1,289,567
Bonds	377,519	246,721	-	-	624,240

Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

Deposits	-	-	-	-	-
FRN Bonds	-	-	-	-	-
<b>Total</b>	<b>1,519,757</b>	<b>394,050</b>	<b>-</b>	<b>-</b>	<b>1,913,807</b>
<b>Hedging instrument</b>					
Cross currency swap	1,519,757	394,050	-	-	1,913,807
Forward	-	-	-	-	-
<b>Total</b>	<b>1,519,757</b>	<b>394,050</b>	<b>-</b>	<b>-</b>	<b>1,913,807</b>



## BANCO SANTANDER CHILE AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING, continued:**

Below is an estimate of the periods in which the flows are expected to be produced:

	<b>As of June 30, 2012</b>				<b>Total</b>
	<b>Within 1 year</b>	<b>Between 1 and 3 years</b>	<b>Between 3 and 6 years</b>	<b>Over 6 years</b>	
	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>
<b>Hedged item</b>					
Inflows	-	-	-	-	-
Outflows	(61,065)	(10,918)	-	-	(71,983)
<b>Net flows</b>	<b>(61,065)</b>	<b>(10,918)</b>	<b>-</b>	<b>-</b>	<b>(71,983)</b>
<b>Hedging instrument</b>					
Inflows	61,065	10,918	-	-	71,983
Outflows	(124,530)	(26,446)	-	-	(150,976)
<b>Net flows</b>	<b>(63,465)</b>	<b>(15,528)</b>	<b>-</b>	<b>-</b>	<b>(78,993)</b>

	<b>As of December 31, 2011</b>				<b>Total</b>
	<b>Within 1 year</b>	<b>Between 1 and 3 years</b>	<b>Between 3 and 6 years</b>	<b>Over 6 years</b>	
	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>
<b>Hedged item</b>					
Inflows	-	-	-	-	-
Outflows	(26,147)	(9,791)	-	-	(35,938)
<b>Net flows</b>	<b>(26,147)</b>	<b>(9,791)</b>	<b>-</b>	<b>-</b>	<b>(35,938)</b>
<b>Hedging instrument</b>					
Inflows	26,147	9,791	-	-	35,938
Outflows	(44,257)	(13,692)	-	-	(57,949)
<b>Net flows</b>	<b>(18,110)</b>	<b>(3,901)</b>	<b>-</b>	<b>-</b>	<b>(22,011)</b>



BANCO SANTANDER CHILE AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING, continued:**

c) Gain and losses for cash flow hedges whose effect was recognized in the Consolidated Interim Statement of Changes in Equity for the periods ended as of June 30, 2012 and 2011, is shown below:

	<b>As of June 30,</b>	
	<b>2012</b>	<b>2011</b>
	<b>MCh\$</b>	<b>MCh\$</b>
Bonds	6,843	9,324
Loans	(2,841)	611
<b>Net flows</b>	<b>4,002</b>	<b>9,935</b>

Since the variable flows for both the hedged element and the hedging element mirror each other, the hedges are nearly 100% efficient, which means that the fluctuations of value attributable to rate components are almost completely offset. As of June 30, 2012, hedge ineffectiveness recorded in the consolidated interim statement of income was MCh\$ (144) and MCh\$ (2), respectively.

As of June 30, 2011 the Bank shows a future flow hedge for a syndicated loan granted to Banco Santander Chile and structured by Mizuho Corporate Bank/ Bank of Taiwan in USD 180 million.

d) Below is a presentation of income generated by cash flow hedges amount that were reclassified from other comprehensive income to profit and loss during the period:

	<b>As of June 30,</b>	
	<b>2012</b>	<b>2011</b>
	<b>MCh\$</b>	<b>MCh\$</b>
Bonds	(791)	-
Loans	680	(140)
<b>Reclassification to profit and loss</b>	<b>(111)</b>	<b>(140)</b>

e) Hedges of net investment hedges in foreign operations:

As of June 30, 2012 and 2011, the Bank does not have hedges of net investment in foreign operations in its hedge accounting portfolio.

BANCO SANTANDER CHILE AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 8 - INTERBANK LOANS**

a) As of June 30, 2012 and December 31, 2011, the balances in the Interbank loans item are as follows:

	<b>As of June 30, 2012 MCh\$</b>	<b>As of December 31, 2011 MCh\$</b>
<b>Domestic banks</b>		
Loans and advances to banks	-	-
Deposits in the Central Bank of Chile	-	-
Nontransferable Chilean Central Bank Bonds	-	-
Other Central Bank of Chile loans	-	-
Interbank loans	23	647
Overdrafts in checking accounts	-	-
Nontransferable domestic bank loans	-	-
Other domestic bank loans	-	-
Allowances and impairment for domestic bank loans	-	(1)
<b>Foreign banks</b>		
Loans to foreign banks	145,646	87,041
Overdrafts in current accounts	-	-
Nontransferable foreign bank deposits	-	-
Other foreign bank loans	-	-
Allowances and impairment for foreign bank loans	(279)	(146)
<b>Total</b>	<b>145,390</b>	<b>87,541</b>

b) The amount in each period for allowances and impairment of interbank loans, which are included in the Provisions for loan losses item, is shown below:

	<b>As of June 30, 2012</b>			<b>As of December 31, 2011</b>		
	<b>Domestic banks MCh\$</b>	<b>Foreign banks MCh\$</b>	<b>Total MCh\$</b>	<b>Domestic banks MCh\$</b>	<b>Foreign banks MCh\$</b>	<b>Total MCh\$</b>
<b>As of January 1,</b>	<b>1</b>	<b>146</b>	<b>147</b>	<b>-</b>	<b>54</b>	<b>54</b>
Charge-offs	-	-	-	-	-	-
Allowances established	-	277	277	406	194	600
Allowances released	(1)	(144)	(145)	(405)	(102)	(507)

<b>Total</b>	-	279	279	1	146	147
--------------	---	-----	-----	---	-----	-----

BANCO SANTANDER CHILE AND  
SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 9 - LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS:****a) Loans and accounts receivable from customers**

As of June 30, 2012 and December 31, 2011 the composition of the loan portfolio is as follows:

<b>As of June 30, 2012</b>	<b>Assets before allowances</b>			<b>Total MCh\$</b>	<b>Allowances established</b>			<b>Net assets MCh\$</b>
	<b>Normal portfolio MCh\$</b>	<b>Substandard Portfolio MCh\$</b>	<b>Default Portfolio MCh\$</b>		<b>Individual allowances MCh\$</b>	<b>Group allowances MCh\$</b>	<b>Total MCh\$</b>	
<b>Commercial loans</b>								
Commercial loans	6,565,813	211,928	519,750	7,297,491	95,110	74,427	169,537	7,127,954
Foreign trade loans	1,077,951	34,510	30,722	1,143,183	22,377	935	23,312	1,119,871
Overdrafts in current accounts	138,246	3,529	9,688	151,463	3,617	3,224	6,841	144,622
Factoring transactions	205,229	7,649	2,581	215,459	3,686	904	4,590	210,869
Leasing transactions	1,156,019	64,896	43,280	1,264,195	14,953	5,783	20,736	1,243,459
Other loans and accounts	75,843	559	16,484	92,886	7,244	3,552	10,796	82,090
<b>Subtotals</b>	<b>9,219,101</b>	<b>323,071</b>	<b>622,505</b>	<b>10,164,677</b>	<b>146,987</b>	<b>88,825</b>	<b>235,812</b>	<b>9,928,865</b>
<b>Mortgage loans</b>								
Loans with mortgage finance bonds	99,006	-	3,794	102,800	-	632	632	102,168
Mortgage mutual loans	46,427	-	4,603	51,030	-	1,089	1,089	49,941
Other mortgage mutual loans	4,861,339	-	206,745	5,068,084	-	34,508	34,508	5,033,576
Leasing transactions	-	-	-	-	-	-	-	-
<b>Subtotals</b>	<b>5,006,772</b>	<b>-</b>	<b>215,142</b>	<b>5,221,914</b>	<b>-</b>	<b>36,229</b>	<b>36,229</b>	<b>5,185,685</b>
<b>Consumer loans</b>								
Installment consumer loans	1,454,985	-	385,511	1,840,496	-	193,027	193,027	1,647,469
Credit card balances	913,113	-	28,060	941,173	-	37,236	37,236	903,937
Consumer leasing contracts	5,743	-	130	5,873	-	162	162	5,711
Other consumer loans	194,304	-	6,035	200,339	-	15,865	15,865	184,474
<b>Subtotals</b>	<b>2,568,145</b>	<b>-</b>	<b>419,736</b>	<b>2,987,881</b>	<b>-</b>	<b>246,290</b>	<b>246,290</b>	<b>2,741,591</b>
<b>Total</b>	<b>16,794,018</b>	<b>323,071</b>	<b>1,257,383</b>	<b>18,374,472</b>	<b>146,987</b>	<b>371,344</b>	<b>518,331</b>	<b>17,856,141</b>

## BANCO SANTANDER CHILE AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 9 - LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS, continued:**

<b>As of December 31, 2011</b>	<b>Normal portfolio MCh\$</b>	<b>Assets before allowances Substandard Portfolio MCh\$</b>	<b>Default Portfolio MCh\$</b>	<b>Total MCh\$</b>	<b>Allowances established Individual allowances MCh\$</b>	<b>Group allowances MCh\$</b>	<b>Total MCh\$</b>	<b>Net assets MCh\$</b>
<b>Commercial loans</b>								
Commercial loans	5,903,830	170,829	527,713	6,602,372	97,127	81,802	178,929	6,423,443
Foreign trade loans	971,662	31,818	38,544	1,042,024	30,654	1,059	31,713	1,010,311
General purpose mortgage loans	119,178	3,455	9,750	132,383	268	3,097	3,365	129,018
Factoring transactions	181,104	5,452	2,074	188,630	3,131	822	3,953	184,677
Leasing transactions	1,139,799	57,023	40,853	1,237,675	15,310	6,167	21,477	1,216,198
Other loans and accounts	65,793	683	18,025	84,501	1,427	4,168	5,595	78,906
<b>Subtotals</b>	<b>8,381,366</b>	<b>269,260</b>	<b>636,959</b>	<b>9,287,585</b>	<b>147,917</b>	<b>97,115</b>	<b>245,032</b>	<b>9,042,553</b>
<b>Mortgage loans</b>								
Loans with mortgage finance bonds	109,790	-	4,068	113,858	-	707	707	113,151
Mortgage mutual loans	68,844	-	3,034	71,878	-	1,241	1,241	70,637
Other mortgage mutual loans	4,737,333	-	192,594	4,929,927	-	33,685	33,685	4,896,242
Leasing transactions	-	-	-	-	-	-	-	-
<b>Subtotals</b>	<b>4,915,967</b>	<b>-</b>	<b>199,696</b>	<b>5,115,663</b>	<b>-</b>	<b>35,633</b>	<b>35,633</b>	<b>5,080,030</b>
<b>Consumer loans</b>								
Installment consumer loans	1,425,369	-	383,225	1,808,594	-	193,874	193,874	1,614,720
Credit card balances	889,303	-	31,549	920,852	-	43,922	43,922	876,930
Leasing transactions	3,551	-	176	3,727	-	109	109	3,618
Other consumer loans	203,933	-	6,740	210,673	-	5,117	5,117	205,556
<b>Subtotals</b>	<b>2,522,156</b>	<b>-</b>	<b>421,690</b>	<b>2,943,846</b>	<b>-</b>	<b>243,022</b>	<b>243,022</b>	<b>2,700,824</b>
<b>Total</b>	<b>15,819,489</b>	<b>269,260</b>	<b>1,258,345</b>	<b>17,347,094</b>	<b>147,917</b>	<b>375,770</b>	<b>523,687</b>	<b>16,823,407</b>





BANCO SANTANDER CHILE AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
 As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 9 - LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS, continued:****b) Portfolio characteristics:**

As of June 30, 2012 and December, 31 2011, the portfolio before allowances has the following detail by customer s economic activity:

	Domestic loans (*)		Foreign loans (**)		Total loans		Distribution percentage	
	As of June 30, 2012 MCh\$	As of December 31, 2011 MCh\$	As of June 30, 2012 MCh\$	As of December 31, 2011 MCh\$	As of June 30, 2012 MCh\$	As of December 31, 2011 MCh\$	As of June 30, 2012 %	As of December 31, 2011 %
<b>Commercial loans</b>								
Manufacturing	918,074	834,011	-	-	918,074	834,011	4.96	4.78
Mining	266,654	266,442	-	-	266,654	266,442	1.44	1.53
Electricity, gas, and water	247,985	221,039	-	-	247,985	221,039	1.34	1.27
Agriculture and livestock	776,301	760,527	-	-	776,301	760,527	4.19	4.36
Forest	80,007	89,353	-	-	80,007	89,353	0.43	0.51
Fishing	180,593	144,162	-	-	180,593	144,162	0.98	0.83
Transport	481,821	473,414	-	-	481,821	473,414	2.60	2.72
Communications	347,255	252,528	-	-	347,255	252,528	1.88	1.45
Construction	1,102,482	980,797	-	-	1,102,482	980,797	5.95	5.63
Commerce	2,225,896	1,916,400	145,646	87,041	2,371,542	2,003,441	12.81	11.49
Services	383,282	384,061	-	-	383,282	384,061	2.06	2.20
Others	3,154,351	2,965,498	-	-	3,154,351	2,965,498	17.03	17.00
<b>Subtotals</b>	<b>10,164,701</b>	<b>9,288,232</b>	<b>145,646</b>	<b>87,041</b>	<b>10,310,347</b>	<b>9,375,273</b>	<b>55.67</b>	<b>53.77</b>
<b>Mortgage loans</b>	<b>5,221,914</b>	<b>5,115,663</b>	<b>-</b>	<b>-</b>	<b>5,221,914</b>	<b>5,115,663</b>	<b>28.20</b>	<b>29.35</b>
<b>Consumer loans</b>	<b>2,987,880</b>	<b>2,943,846</b>	<b>-</b>	<b>-</b>	<b>2,987,880</b>	<b>2,943,846</b>	<b>16.13</b>	<b>16.88</b>
<b>Total</b>	<b>18,374,495</b>	<b>17,347,741</b>	<b>145,646</b>	<b>87,041</b>	<b>18,520,141</b>	<b>17,434,782</b>	<b>100.00</b>	<b>100.00</b>

(\*) Includes domestic loans to financial institutions for Ch\$23 million as of June 30, 2012 (Ch\$647 million as of December 31, 2011).

(\*\*) Includes foreign loans to financial institutions for Ch\$145,646 million as of June 30, 2012 (Ch\$87,041 million as of December 31, 2010), see Note 8.



BANCO SANTANDER CHILE AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
 As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 9 - LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS, continued:**

c) **Impaired loans**

i) As of June 30, 2012 and December 31, 2011 the composition of the impaired loans portfolio is as follows:

	As of June 30, 2012				As of December 31, 2011			
	Commercial MCh\$	Mortgage MCh\$	Consumer MCh\$	Total MCh\$	Commercial MCh\$	Mortgage MCh\$	Consumer MCh\$	Total MCh\$
Individual impaired portfolio	196,305	-	-	196,305	285,930	-	-	285,930
Non-performing loans	277,742	150,505	101,622	529,869	251,881	152,911	106,565	511,357
Other impaired portfolio	230,968	64,637	318,114	613,719	164,158	46,785	315,125	526,068
<b>Total</b>	<b>705,015</b>	<b>215,142</b>	<b>419,736</b>	<b>1,339,893</b>	<b>701,969</b>	<b>199,696</b>	<b>421,690</b>	<b>1,323,355</b>

ii) The impaired secured and unsecured loan portfolio as of June 30, 2012 and December 31, 2011, is as follows:

	As of June 30, 2012				As of December 31, 2011			
	Commercial MCh\$	Mortgage MCh\$	Consumer MCh\$	Total MCh\$	Commercial MCh\$	Mortgage MCh\$	Consumer MCh\$	Total MCh\$
Secured debt	387,987	199,482	53,363	640,832	376,864	183,657	58,335	618,856
Unsecured debt	317,028	15,660	366,373	699,061	325,105	16,039	363,355	704,499
<b>Total</b>	<b>705,015</b>	<b>215,142</b>	<b>419,736</b>	<b>1,339,893</b>	<b>701,969</b>	<b>199,696</b>	<b>421,690</b>	<b>1,323,355</b>

iii) The portfolio of non - performing loans secured and unsecured as of June 30, 2012 and December 31, 2011 is as follows:

	As of June 30, 2012				As of December 31, 2011			
	Commercial MCh\$	Mortgage MCh\$	Consumer MCh\$	Total MCh\$	Commercial MCh\$	Mortgage MCh\$	Consumer MCh\$	Total MCh\$

Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

Secured debt	134,701	136,141	6,841	277,683	116,201	138,234	9,920	264,355
Unsecured debt	143,041	14,364	94,781	252,186	135,680	14,677	96,645	247,002
<b>Total</b>	<b>277,742</b>	<b>150,505</b>	<b>101,622</b>	<b>529,869</b>	<b>251,881</b>	<b>152,911</b>	<b>106,565</b>	<b>511,357</b>

BANCO SANTANDER CHILE AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
 As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 9 - LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS, continued:****d) Allowances**

The allowance activities in the 2012 and 2011 periods are as follows:

	<b>As of June 30, 2012</b>			<b>As of December 31, 2011</b>		
	<b>Individual allowances MCh\$</b>	<b>Group allowances MCh\$</b>	<b>Total MCh\$</b>	<b>Individual allowances MCh\$</b>	<b>Group allowances MCh\$</b>	<b>Total MCh\$</b>
<b>As of January 1</b>	<b>147,917</b>	<b>375,770</b>	<b>523,687</b>	<b>152,748</b>	<b>328,833</b>	<b>481,581</b>
Portfolio charge-offs:						
Commercial loans	(19,649)	(26,734)	(46,383)	(23,200)	(67,175)	(90,375)
Mortgage loans	-	(5,450)	(5,450)	-	(12,776)	(12,776)
Consumer loans	-	(120,578)	(120,578)	-	(187,937)	(187,937)
<b>Total charge offs loans</b>	<b>(19,649)</b>	<b>(152,762)</b>	<b>(172,411)</b>	<b>(23,200)</b>	<b>(267,888)</b>	<b>(291,088)</b>
Allowances established	30,336	176,864	207,200	60,110	374,237	434,347
Allowances released	(11,617)	(28,528)	(40,145)	(41,741)	(59,412)	(101,153)
<b>Balances as of</b>	<b>146,987</b>	<b>371,344</b>	<b>518,331</b>	<b>147,917</b>	<b>375,770</b>	<b>523,687</b>

In addition to credit risk allowances, there are allowances held for:

a) Country risk to cover the risk taken when holding or compromising resources with any foreign country. These allowances are established over country classifications performed by the Bank, according to the provisions established on Chapter 7-13 of the Updated Regulations Compendium. The balance of allowances as of June 30, 2012 and December 31, 2011 is Ch\$ 88 million and Ch\$ 19 million, respectively.

b) According to Circular letter 3489 from the SBIF on December 29, 2009 the Bank has established allowances related to the unused balances of lines of credit with free disposal. The balance of allowances as of June 30, 2012 and December 31, 2011 is Ch\$ 17,689 million and Ch\$ 17,473 million, respectively.

**e) Allowances established for customer and interbank loans**

Net assets

Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

	<b>As of June 30, 2012</b>	<b>As of December 31, 2011</b>
Customer loans	207,200	434,347
Interbank loans	277	600
<b>Total</b>	<b>207,477</b>	<b>434,947</b>

BANCO SANTANDER CHILE AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
 As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 10 - AVAILABLE FOR SALE INVESTMENTS:**

As of June 30, 2012 and December 31, 2011 the detail of instruments designated as available for sale instruments is as follows:

	<b>As of June 30, 2012 MCh\$</b>	<b>As of December 31, 2011 MCh\$</b>
<b>Chilean Central Bank and Government securities</b>		
Chilean Central Bank Bonds	646,311	570,573
Chilean Central Bank Notes	232,760	563,114
Other Chilean Central Bank and Government securities	249,651	173,839
<b>Subtotals</b>	<b>1,128,722</b>	<b>1,307,526</b>
<b>Other Chilean securities</b>		
Time deposits in Chilean financial institutions	561,269	275,022
Mortgage finance bonds of Chilean financial institutions	63,097	66,806
Chilean financial institution bonds	-	-
Chilean corporate bonds	-	-
Other Chilean securities	308	319
<b>Subtotals</b>	<b>624,674</b>	<b>342,147</b>
<b>Foreign financial securities:</b>		
Foreign Central Banks and Government securities	-	-
Other foreign financial securities	16,582	11,638
<b>Subtotals</b>	<b>16,582</b>	<b>11,638</b>
<b>Total</b>	<b>1,769,978</b>	<b>1,661,311</b>

Chilean Central Bank and Government securities include instruments sold to customers and financial institutions under repurchase agreements totaling MCh\$ 44,661 and MCh\$273,323 as of June 30, 2012 and December 31, 2011, respectively.

As of June 30, 2012 available for sale investments included unrealized net losses of Ch\$ 863 million, recorded as a Valuation adjustment in Equity, distributed between MCh\$ 801 attributable to Bank shareholders and MCh\$ 62 attributable to non controlling interests.

As of December 31, 2011 available for sale investments included unrealized net losses of MCh\$ 3,043, recorded as a Valuation adjustment in Equity, distributed between MCh\$ 3,077 attributable to Bank shareholders and MCh\$ 34 attributable to non controlling interest.



BANCO SANTANDER CHILE AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
 As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 11 - INTANGIBLE ASSETS:**

a) As of June 30, 2012 and December 31, 2011 the composition of the item is as follows:

	Useful life (years)	Remaining useful life	As of June 30, 2012			
			Opening balance January 1, 2012 MCh\$	Gross balance MCh\$	Accumulated amortization MCh\$	Net balance MCh\$
Licenses	3	1.9	2,496	8,863	(6,375)	2,488
Software development	3	1.9	78,243	192,099	(121,186)	70,913
<b>Total</b>			<b>80,739</b>	<b>200,962</b>	<b>(127,561)</b>	<b>73,401</b>

	Useful life (years)	Remaining useful life	As of December 31, 2011			
			Opening balance January 1, 2011 MCh\$	Gross balance MCh\$	Accumulated amortization MCh\$	Net balance MCh\$
Licenses	3	2	2,108	8,085	(5,589)	2,496
Software development	3	1.8	75,882	184,133	(105,890)	78,243
<b>Total</b>			<b>77,990</b>	<b>192,218</b>	<b>(111,479)</b>	<b>80,739</b>

b) The activity in intangible assets during June 30, 2012 and December 31, 2011 is as follows:

**b.1) Gross balance**

	Licenses MCh\$	Software development MCh\$	Total MCh\$
<b>Gross balances 2012</b>			
Opening balances as of January 1, 2012	8,085	184,133	192,218
Acquisitions	778	7,966	8,744
Disposals	-	-	-

Net assets

Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

<b>Balances as of June 30, 2012</b>	<b>8,863</b>	<b>192,099</b>	<b>200,962</b>
<b>Gross balances 2011</b>			
Balances as of January 1, 2011	6,229	150,090	156,319
Acquisitions	1,856	32,195	34,051
Disposals	-	(409)	(409)
Other	-	2,257	2,257
<b>Balances as of December 31, 2011</b>	<b>8,085</b>	<b>184,133</b>	<b>192,218</b>

BANCO SANTANDER CHILE AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
 As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 11 - INTANGIBLE ASSETS, continued:**

**b.2) Accumulated amortization**

<b>Accumulated amortization</b>	<b>Licenses MCh\$</b>	<b>Software development MCh\$</b>	<b>Total MCh\$</b>
<b>Opening balances as of January 1, 2012</b>	<b>(5,589)</b>	<b>(105,890)</b>	<b>(111,479)</b>
Amortization for the period	(786)	(15,296)	(16,082)
Other changes	-	-	-
<b>Balances as of June 30, 2012</b>	<b>(6,375)</b>	<b>(121,186)</b>	<b>(127,561)</b>
<b>Balances as of January 1, 2011</b>	<b>(4,121)</b>	<b>(74,208)</b>	<b>(78,329)</b>
Amortization for the period	(1,468)	(31,625)	(33,093)
Other changes	-	(57)	(57)
<b>Balances as of December 31, 2011</b>	<b>(5,589)</b>	<b>(105,890)</b>	<b>(111,479)</b>

c) The Bank does not have any restriction on intangible assets. Additionally, intangible assets have not been pledged as security for liabilities.

BANCO SANTANDER CHILE AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
 As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 12 - PROPERTY, PLANT, AND EQUIPMENT**

a) Property, plant and equipment as of June 30, 2012 and December 31, 2011 is as follows:

	<b>As of June 30, 2012</b>			
	<b>Opening balances as of January 1, 2012 MCh\$</b>	<b>Gross balance MCh\$</b>	<b>Accumulated depreciation MCh\$</b>	<b>Net balance MCh\$</b>
Land and buildings	117,834	159,246	(43,424)	115,822
Equipment	22,570	57,065	(32,962)	24,103
Ceded under operating leases	4,730	4,767	(68)	4,699
Other	7,925	24,989	(17,943)	7,046
<b>Total</b>	<b>153,059</b>	<b>246,067</b>	<b>(94,397)</b>	<b>151,670</b>

	<b>As of December 31, 2011</b>			
	<b>Opening balances as of January 1, 2011 MCh\$</b>	<b>Gross balance MCh\$</b>	<b>Accumulated depreciation MCh\$</b>	<b>Net balance MCh\$</b>
Land and buildings	123,654	156,688	(38,854)	117,834
Equipment	20,346	51,781	(29,211)	22,570
Ceded under operating leases	4,698	4,739	(9)	4,730
Other	6,287	24,081	(16,156)	7,925
<b>Total</b>	<b>154,985</b>	<b>237,289</b>	<b>(84,230)</b>	<b>153,059</b>

b) The activity in property, plant, and equipment during 2012 and 2011 is as follows:

b.1) Gross balance

2012	Land and buildings MCh\$	Equipment MCh\$	Ceded under an operating leases MCh\$	Others MCh\$	Total MCh\$
<b>Opening balances as of January 1, 2012</b>	<b>156,688</b>	<b>51,781</b>	<b>4,739</b>	<b>24,081</b>	<b>237,289</b>
Additions	2,570	5,461	28	834	8,893
Disposals	(12)	(89)	-	(43)	(144)

Net assets

Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

Impairment due to damage	-	(88)	-	-	(88)
Transfers	-	-	-	-	-
Other	-	-	-	117	117
<b>Balances as of June 30, 2012</b>	<b>159,246</b>	<b>57,065</b>	<b>4,767</b>	<b>24,989</b>	<b>246,067</b>

2011	Land and buildings MCh\$	Equipment MCh\$	Ceded under an operating leases MCh\$	Others MCh\$	Total MCh\$
<b>Balances as of January 1, 2011</b>	<b>152,925</b>	<b>42,757</b>	<b>4,736</b>	<b>18,943</b>	<b>219,361</b>
Additions	12,271	9,272	3	5,143	26,689
Disposals	(8,508)	(132)	-	(5)	(8,645)
Impairment due to damage	-	(116)	-	-	(116)
Transfers	-	-	-	-	-
Other	-	-	-	-	-
<b>Balances as of December 31, 2011</b>	<b>156,688</b>	<b>51,781</b>	<b>4,739</b>	<b>24,081</b>	<b>237,289</b>

BANCO SANTANDER CHILE AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
 As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 12 - PROPERTY, PLANT, AND EQUIPMENT, continued:**

Banco Santander Chile has recognized in its financial statements as of June 30, 2012 an impairment of Ch\$88 million from damages to ATMs. Reimbursement payments received from the insurance company totaled Ch\$241 million, which are presented in Other operating income (Note 31).

**b.2) Accumulated depreciation**

2012	Land and buildings MCh\$	Equipment MCh\$	Ceded under an operating leases MCh\$	Others MCh\$	Total MCh\$
<b>Opening balances as of January 1, 2012</b>	(38,854)	(29,211)	(9)	(16,156)	(84,230)
Depreciation charges in the period	(4,571)	(3,764)	(59)	(1,794)	(10,188)
Sales and disposals in the period	1	13	-	7	21
Other	-	-	-	-	-
<b>Balances as of June 30, 2012</b>	<b>(43,424)</b>	<b>(32,962)</b>	<b>(68)</b>	<b>(17,943)</b>	<b>(94,397)</b>

2011	Land and buildings MCh\$	Equipment MCh\$	Ceded under an operating leases MCh\$	Other MCh\$	Total MCh\$
<b>Balances as of January 1, 2011</b>	(29,271)	(22,411)	(38)	(12,656)	(64,376)
Depreciation charges in the period	(10,002)	(6,845)	(9)	(3,517)	(20,373)
Sales and disposals in the period	419	45	-	17	481
Other	-	-	38	-	38
<b>Balances as of December 31, 2011</b>	<b>(38,854)</b>	<b>(29,211)</b>	<b>(9)</b>	<b>(16,156)</b>	<b>(84,230)</b>

**c) Operational leases Lessor**

As of December 31, 2012 and 2011, the future minimum lease inflows under non-cancellable operating leases is a follows:

As of June 30, 2012 MCh\$	As of December 31, 2011 MCh\$
---------------------------------	-------------------------------------

Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

Due within 1 year	1,189	1,151
Due after 1 year but within 2 years	880	1,165
Due after 2 year but within 3 years	607	605
Due after 3 year but within 4 years	348	582
Due a 4 year but within 5 years	273	293
Due after 5 years	2,259	2,337
<b>Total</b>	<b>5,556</b>	<b>6,133</b>

BANCO SANTANDER CHILE AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
 As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 12 - PROPERTY, PLANT, AND EQUIPMENT, continued:**

**d) Operational leases Lessee**

Certain of the Bank's premises and equipment are leased under various operating leases. Future minimum rental payments under non-cancellable leases are as follows:

	<b>As of June 30, 2012 MCh\$</b>	<b>As of December 31, 2011 MCh\$</b>
Due within 1 year	16,606	15,089
Due after 1 year but within 2 years	14,978	13,521
Due after 2 year but within 3 years	13,637	12,373
Due after 3 year but within 4 years	11,519	10,781
Due a 4 year but within 5 years	10,619	9,347
Due after 5 years	66,260	63,686
<b>Total</b>	<b>133,619</b>	<b>124,797</b>

e) As of June 30, 2012 and December 31, 2011, the Bank has not entered into financial leases which cannot be unilaterally rescinded.

As of June 30, 2012 and December 31, 2011 the Bank does not have any restriction on title property, plant, and equipment. Additionally, property, plant, and equipment have not been pledged as security for liabilities. Also, the Bank has no debt regarding Property, plant, and equipment to those dates.



BANCO SANTANDER CHILE AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
 As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 13 - CURRENT AND DEFERRED TAXES:**

**a) Current taxes**

At the end of each reporting period the bank recognizes an Income Tax Provision, which is determined based on the currently applicable tax legislation. This provision is recorded net of recoverable taxes, as shown as follows:

	<b>As of June 30, 2012 MCh\$</b>	<b>As of December 31, 2011 MCh\$</b>
<b>Summary of current tax liabilities (assets)</b>		
Current tax (assets)	(24,181)	(37,253)
Current tax liabilities	46	1,498
<b>Total tax payable (recoverable)</b>	<b>(24,135)</b>	<b>(35,755)</b>
<b>(Assets) liabilities current taxes detail (net)</b>		
Income tax, tax rate of 18.5% and 20%	32,430	101,853
Minus:		
Provisional monthly payments (PPM)	(50,613)	(138,329)
Credit for training expenses	(505)	(1,366)
Other	(5,447)	2,087
<b>Total tax payable (recoverable)</b>	<b>(24,135)</b>	<b>(35,755)</b>

**b) Effect on income**

The effect of tax expense on income for the periods ended June 30, 2012 and 2011 is comprised of the following items:

	<b>For the quarter ended as of June 30,</b>		<b>For the 6-month period ended as of June 30,</b>	
	<b>2012 MCh\$</b>	<b>2011 MCh\$</b>	<b>2012 MCh\$</b>	<b>2011 MCh\$</b>
<b>Income tax expense</b>				
Current tax	17,942	20,844	9,793	40,478

Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

**Credits (debits) for deferred taxes**

Origination and reversal of temporary differences	(3,907)	(1,675)	23,312	4,914
Prior years tax benefit	-	-	-	-
<b>Subtotals</b>	<b>14,035</b>	<b>19,169</b>	<b>33,105</b>	<b>45,392</b>
Tax for rejected expenses (Article No.21)	8	247	19	525
Other	(16)	-	(16)	-
<b>Net charges for income tax expense</b>	<b>14,027</b>	<b>19,416</b>	<b>33,108</b>	<b>45,917</b>

BANCO SANTANDER CHILE AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
 As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 13 - CURRENT AND DEFERRED TAXES, continued:**

**c) Effective tax rate reconciliation**

The reconciliation between the income tax rate and the effective rate applied in determining tax expenses as of June 30, 2012 and 2011, is as follows:

	2012		As of June 30,		2011	
	Tax rate %	Amount MCh\$	Tax rate %	Amount MCh\$	Tax rate %	Amount MCh\$
Income tax using statutory rate	18.50	47,863	20.00	61,196	20.00	61,196
Permanent differences	(2.78)	(7,201)	(3.05)	(9,344)	(3.05)	(9,344)
Additions or deductions	-	-	-	-	-	-
Unique tax (rejected expenses)	(0.02)	(42)	-	(1)	-	(1)
Effect of change in tax rate	(0.27)	(688)	(0.02)	(67)	(0.02)	(67)
Other	(2.63)	(6,824)	(1.92)	(5,867)	(1.92)	(5,867)
<b>Effective rates and expenses for income tax</b>	<b>12.80</b>	<b>33,108</b>	<b>15.01</b>	<b>45,917</b>	<b>15.01</b>	<b>45,917</b>

Law No. 20,455 from 2010 increased the statutory tax rate to be applied during 2011 and 2012, to 20% and 18.5% respectively. Due to this, the Bank recognized tax benefit amounted to MCh\$67 and MCh\$688 as of 2011 and June 2012, respectively, corresponding to the adjustment of temporary differences to be reversed during those years.

**d) Effect of deferred taxes on comprehensive income**

Below is a summary of the separate effect of deferred tax on other comprehensive income, during the periods between January 1, 2012 and June 30, 2012 and January 1, 2011 and December 31, 2011:

	As of June 30, 2012 MCh\$	As of December 31, 2011 MCh\$
--	---------------------------------	-------------------------------------

Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

<b>Deferred tax assets</b>		
Available for sale investments	51	143
Cash flow hedge	508	-
<b>Total deferred tax assets affecting other comprehensive income</b>	<b>559</b>	<b>143</b>
<b>Deferred tax liabilities</b>		
Available for sale investments	(206)	(705)
Cash flow hedge	(1,224)	(72)
<b>Total deferred tax liabilities affecting other comprehensive income</b>	<b>(1,430)</b>	<b>(777)</b>
<b>Net deferred tax balances in equity</b>	<b>(871)</b>	<b>(634)</b>
Deferred taxes in equity attributable to Bank shareholders	(857)	(639)
Deferred tax in equity attributable to non-controlling interests	(14)	5

BANCO SANTANDER CHILE AND  
SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 13 - CURRENT AND DEFERRED TAXES, continued:**

**e) Effect of deferred taxes on income**

As of June 30, 2012 and December 31, 2011 the Bank has recorded on its intermediate consolidated financial statements the effects of deferred taxes.

Below are the effects on assets and liabilities affecting profit or loss, as a result of temporary differences:

	<b>As of June 30, 2012 MCh\$</b>	<b>As of December 31, 2011 MCh\$</b>
<b>Deferred tax assets</b>		
Interest and adjustments	2,122	1,936
Extraordinary charge-off	8,567	7,028
Assets received in lieu of payment	1,205	1,322
Exchange rate adjustments	291	1,890
Property, plant and equipment	3,926	5,906
Allowance for loan losses	73,646	77,199
Provision for expenses	13,962	15,961
Derivatives	19	27
Leased assets	30,319	31,244
Subsidiaries tax losses	4,317	4,229
Other	1,308	869
<b>Total deferred tax assets</b>	<b>139,682</b>	<b>147,611</b>
<b>Deferred tax liabilities</b>		
Valuation of investments	(4,185)	(2,301)
Depreciation	(144)	(178)
Prepaid expenses	(2,405)	(1,303)
Other	(802)	(756)
<b>Total deferred tax liabilities</b>	<b>(7,536)</b>	<b>(4,538)</b>

**f) Summary of deferred tax assets and liabilities**

	<b>As of June 30, 2012 MCh\$</b>	<b>As of December 31, 2011 MCh\$</b>
<b>Deferred tax assets</b>		
Recognized in other comprehensive income	559	143
Recognized in profit or loss	139,682	147,611
<b>Total deferred tax assets</b>	<b>140,241</b>	<b>147,754</b>

Net assets

Edgar Filing: BANCO SANTANDER CHILE - Form 6-K

**Deferred tax liabilities**

Recognized in other comprehensive income  
Recognized in profit or loss

(1,430)

(7,536)

**(8,966)**

(777)

(4,538)

**(5,315)**

BANCO SANTANDER CHILE AND  
SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 14 OTHER ASSETS:**

Other assets item is as follows:

	<b>As of June 30, 2012 MCh\$</b>	<b>As of December 31, 2011 MCh\$</b>
<b>Assets for leasing (*)</b>	<b>28,091</b>	<b>105,150</b>
<b>Assets received or awarded in lieu of payment (**)</b>		
Assets received in lieu of payment	14,753	11,428
Assets awarded at judicial sale	8,152	10,226
Provisions for assets received in lieu of payment or awarded	(3,511)	(2,227)
<b>Subtotals</b>	<b>19,394</b>	<b>19,427</b>
<b>Other assets</b>		
Guarantee deposits	165,117	149,583
VAT credit	6,854	8,953
Income tax recoverable	28,756	6,849
Prepaid expenses	63,231	70,927
Assets recovered from leasing for sale	4,423	2,693
Pension plan assets	3,244	3,348
Accounts and notes receivable	87,765	64,667
Notes receivable through brokerage and simultaneous transactions	136,903	66,406
Other assets	68,108	48,467
<b>Subtotals</b>	<b>564,401</b>	<b>421,893</b>
<b>Total</b>	<b>611,886</b>	<b>546,470</b>

(\*) Assets available to be granted under financial leasing agreements.

(\*\*) Assets received in lieu of payment are assets received as payment of customers' past-due debts. The assets acquired must at no time exceed, in the aggregate, 20% of the Bank's effective equity. These assets represent 0.60% (0.81% as of December 31, 2011) of the Bank's effective equity.

The assets awarded at judicial sale are assets that have been acquired as payment of debts previously owed towards the Bank. The assets awarded at judicial sale are not subject to the aforementioned requirement. These properties are assets available for sale. For most assets, sale is expected to be completed within one year from the date on which the asset was received or acquired. If the asset in question is not sold within the year, it must be written off.

In addition, a provision is recorded for the initial award value plus its additions and its estimated realization value (appraisal) when the first is higher.





BANCO SANTANDER CHILE AND  
SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 15 - TIME DEPOSITS AND OTHER TIME LIABILITIES:**

As of June 30, 2012 and December 31, 2011 the composition of the item is as follows:

	<b>As of June 30, 2012 MCh\$</b>	<b>As of December 31, 2011 MCh\$</b>
<b>Deposits and other demand liabilities</b>		
Checking accounts	3,618,258	3,543,776
Other deposits and demand accounts	394,302	350,519
Other demand liabilities	612,010	519,520
<b>Total</b>	<b>4,624,570</b>	<b>4,413,815</b>
<b>Time deposits and other time liabilities</b>		
Time deposits	9,806,300	8,816,766
Time savings account	104,794	102,831
Other time liabilities	1,999	1,517
<b>Total</b>	<b>9,913,093</b>	<b>8,921,114</b>

BANCO SANTANDER CHILE AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
 As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 16 - ISSUED DEBT INSTRUMENTS AND OTHER OBLIGATIONS:**

As of June 30, 2012 and December 31, 2011 the composition of the item is as follows:

	<b>As of June 30, 2012 MCh\$</b>	<b>As of December 31, 2011 MCh\$</b>
<b>Other financial liabilities</b>		
Obligations to public sector	98,870	100,299
Other domestic obligations	76,660	75,260
Foreign obligations	11,851	1,040
<b>Subtotals</b>	<b>187,381</b>	<b>176,599</b>
<b>Issued debt instruments</b>		
Mortgage finance bonds	143,310	160,243
Senior bonds	3,354,712	3,601,125
Subordinated bonds	853,634	861,871
<b>Subtotals</b>	<b>4,351,656</b>	<b>4,623,239</b>
<b>Total</b>	<b>4,539,037</b>	<b>4,799,838</b>

Debts classified as current are either demand obligations or will mature in one year or less. All other debts are classified as non-current. The Bank's debts, both current and non-current, are summarized below:

	<b>As of June 30, 2012</b>		
	<b>Current MCh\$</b>	<b>Non-current MCh\$</b>	<b>Total MCh\$</b>
Mortgage finance bonds	7,045	136,265	143,310
Senior bonds	540,883	2,813,829	3,354,712
Subordinated bonds	131,665	721,969	853,634
<b>Issued debt instruments</b>	<b>679,593</b>	<b>3,672,063</b>	<b>4,351,656</b>
<b>Other financial liabilities</b>	<b>68,469</b>	<b>118,912</b>	<b>187,381</b>
<b>Total</b>	<b>748,062</b>	<b>3,790,975</b>	<b>4,539,037</b>

	<b>As of December 31, 2011</b>		
	<b>Current MCh\$</b>	<b>Non-current MCh\$</b>	<b>Total MCh\$</b>
Mortgage finance bonds	7,707	152,536	160,243
Senior bonds	749,340	2,851,785	3,601,125
Subordinated bonds	136,842	725,029	861,871
<b>Issued debt instruments</b>	<b>893,889</b>	<b>3,729,350</b>	<b>4,623,239</b>
<b>Other financial liabilities</b>	<b>56,078</b>	<b>120,521</b>	<b>176,599</b>

<b>Total</b>	<b>949,967</b>	<b>3,849,871</b>	<b>4,799,838</b>
--------------	----------------	------------------	------------------

BANCO SANTANDER CHILE AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
 As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 16 ISSUED DEBT INSTRUMENTS AND OTHER OBLIGATIONS, continued:**

**a) Mortgage finance bonds**

These bonds are used to finance mortgage loans. The outstanding principal of the bonds are amortized on a quarterly basis. The range of maturities of these bonds is between five and twenty years. The bonds are linked to the UF index and bear a weighted-average annual interest rate of 5.7% as of June 2012 (5.7% as of December 2011).

	<b>As of June 30, 2012 MCh\$</b>	<b>As of December 31, 2011 MCh\$</b>
Due within 1 year	7,045	7,707
Due after 1 year but within 2 years	8,286	7,535
Due after 2 year but within 3 years	16,118	10,333
Due after 3 year but within 4 years	13,930	21,122
Due a 4 year but within 5 years	11,698	14,010
Due after 5 years	86,233	99,536
<b>Total mortgage bonds</b>	<b>143,310</b>	<b>160,243</b>

**b) Senior bonds**

The following table shows senior bonds by currency as of June 30, 2012 and 2011:

	<b>As of June 30, 2012 MCh\$</b>	<b>As of December 31, 2011 MCh\$</b>
Santander bonds in UF	2,001,594	2,001,713
Santander bonds in US\$	1,024,460	1,268,763
Santander bonds in CHF\$	91,326	119,394
Santander bonds in Ch\$	237,332	211,255
<b>Total senior bonds</b>	<b>3,354,712</b>	<b>3,601,125</b>

BANCO SANTANDER CHILE AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
 As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 16 ISSUED DEBT INSTRUMENTS AND OTHER OBLIGATIONS, continued:**

In 2012 the Bank issued bonds for UF 428,000 and USD 250,000,000; detailed as follows:

Series		Amount	Term	Issue rate	Issuance date	Amount Issued	Maturity date
FD Series	UF	2,000	5 years	To maturity (bullet)	09-01-2010	UF 3,500,000	09-01-2015
E1 Series	UF	300,000	5 years	3.50 % per annum simple	02-01-2011	UF 4,000,000	02-01-2016
E3 Series	UF	6,000	8.5 years	3.50 % per annum simple	01-01-2011	UF 4,000,000	01-07-2019
E6 Series	UF	120,000	10 years	3.50 % per annum simple	04-01-2012	UF 4,000,000	04-01-2022
<b>UF Total</b>	<b>UF</b>	<b>428,000</b>					
USD Senior	USD	250,000,000	2 years	Libor (3 months) + 200 bp	02-14-2012	USD 250,000,000	02-14-2014
<b>USD Total</b>	<b>USD</b>	<b>250,000,000</b>					

In 2011 the Bank placed bonds for UF 5,694,000; USD 635,000,000; and CLP 36,900,000,000; detailed as follows:

Series		Amount	Term	Interest Rate	Issuance date	Amount Issued	Maturity date
Floating rate bond	USD	500,000,000	5 years	Libor (3 months) + 160 bp	19-01-2011	USD 500,000,000	19-01-2016
Floating rate bond	USD	135,000,000	6 months	Libor (3 months) + 80 bp	29-11-2011	USD 135,000,000	01-29-2012
<b>USD Total</b>	<b>USD</b>	<b>635,000,000</b>					
E1 Series	UF	896,000	5 years	3.50 % per annum simple	01-02-2011	UF 4,000,000	01-02-2016
E2 Series	UF	3,048,000	7.5 years	3.50 % per annum simple	01-01-2011	UF 4,000,000	07-01-2018
E3 Series	UF	1,750,000	8.5 years	3.50 % per annum simple	01-01-2011	UF 4,000,000	07-01-2019
<b>UF Total</b>	<b>UF</b>	<b>5,694,000</b>					
E4 Series	CLP	36,900,000,000	5 years	6.75 % per annum simple	01-06-2011	CLP 50,000,000,000	01-06-2016
<b>CLP Total</b>	<b>CLP</b>	<b>36,900,000,000</b>					

In 2011, a total payment of the Bond Series BSTDH20799 was carried out in July and a total payment of Bond Series BSTDR0207 took place in August. Also, a partial payment of the fixed rate bond for CHF 133,000,000 was done.



## BANCO SANTANDER CHILE AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 16 ISSUED DEBT INSTRUMENTS AND OTHER OBLIGATIONS, continued:**

The table below shows issued bonds pending to be placed:

Series		Amount	Term	Issue rate	Issuance date	Maturity date
FD	UF	158,000	5 years	To maturity (bullet)	09-01-2010	09-01-2015
E1	UF	2,804,000	5 years	3.0 % per annum simple	02-01-2011	02-01-2016
E2	UF	952,000	7.5 years	3.50 % per annum simple	01-01-2011	07-01-2018
E3	UF	2,244,000	8.5 years	3.50 % per annum simple	01-01-2011	07-01-2019
E6	UF	3,880,000	10 years	3.50 % per annum simple	04-01-2012	04-01-2022
<b>Total</b>	<b>UF</b>	<b>10,038,000</b>				
E4	CLP	13,100,000,000	5 years	6.75 % per annum simple	06-01-2011	06-01-2016
E5	CLP	25,000,000,000	10 years	6,30% per annum simple	12-01-2012	12-01-2012
<b>Total</b>	<b>CLP</b>	<b>38,100,000,000</b>				

These bonds mature as follows:

	As of June 30, 2012 MCh\$	As of December 31, 2011 MCh\$
Due within 1 year	540,883	749,340
Due after 1 year but within 2 years	702,749	460,200
Due after 2 year but within 3 years	411,279	408,723
Due after 3 year but within 4 years	801,445	656,201
Due a 4 year but within 5 years	61,740	488,425
Due after 5 years	836,616	838,236
<b>Total senior bonds</b>	<b>3,354,712</b>	<b>3,601,125</b>

**c) Subordinated bonds**

The following table shows the balances of our subordinated bonds:

Net assets

	<b>As of June 30,</b>	<b>As of December 31,</b>
	<b>2012 MCh\$</b>	<b>2011 MCh\$</b>
Subordinated bonds denominated in US\$	303,409	316,169
Subordinated bonds denominated in UF	550,225	545,702
<b>Total subordinated bonds</b>	<b>853,634</b>	<b>861,871</b>

During the first semester of 2012 the Bank has not issued subordinated bonds on the local market.



BANCO SANTANDER CHILE AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 16 ISSUED DEBT INSTRUMENTS AND OTHER OBLIGATIONS, continued:**

In 2011 the Bank placed subordinated bonds on the local market for UF 4,950,000, which are detailed as follows:

Series	Amount	Term	Issue rate	Issuance date	Amount Issued	Maturity date
G3 Series Total	UF 3.000.000	25 years	3.90% per annum simple	07-01-2012	3,000,000	07-01-2035
G5 Series Total	UF 2.100.000	20 years	3.90% per annum simple	04-01-2011	4,000,000	04-01-2031
<b>Total UF</b>	<b>UF 5.100.000</b>					

The maturities of these bonds are as follows:

	As of June 30,	As of December 31,
	2012 MCh\$	2011 MCh\$
Due within 1 year	131,665	136,842
Due after 1 year but within 2 years	-	-
Due after 2 year but within 3 years	171,744	179,327
Due after 3 year but within 4 years	18,123	10,567
Due a 4 year but within 5 years	18,820	29,616
Due after 5 years	513,282	505,519
<b>Total subordinated bonds</b>	<b>853,634</b>	<b>861,871</b>

BANCO SANTANDER CHILE AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 16 ISSUED DEBT INSTRUMENTS AND OTHER OBLIGATIONS, continued:**

**d) Other financial liabilities**

The composition of other financial obligations, by maturity, is detailed below:

	<b>As of June 30, 2012 MCh\$</b>	<b>As of December 31, 2011 MCh\$</b>
Non-current portion:		
Due after 1 year but within 2 years	29,469	29,575
Due after 2 year but within 3 years	3,265	2,866
Due after 3 year but within 4 years	3,285	3,489
Due a 4 year but within 5 years	3,108	3,095
Due after 5 years	79,785	81,496
<b>Non-current portion subtotals</b>	<b>118,912</b>	<b>120,521</b>
Current portion:		
Amounts due to credit card operators	52,547	50,840
Acceptance of letters of credit	11,222	704
Other long-term financial obligations, short-term portion	4,700	4,534
<b>Current portion subtotals</b>	<b>68,469</b>	<b>56,078</b>
<b>Total other financial liabilities</b>	<b>187,381</b>	<b>176,599</b>

BANCO SANTANDER CHILE AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As of June 30, 2012 and 2011, and December 31, 2011

**NOTE 17 - MATURITIES OF ASSETS AND LIABILITIES:**

As of June 30, 2012 and December 31, 2011 the detail of maturities of assets and liabilities is as follows:

<b>As of June 30, 2012</b>	<b>Demand MCh\$</b>	<b>Up to 1 month MCh\$</b>	<b>Between 1 and 3 months MCh\$</b>	<b>Between 3 and 12 months MCh\$</b>	<b>Subtotal up to 1 year MCh\$</b>	<b>Between 1 and 5 years MCh\$</b>	<b>More than 5 years MCh\$</b>	<b>Subtotal more than 1 year MCh\$</b>	<b>Total MCh\$</b>
<b>Assets</b>									