BED BATH & BEYOND INC
Form DEF 14A
May 31, 2018

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934
Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:
Preliminary Proxy Statement
Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material Pursuant to §240.14a-12

Bed Bath & Beyond Inc.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Time: 9:00 A.M. on Friday, June 29, 2018

Place: The Madison Hotel
One Convent Road
Morristown, New Jersey 07960

Items of Business:

(1) To elect 12 directors until the Annual Meeting in 2019 and until their respective successors have been elected and qualified (Proposal 1).

(2) To ratify the appointment of KPMG LLP as independent auditors for the 2018 fiscal year (Proposal 2).

(3) To consider the approval, by non-binding vote, of the 2017 compensation paid to the Company's Named Executive Officers (Proposal 3).

(4) To approve the 2018 Incentive Compensation Plan (Proposal 4).

(5) To transact such other business as may properly be brought before the Annual Meeting or any adjournment or adjournments.

Record Date: You can vote if you were a shareholder of record on May 4, 2018.

Proxy Voting: It is important that your shares be represented and voted at the Annual Meeting. Whether or not you plan to attend the Annual Meeting, we urge you to vote online, via telephone or to fill out the enclosed proxy card and return it to us in the envelope provided. No postage is required.

Warren Eisenberg

Co-Chairman

Leonard Feinstein

Co-Chairman

May 31, 2018

Important Notice Regarding the Availability of Proxy Material for the Annual Meeting of Shareholders to be held on June 29, 2018: this Notice of the 2018 Annual Meeting of Shareholders, Proxy Statement and the Company's 2017 Annual Report are available at www.bedbathandbeyond.com/annualmeeting2018

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PROXY STATEMENT SUMMARY

You have received these proxy materials because the Board of Directors of Bed Bath & Beyond Inc. (the "Company", "we", or "us"), a New York Corporation, is soliciting your proxy to vote your shares at the 2018 Annual Meeting of Shareholders. This summary highlights information contained elsewhere in this proxy statement. This summary does not contain all of the information that you should consider, and you should read the entire proxy statement carefully before voting. Page references are supplied to help you find further information in this Proxy Statement.

Summary of Voting Matters

The Board of Directors is not aware of any matter that will be presented for a vote at the 2018 Annual Meeting of Shareholders other than those shown below.

Proposals	**Board Vote Recommendation**	**Page Reference**
1. Election of 12 Directors	FOR each director nominee	9
2. Ratification of Appointment of Auditors	FOR	20
3. Advisory Vote on Executive Compensation	FOR	51
4. Approval of the 2018 Incentive Compensation Plan	FOR	52

Board of Directors Nominees

You are being asked to vote on the following 12 nominees for director. Each director is elected annually by a majority vote of shares cast. Further information about each director can be found under "Board Nominees and Qualifications."

Name	**Director Since**	**Principal Occupation**	**Independent**	**Board Committee***
Warren Eisenberg	1971	Co-Founder/Co-Chairman, Bed Bath & Beyond Inc.	No	
Leonard Feinstein	1971	Co-Founder/Co-Chairman, Bed Bath & Beyond Inc.	No	
Steven H. Temares	1999	Chief Executive Officer, Bed Bath & Beyond Inc.	No	
Dean S. Adler	2001	Co-Founder/Chief Executive Officer, Lubert-Adler Partners, L.P.	Yes	AC
Stanley F. Barshay	2003	Retired Executive Vice President, Merck & Co. (formerly Schering-Plough Corporation) and President of its Consumer Health Care Division	Yes	AC

Stephanie Bell-Rose	2018	Senior Managing Director at TIAA and Head of the TIAA Institute	Yes	
Klaus Eppler (Lead Director)	1992	Pensioned partner in the law firm Proskauer Rose LLP	Yes	NC
Patrick R. Gaston	2007	Chief Executive Officer, Gaston Consulting; Past President of the Verizon Foundation and the Western Union Foundation	Yes	CC
Jordan Heller	2003	President, Heller Wealth Advisors LLC	Yes	CC
Victoria A. Morrison	2001	Executive Vice President & General Counsel, Edison Properties LLC	Yes	CC, NC
Johnathan B. Osborne	2018	Co-Founder/Chief Executive Officer, Red Antler	Yes	AC
Virginia P. Ruesterholz	2017	Retired Executive Vice President – Strategic Initiatives, Verizon Communications Inc.; Past President of Verizon Services Operations	Yes	NC

* AC – Audit Committee; CC – Compensation Committee; NC – Nominating and Corporate Governance Committee; assignments effective May 2018.

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Corporate Governance Highlights

- Majority Independent Board
- Separate Chair and CEO
- Lead Independent Director
- Independent Committee Members
- Detailed Board Self-Assessments, Supplementing Annual Board Self-Assessments
- Ongoing Board Refreshment Initiative
- Adopted Board Skills Matrix
- >75% Board and Committee Attendance in Fiscal 2017
- Annual Election of All Directors
- Majority Voting for Uncontested Director Elections
- Executive Sessions for Independent Directors
- Stock Ownership Guidelines for CEO and Independent Directors
- Imposition of post-vesting holding period on 2017-2018 CEO equity awards
- Strong Pay-For-Performance Philosophy
- Continued Shareholder Engagement
- Shareholder Proxy Access
- Policy on Certain Future Severance Agreements
- No Hedging with Respect to Company Securities
- Restrictions on Pledging Company Securities
- No Poison Pill
- Compensation “Clawback” Policy

– Comprehensive Policy of Ethical Standards for Business Conduct

– Regular Director Meetings with Executive Management (in addition to the CEO)

Mission and Strategy

Bed Bath & Beyond's mission is to be trusted by our customers as the expert for the home and heart-felt life events. These include certain life events that evoke strong emotional connections such as getting married, moving to a new home, having a baby, going to college and decorating a room, which the Company supports through our wedding and baby registries, mover and student life programs and our design consultation services. Our strategy is rooted in our customer-centric culture and commitment to customer service, and consists of four broad objectives:

1) Assortment: to present a meaningfully differentiated and complete product assortment for the home, of the right quality, and at the right price;

2) Services: to provide services and solutions that enhance the usage and enjoyment of our offerings;

3) Experiences: to deliver a convenient, engaging, and inspiring shopping experience that is intelligently personalized over time;

4) Operational Excellence: to drive change across the organization in order to improve operational efficiencies to create future growth.

Business Performance

It is an exciting and rapidly evolving period in retail, driven by the swift adoption of ever-improving technology. It is within this framework that we have been actively transforming our Company, while continuing to conduct business day in and day out. While this transformation has been underway for several years, 2017 was the year we accelerated the pace of change across our Company. We recognize that the investments we have been making, while necessary in an evolving retail environment, are contributing to unfavorable trends in our financial performance. However, during this time, we have maintained a strong balance sheet and produced profitable returns. This is a powerful combination that allows us to take advantage of external opportunities and to make internal structural changes that will better position us for continued success.

Against this backdrop, we experienced some notable achievements during fiscal 2017. We delivered net sales of approximately $12.3 billion in fiscal 2017 (on a 53-week basis), an increase of approximately 1.1% over the prior year period (52 weeks), including continued strong growth in comparable sales from our customer-facing digital channels. Our net earnings per diluted share were $3.04, including an approximately $0.08 net unfavorable impact from the Tax Cuts and Jobs Act of 2017 (the “Tax Act”). We ended the year with a strong cash and investments balance of approximately $744 million, an increase of about $166 million over the prior year, providing us the flexibility to fund ongoing initiatives and act upon other opportunities in support of achieving our mission.

Shareholder Outreach—We Listened, Learned & Responded

Throughout each year, management and members of our Board actively engage with our shareholders. Over time, in addition to our day-to-day interactions with investors, we have proactively expanded our shareholder engagement efforts to include a greater focus on areas such as executive compensation, governance, and other topics suggested by our shareholders. Shareholder feedback, including through direct discussions and prior shareholder votes, as well as engagement with proxy advisory firms that represent the interests of a wide array of shareholders, is discussed at the Board level periodically throughout the year. The feedback received through these engagement efforts has, in part, contributed to the steady progression of enhancements made to our executive compensation program and governance policies over the past several years.

In preparation for our fiscal 2018 compensation decisions, and in light of the decline in the most recent say-on-pay vote, we reached out to representatives from a variety of our shareholders, including index funds, hedge funds, public pension funds, and actively-managed funds, representing nearly 63% of our total shares outstanding, excluding shares held by directors and executive officers. In addition, over the past 12 months, representatives of the Compensation Committee and the Nominating and Corporate Governance Committee, along with management, engaged in face-to-face meetings and/or phone calls with, or received responsive feedback from shareholders representing nearly 50% of our total shares outstanding, excluding shares held by directors and executive officers.

During the course of this engagement, we discussed with shareholders the progress being made in executing the strategic objectives outlined above, as well as the investments being made in this transformational period which are impacting our financial performance. As noted in a chart included in the Compensation Discussion and Analysis (CD&A) section, shareholders expressed their thoughts on executive compensation, most notably regarding the structure and magnitude of CEO pay and its alignment with the Company's performance.

The 2018 compensation decisions reflect, in part, responses to this engagement. Following shareholder comments with respect to compensation structure and magnitude, the Board secured from the CEO a voluntary waiver of $500,000 of his salary for the one-year period commencing on the payroll period beginning May 13, 2018. This is combined with an additional reduction in the target value of his equity awards to render an overall reduction in his total target compensation for 2018 of approximately 19%. Since 2015, CEO target compensation has been reduced by approximately 40%.

In terms of alignment, CEO pay remains heavily weighted toward equity. Consequently, and as indicated in the section titled "Supplemental Compensation Analysis" the three-year aggregated CEO realizeable pay from 2015, 2016 and 2017, as of May 4, 2018, has decreased by approximately 49% from target value. This is a consequence of maintaining a pay structure that is more heavily at risk when compared to the Company's peers.

During the engagement, where it was raised, members of the Board explained the Company's long-standing philosophy of not awarding short-term cash incentives as an element of executive compensation, in light of the Company's long-term focus. This practice is even more relevant today in the context of the Company's ongoing transformation. Over the past several years, there have been continued changes to the executive compensation program to strengthen the pay for performance relationship and more heavily weight performance metrics to the longer term.

We also touched upon certain governance-related topics important to our shareholders during these conversations, such as board diversity and refreshment. Those inputs and the steps being taken to address them are also noted in a chart in the CD&A section.

Following this engagement, and in consideration of the constructive feedback from our shareholders, the Compensation Committee has taken the following actions to further align our executive compensation programs and enhance our Board structure.

2018 Compensation Actions

A further reduction in the value of CEO target compensation by $2.7 million, or by approximately 19%, resulting in an aggregate reduction in CEO target compensation by approximately 40% since 2015.

- This value reflects a reduction in 2018 equity compensation awards of approximately $2.2 million, including a discount applied to the CEO's grant of 2018 Performance Stock Units ("PSUs") by virtue of the required two-year post-vesting holding period.
- This value also reflects the agreement by the CEO to voluntarily waive $500,000 of his annual base salary for the compensation year starting in May 2018.
- This is the third consecutive year of a double-digit reduction in CEO target pay.

2017 Compensation Actions

- Reduced the value of CEO target compensation from $16.9 million to $14.55 million, or by approximately 14% (second consecutive year of approximate 14% reduction in value of CEO target pay).

  This reflects a reduction of approximately $2.35 million in 2017 equity compensation awards, including a discount applied to the CEO's grant of 2017 PSUs by virtue of the newly required two-year post-vesting holding period described below.

- Adopted two-year post-vesting holding period for the CEO of shares acquired on vesting of 2017 PSUs, net of withholding taxes.

- Election by the Company's Co-Chairmen under their employment agreements to commence "senior status." Under their employment agreements, and as a result of reductions in their equity compensation by the Compensation Committee in consultation with the Co-Chairmen, their combined salary and equity has been reduced by approximately 50%, or approximately $3.1 million.

- Reduced compensation of non-employee directors, excluding fees for committee service and service as lead director, by 10%.

- No increase in target compensation for all executive officers and other senior officers reporting to the CEO, other than an increase in the value of equity awards for the Chief Financial Officer.

- No increase in total compensation for other executives, including all vice presidents, except four officers of subsidiaries who received adjustments based upon changes in their responsibilities since the acquisition of their respective subsidiaries, and newly promoted executives for fiscal 2017 who received increases in connection with their promotions.

- Amended the PSU performance-based equity program under the Company's 2012 Incentive Compensation Plan as follows:

  - Adjusted weighting of three-year and one-year performance goals from 50/50 to 75/25, respectively, continuing the trend of increasing the weighting of the three-year goals.

  - Modified three-year performance goal from a single Return on Invested Capital ("ROIC") performance metric to include performance goals measuring both Earnings Before Interest and Taxes ("EBIT") margin and ROIC relative to a peer group over the three-year period, with one-third subject to EBIT margin and two-thirds subject to ROIC.

- Applied achievement ranges previously used for ROIC three-year performance goal to both EBIT margin (one- and three-year) performance tests and to ROIC (three-year) performance test, requiring an achievement percentage of 100-144% to earn 100% of the awards.
- Adjusted the time vesting component of the PSUs to vest at the end of the same year the respective award is subject to the achievement of the performance goals.
- Applied Total Shareholder Return ("TSR") "Regulator" (adopted in 2016) to achievement thresholds of each performance goal, capping PSU awards at 100% of the target if the Company's TSR over the performance period is negative.

Board Refreshment Initiative

Following engagement with our shareholders, and in consideration of their constructive feedback, a detailed Board self-assessment, supplementing the Board's annual assessment process, has been ongoing, with the goal of refreshing its membership. This effort is intended to help ensure that directors possess an appropriate mix of skills and experience, including a balance between new and experienced directors and a further alignment of the attributes of the directors with the Company's strategic needs.

In furtherance of this initiative, upon the recommendation of the Nominating and Corporate Governance Committee, the Board has taken the following actions:

- In June 2017, Virginia P. Ruesterholz, an independent director with particular experience in the areas of finance, technology, real estate, and supply chain services, joined our Board following her election at the Company's 2017 Annual Meeting of Shareholders. She currently serves on the Nominating and Governance Committee.

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- In April 2018, Johnathan B. Osborne, an independent director with extensive consumer branding and marketing experience, within ecommerce and other retail models, joined our Board. He currently serves on the Audit Committee.

- In May 2018, Stephanie Bell-Rose, an independent director with senior-leadership experience in organizational effectiveness and business transformation, joined our Board.

- In addition, following approval of the Company's 2018 executive compensation actions by the Compensation Committee in May 2018, the Board refreshed the composition of each of its Audit, Compensation, and Nominating and Corporate Governance Committees (reflected in the table on Page 1).

- This Board refreshment initiative remains ongoing, and the Board expects it to result in further changes to the Board's composition over the next several years.

- Our Board continues to be committed to sound and effective corporate governance principles and practices, including refreshment, board diversity, and recruitment of new directors to complement the existing skills and experience of our Board.

Board Composition Snapshot – Results of Board Refreshment Initiative

•I2 director nominees; 9 are independent

- Highly qualified directors with a diverse mix of qualifications, skills and experience

•J new directors added in 2018 with key areas of expertise, which reflects our Board's efforts to bring a fresh perspective to our Board

•K new independent directors since 2017; 2 of 3 new independent directors are women

- Continued Board refreshment expected as current directors retire from the Board over the next several years

Other Voting Matters

- Ratification of Appointment of Auditors: Shareholders are being asked to ratify the appointment of KPMG LLP to serve as independent auditors for fiscal 2018. The Audit Committee and the Board of Directors believe that the continued retention of KPMG LLP as our independent registered public accounting firm is in the best interest of the Company and our shareholders.

- Approval of the 2018 Incentive Compensation Plan: Shareholders are being asked to approve the Company’s 2018 Incentive Compensation Plan. This Plan is described in Proposal 4 below, and the Plan itself is attached as an exhibit to this Proxy Statement.

FAQs ABOUT THE 2018 ANNUAL MEETING AND VOTING

These proxy materials are delivered in connection with the solicitation by the Board of Directors of Bed Bath & Beyond Inc., a New York corporation, of proxies to be voted at our 2018 Annual Meeting of Shareholders and at any adjournment or adjournments.

This Proxy Statement, the proxy card and our 2017 Annual Report are being mailed starting May 31, 2018. The information regarding stock ownership and other matters in this Proxy Statement is as of the record date, May 4, 2018, unless otherwise indicated.

What may I vote on?

You may vote on the following proposals:

- election of 12 directors to hold office until the Annual Meeting in 2019 (Proposal 1);
- ratification of the appointment of KPMG LLP as independent auditors for the fiscal year ending March 2, 2019 ("fiscal 2018") (Proposal 2);
- consider the approval, by non-binding vote, of the 2017 compensation paid to the Company's Named Executive Officers (commonly known as a "say-on-pay" proposal) (Proposal 3); and
- approval of the Company's 2018 Incentive Compensation Plan (Proposal 4).

THE BOARD RECOMMENDS THAT YOU VOTE:

- FOR the election of the 12 directors;
- FOR the ratification of the appointment of auditors;

- FOR the say-on-pay proposal; and
- FOR the approval of the Company's 2018 Incentive Compensation Plan.

Who may vote?

Shareholders of record of the Company's common stock at the close of business on May 4, 2018 are entitled to receive this notice and to vote their shares at the Annual Meeting. As of that date, there were 140,042,032 shares of common stock outstanding. Each share of common stock is entitled to one vote on each matter properly brought before the Annual Meeting.

How do I vote?

The Company encourages you to use the electronic means available to you to vote your shares. How you vote will depend on how you hold your shares of Bed Bath & Beyond Inc. common stock.

Shareholder of Record

If your shares are registered directly in your name with Bed Bath & Beyond Inc.'s transfer agent, American Stock Transfer & Trust Company, you are considered the shareholder of record with respect to those shares, and these proxy materials are being sent directly to you. If you hold restricted stock under the Company's 2012 Incentive Compensation Plan, you are also considered the shareholder of record with respect to those shares. As the shareholder of record, you have the right to vote by proxy through any of the below methods.

Vote by Internet	Vote by Phone	Vote by Mail
www.proxyvote.com	1-800-690-6903	Broadridge, 51 Mercedes Way Edgewood, NY 11717

Voting by any of these methods will not affect your right to attend the Annual Meeting and vote in person. However, for those who will not be voting at the Annual Meeting in person, your proxy must be received by no later than 11:59 p.m. Eastern Time on June 28, 2018.

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Beneficial Owner

Most shareholders of Bed Bath & Beyond Inc. hold their shares through a stockbroker, bank or other nominee, rather than directly in their own name. If you hold your shares in one of these ways, you are considered the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you by your broker or nominee who is considered, with respect to those shares, the shareholder of record. As the beneficial owner, you have the right to direct your broker on how to vote. Your broker or nominee has enclosed a voting instruction form for you to use in directing the broker or nominee on how to vote your shares. If you hold your shares through a New York Stock Exchange member brokerage firm, such member brokerage firm has the discretion to vote shares held on your behalf with respect to the appointment of the Company's auditors, but not with respect to any other proposal, as more fully described under "What is a broker 'non-vote'?".

Can I change my vote?

Yes. If you are the shareholder of record, you may revoke your proxy before it is exercised by doing any of the following:

- sending a letter to the Company stating that your proxy is revoked;
- signing a new proxy and sending it to the Company; or
- attending the Annual Meeting and voting by ballot.

Beneficial owners should contact their broker or nominee for instructions on changing their vote.

How many votes must be present to hold the Annual Meeting?

A "quorum" is necessary to hold the Annual Meeting. A quorum is a majority of the votes entitled to be cast by the shareholders entitled to vote at the Annual Meeting. They may be present at the Annual Meeting or represented by proxy. Abstentions and broker "non-votes" are counted as present and entitled to vote for purposes of determining a quorum, but are not counted for purposes of determining any of the proposals to be voted on.

How many votes are needed to approve the proposals?

At the 2018 Annual Meeting of Shareholders, a "FOR" vote by a majority of votes cast is required to (i) elect each nominee for director (Proposal 1), (ii) ratify the selection of KPMG LLP as the Company's independent auditors for fiscal 2018 (Proposal 2), (iii) approve, by non-binding vote, the say-on-pay proposal (Proposal 3), and (iv) approve the Company's 2018 Incentive Compensation Plan (Proposal 4).

A "FOR" vote by a "majority of votes cast" means that the number of shares voted "FOR" exceeds the number of votes "AGAINST." Abstentions and broker non-votes shall not constitute votes "FOR" or votes "AGAINST."

With respect to Proposal 1, the election of directors, if a nominee who is an incumbent director fails to receive a "FOR" vote by a majority of votes cast, then such nominee must immediately tender his or her resignation, and the Board will decide, through a process managed by the Nominating and Corporate Governance Committee (excluding from the process such nominee), whether to accept the resignation. In the event of such a situation, the Board intends to complete this process promptly after the Annual Meeting but no later than 90 days from the date of the certification of the election results. The Company will file a Form 8-K to disclose its decision and an explanation of such decision.

What is an abstention?

An abstention is a properly signed proxy card which is marked "abstain."

What is a broker "non-vote"?

A broker "non-vote" occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner. Under current applicable rules, Proposal 2 is a "discretionary" item upon which brokers that hold shares as nominee may vote on behalf of the beneficial owners if such beneficial owners have not furnished voting instructions by the tenth day before the Annual Meeting.

However, brokers that hold shares as nominee may not vote on behalf of the beneficial owners on the following proposals unless you provide voting instructions: Proposal 1, the election of directors, Proposal 3, the say-on-pay proposal, and Proposal 4, the approval of the Company's 2018 Incentive Compensation Plan. Therefore, if your shares are held by such nominee, please instruct your broker regarding how to vote your shares on each of these proposals.

This will ensure that your shares are counted with respect to each of these proposals.

Will any other matters be acted on at the Annual Meeting?

If any other matters are properly presented at the Annual Meeting or any adjournment, the persons named in the proxy will have discretion to vote on those matters. As of April 2, 2018, which is the date by which any proposal for consideration at the Annual Meeting submitted by a shareholder must have been received by the Company to be presented at the Annual Meeting, and as of the date of this Proxy Statement, the Company did not know of any other matters to be presented at the Annual Meeting.

Who pays for this proxy solicitation?

The Company will pay the expenses of soliciting proxies. In addition to solicitation by mail, proxies may be solicited in person or by telephone or other means by directors or associates of the Company. The Company has engaged D.F. King & Co., Inc., for a fee of approximately $20,000 plus expenses, to assist in the solicitation of proxies. The Company will also reimburse brokerage firms and other nominees, custodians and fiduciaries for costs incurred by them in mailing proxy materials to the beneficial owners of shares held of record by such persons.

Whom should I call with other questions?

If you have additional questions about this Proxy Statement or the Annual Meeting or would like additional copies of this document or our 2017 Annual Report on Form 10-K, please contact: Bed Bath & Beyond Inc., 650 Liberty Avenue, Union, NJ 07083, Attention: Investor Relations Dept., Telephone: (908) 613-5820. These documents are also available in the investor relations section of the Company’s website at www.bedbathandbeyond.com.

PROPOSAL 1—ELECTION OF DIRECTORS

Board Structure, Composition and Meetings

The Board of Bed Bath & Beyond Inc. consists of 12 directors. Directors are elected annually at each annual meeting to serve until the next annual meeting or until their successors are duly elected and qualified, subject to their earlier death, resignation or removal. Biographical information and qualifications of the nominees for director are included below under "Board Nominees and Qualifications."

The Board has adopted a policy regarding specific, minimum qualifications for potential directors. These qualifications are identified below and are considered by the Board and the Nominating and Corporate Governance Committee, together with other qualifications deemed useful, in the context of an assessment of the perceived needs of the Board at a particular point in time. These qualifications reflect the desirability of selecting directors who:

- are of high character and integrity;
- are accomplished in their respective fields, with superior credentials and recognition;
- have relevant expertise and experience upon which to be able to offer advice and guidance to management;
- have sufficient time available to devote to the affairs of the Company;
- are able to work with the other members of the Board and contribute to the success of the Company;
- can represent the long-term interests of the Company's shareholders as a whole; and
- are selected such that the Board represents a range of backgrounds and experience.

The Nominating and Corporate Governance Committee also considers all applicable legal and regulatory requirements that govern the composition of the Board. Accordingly, (i) a majority of the Board must be comprised of independent directors (as defined by Nasdaq), (ii) at least three members of the Board must have the requisite financial literacy to serve on the Company's Audit Committee, (iii) at least one member of the Board must satisfy Nasdaq's "financial sophistication" requirement (and should also be an "audit committee financial expert" (as defined by the SEC)), and (iv) there must be a sufficient number of independent directors to ensure that the Nominating and Corporate Governance Committee, the Audit Committee and the Compensation Committee are all comprised entirely of independent directors. In addition, the Nominating and Corporate Governance Committee believes that the Board should include the Chairman (or, if applicable, Co-Chairmen) and the Chief Executive Officer ("CEO") of the Company.

Qualified candidates for membership on the Board will be considered without regard to race, color, creed, religion, national origin, age, gender, sexual orientation or disability. The Nominating and Corporate Governance Committee reviews and evaluates each candidate's character, judgment, skills (including financial literacy), background, experience and other qualifications (without regard to whether a nominee has been recommended by the Company's shareholders), as well as the overall composition of the Board, and recommends to the Board for its approval the slate of directors to be nominated for election at the Company's Annual Meeting of Shareholders. While the Nominating and Corporate Governance Committee does not have a formal policy with respect to diversity, the Committee believes that it is desirable that Board members represent a diversity of backgrounds, including gender and race, as well as diversity of viewpoints and experience.

The Board of Directors believes it is structured to provide oversight, direction and guidance to management. In doing so, the members of the Board bring to their service valuable expertise in a wide range of subject matter areas relevant to the Company in the execution of its strategy. The Board, as part of its annual self-assessment and on an ongoing basis as appropriate, considers the skills and experience of its members in relation to the needs of the Company.

Board Refreshment Initiative

Following engagement with our shareholders, and in consideration of their constructive feedback, a detailed Board self-assessment, supplementing the Board's annual assessment process, has been ongoing, with the goal of refreshing its membership. This effort is intended to help ensure that directors possess an appropriate mix of skills and experience, including a balance between new and experienced directors and a further alignment of the attributes of the directors with the Company's strategic needs.

In furtherance of this initiative, upon the recommendation of the Nominating and Corporate Governance Committee, the Board has taken the following actions:

- In June 2017, Virginia P. Ruesterholz, an independent director with particular experience in the areas of finance, technology, real estate, and supply chain services, joined our Board following her election at the Company's 2017 Annual Meeting of Shareholders. She currently serves on the Nominating and Governance Committee.

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- In April 2018, Johnathan B. Osborne, an independent director with extensive consumer branding and marketing experience, within ecommerce and other retail models, joined our Board. He currently serves on the Audit Committee.

- In May 2018, Stephanie Bell-Rose, an independent director with senior-leadership experience in organizational effectiveness and business transformation, joined our Board.

- In addition, following approval of the Company's 2018 executive compensation actions by the Compensation Committee, the Board refreshed the composition of each of its Audit, Compensation, and Nominating and Corporate Governance Committees (reflected in the table on Page 1).

- This Board refreshment initiative remains ongoing, and the Board expects it to result in further changes to the Board's composition over the next several years.

- Our Board continues to be committed to sound and effective corporate governance principles and practices, including refreshment, board diversity, and recruitment of new directors to complement the existing skills and experience of our Board.

Board Composition Snapshot – Results of Board Refreshment Initiative

•I2 director nominees; 9 are independent

- Highly qualified directors with a diverse mix of qualifications, skills and experience

•J new directors added in 2018 with key areas of expertise, which reflects our Board's efforts to bring a fresh perspective to our Board

•K new independent directors since 2017; 2 of 3 new independent directors are women

- Continued Board refreshment expected as current directors retire from the Board over the next several years

The Board holds regular meetings each quarter and special meetings when necessary. The Board held 11 meetings during the fiscal year ended March 3, 2018 ("fiscal 2017"). Directors are expected to attend the Board meetings and meetings of committees of the Board on which they serve. The Company encourages, but does not require, the directors to attend the Company's Annual Meeting of Shareholders. During fiscal 2017, all directors attended more than 75% of the total number of meetings of the Board of Directors and committees on which he or she served. All of the Company's then current directors attended the 2017 Annual Meeting of Shareholders.

The following table provides a summary view of the key qualifications and attributes of our director nominees that the Nominating and Corporate Governance Committee believes are relevant and important in light of Bed Bath & Beyond's current business needs and structure. A particular director may possess additional experience, qualifications, attributes, or skills, even if not expressly indicated below. Biographical information and additional detail regarding the director nominee's particular skills and qualifications follows.

Bed Bath & Beyond Director Skills and Qualifications Matrix

	Warren Eisenberg	**Leonard Feinstein**	**Steven H. Temares**	**Dean S. Adler**	**Stanley F. Barshay**	**Stephanie Bell-Rose**	**Klaus Eppler**	**Patrick R. Gaston**	**Jordan Heller**	**Victoria A. Morrison**	**Johnathan B. Osborne**
Brand Marketing/Product Merchandising Experience in consumer marketing, brand management and/or product merchandising											

	September 30, 2010 In US$ thousands(1)	September 30, 2010	December 31, 2009
		In Ch$ millions(2)	
CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA (IFRS)			
Cash and balances from the Central Bank	3,148,117	1,522,587	2,043,458
Financial investments (7)	4,266,230	2,063,362	2,642,649
Loans	31,643,235	15,304,251	13,751,276
Loan loss allowance	(886,759)	(428,881)	(349,527)
Financial derivative contracts (assets)	3,424,729	1,656,370	1,393,878
Other assets (8)	3,146,803	1,521,951	1,291,141
Total assets	44,742,355	21,639,640	20,772,875
Deposits	23,047,544	11,146,945	10,708,791
Other interest bearing liabilities	12,450,353	6,021,613	6,232,982
Financial derivative contracts (liabilities)	3,416,096	1,652,195	1,348,906
Total shareholder's equity (9)	3,784,288	1,830,271	1,689,903
Attributable to shareholders (10)	3,723,089	1,800,672	1,660,104

	As of September 30, 2010	2009
CONSOLIDATED RATIOS (IFRS)		
Profitability and performance:		
Net interest margin (11)	5.5 %	5.2 %
Return on average total assets (12)	2.4 %	2.0 %
Return on average equity (13)	28.3 %	25.3 %
Capital:		
Average equity as a percentage of average total assets (14)	8.4 %	7.9 %
Total liabilities as a multiple of equity (15)	10.8	12.9
Credit Quality:		
Non-performing loans as a percentage of total loans	2.66 %	2.81 %
Allowance for loan losses as percentage of total loans	2.80 %	1.87 %
Operating Ratios:		
Operating expenses /operating revenue (16)	37.1 %	34.5 %
Operating expenses /average total assets	2.4 %	2.2 %
OTHER DATA		
Inflation Rate (17)	2.7 %	(0.6)%
Revaluation (devaluation) rate (Ch$/US$) at period end (17)	4.2 %	13.2 %
Number of employees at period end	11,049	11,280
Number of branches and offices at period end	500	502

(1) Amounts stated in U.S. dollars at and for the nine-month period ended September 30, 2010, have been translated from Chilean pesos at the exchange rate of Ch$483.65 = US$1.00 as of September 30, 2010. See "Item 1: A. Selected Financial Data–Exchange Rates" for more information on exchange rate.

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

(3) Operating costs is equal to the sum of personnel expenses, administrative expenses, depreciation and amortization and deterioration. See "Note 1–Impairment" to our Condensed Consolidated Interim Financial Statements.

(4) Other income, net is the sum of other operating income, other operating expenses, net gains (losses) from mark-to-market and trading and foreign exchange transactions, and gain (loss) from investment in other companies.

(5) 1 ADS = 1,039 shares of common stock.

(6) The dividends per share of common stock and per ADS are determined based on the previous year's net income. The dividend per ADS is calculated on the basis of 1,039 shares per ADS. Dividend payout was 65% in 2008 and 60% in 2009.

(7) Includes financial investments held for trading, repos, financial investments available for sale and financial investments held to maturity.

(8) Includes unsettled transactions, investments in other companies, intangible assets, property plant and equipment, current taxes, deferred taxes and other assets.

(9) Equity includes shareholders' equity plus non-controlling interest. According to IFRS, equity must include non-controlling interest and a minimum provision for mandatory dividends. This provision is made pursuant to Article 79 of the Corporations Act, in accordance with the Bank's internal policy, and pursuant to which at least 30% of net income for the period is distributed, except in the case of a contrary resolution adopted at the respective shareholders' meeting by the unanimous vote of the outstanding shares.

(10) Shareholders' equity is calculated according to IFRS. The main difference between this and equity is that the provision for mandatory dividends equal to 30% of net income and non-controlling interest are not included.

(11) Net interest revenue divided by average interest earning assets (as presented in "Item 3: D. Selected Statistical Information").

(12) Net income divided by average total assets (as presented in "Item 3: D. Selected Statistical Information").

(13) Net income divided by average equity (as presented in "Item 3: D. Selected Statistical Information").

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

(15) Total liabilities divided by equity.

(16) The efficiency ratio is equal to operating expenses over operating revenue. Operating expenses includes personnel expenses, administrative expenses, depreciation and amortizations, deterioration (See "Note 1–Impairment" to our Condensed Consolidated Interim Financial Statements) and other operating expenses. Operating revenue includes net interest income, net fee and commission income, net income from financial operations, foreign exchange profit (loss) and other operating income.

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

Exchange Rates

Chile has two currency markets, the Mercado Cambiario Formal, or the Formal Exchange Market and the Mercado Cambiario Informal, or the Informal Exchange Market. According to Law 18,840, the organic law of the Central Bank, and the Central Bank Act (Ley Orgánica Constitucional del Banco Central de Chile), the Central Bank determines which purchases and sales of foreign currencies must be carried out in the Formal Exchange Market. Pursuant to Central Bank regulations which are currently in effect, all payments, remittances or transfers of foreign currency abroad which are required to be effected through the Formal Exchange Market may be effected with foreign currency procured outside the Formal Exchange Market. The Formal Exchange Market is comprised of the banks and other entities so authorized by the Central Bank. The conversion from pesos to U.S. dollars of all payments and distributions with respect to the ADSs described in this report must be transacted at the spot market rate in the Formal Exchange Market. Current regulations require that the Central Bank be informed of certain transactions and that they be effected through the Formal Exchange Market.

On January 3, 2011, Chile’s Central Bank announced plans to increase its total international reserves by US$12 billion in 2011. In the first phase, the Central Bank will buy US$50 million a day from January 5 to February 9. The Central Bank will announce the rest of the phases at a later date and, depending on market conditions, could revise the currency intervention program, which is expected to last throughout 2011. We expect the effect of these purchases will be to devalue the peso against the dollar, although actual outcomes could differ due to macroeconomic and other factors.

Purchases and sales of foreign currencies performed may be legally carried out in the Informal Exchange Market. The Informal Exchange Market reflects transactions carried out at informal exchange rates by entities not expressly authorized to operate in the Formal Exchange Market. There are no limits imposed on the extent to which the rate of exchange in the Informal Exchange Market can fluctuate above or below the observed exchange rate. On December 31, 2009 and September 30, 2010, the exchange rate in the Informal Exchange Market as published by Reuters at 1:30 pm on these days was Ch$507.25 and Ch$483.65, or 0.16% more expensive and 0.33% cheaper, respectively, than the published observed exchange rate for such date of Ch$506.43 and Ch$485.23, respectively, per US$1.00.

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

	Daily Observed Exchange Rate Ch$ Per US$(1)			
Year	Low(2)	High(2)	Average(3)	Period End(4)
2004	559.21	649.45	609.55	559.83
2005	509.70	592.75	559.86	514.21
2006	511.44	549.63	530.26	534.43
2007	493.14	548.67	522.69	495.82
2008	431.22	676.75	521.79	629.11
2009	491.09	643.87	559.67	506.43
Month				
December 2009	494.82	508.75	501.45	506.43
January 2010	489.47	531.75	500.66	531.75
February 2010	523.10	546.18	532.56	529.69
March 2010	508.66	533.87	523.16	526.29

April 2010	514.91	527.38	520.62	520.99
May 2010	517.23	549.17	533.21	529.23
June 2010	530.32	548.16	536.67	543.09
July 2010	518.36	547.19	531.72	522.36
August 2010	499.98	522.75	509.32	499.26
September 2010	484.86	503.10	493.93	485.23
October 2010	475.93	494.44	489.04	491.76
November 2010	477.05	488.72	482.32	486.39

Source: Central Bank.

(1) Nominal figures.

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

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

(4) As reported by the Central Bank the first business day of the following period.

Dividends

Under the current General Banking Law, a Chilean bank may only pay a single dividend per year (i.e., interim dividends are not permitted). Santander-Chile's annual dividend is proposed by its Board of Directors and is approved by the shareholders at the annual ordinary shareholders' meeting held the year following that in which the dividend is generated. For example, the 2009 dividend must be proposed and approved during the first four months of 2010. Following shareholder approval, the proposed dividend is declared and paid. Historically, the dividend for a particular year has been declared and paid no later than one month following the shareholders' meeting. Dividends are paid to shareholders of record on the fifth day preceding the date set for payment of the dividend. The applicable record dated for the payment of dividends to holders of ADSs will, to the extent practicable, be the same.

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

Dividends payable to holders of ADSs are net of foreign currency conversion expenses of JPMorgan Chase Bank, N.A., as depositary (the "Depositary") and will be subject to the Chilean withholding tax currently at the rate of 35% (subject to credits in certain cases as described in "Item 10: E. Taxation–Material Tax Consequences of Owning Shares of Our Common Stock or ADSs" of our Annual Report on Form 20-F for the fiscal year ended December 31, 2009).

Under the Foreign Investment Contract (as defined herein), the Depositary, on behalf of ADS holders, is granted access to the Formal Exchange Market to convert cash dividends from Chilean pesos to U.S. dollars and to pay such U.S. dollars to ADS holders outside Chile, net of taxes, and no separate registration by ADS holders is required. In the past, Chilean law required that holders of shares of Chilean companies who were not residents of Chile to register as foreign investors under one of the foreign investment regimes contemplated by Chilean law in order to have dividends, sale proceeds or other amounts with respect to their shares remitted outside Chile through the Formal Exchange Market. On April 19, 2001, the Central Bank deregulated the Exchange Market and eliminated the need to obtain approval from the Central Bank in order to remit dividends, but at the same time this eliminated the possibility of accessing the Formal Exchange Market. These changes do not affect the current Foreign Investment Contract, which was signed prior to April 19, 2001, which grants access to the Formal Exchange Market with prior approval of the Central Bank. See "Item 10: D. Exchange Controls" of our Annual Report on Form 20-F for the fiscal year ended December 31, 2009.

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

Year	Dividend Ch$ mn (1)	Per share Ch$/share (2)	Per ADR Ch$/ADR (3)	% over earnings (4)	% over earnings (5)
2009	213,295	1.13	1,176.00	65	52
2010	258,751	1.37	1,426.63	60	60

(1) Million of nominal pesos.

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

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

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

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

B. Risk Factors

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

We are subject to market risks that are presented both in this subsection and in “Item 3: Operating and Financial Review and Prospects” and “Item 9: Quantitative and Qualitative Disclosures about Market Risk.”

Risks Associated with Our Business

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

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

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

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

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

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

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

The increase in competition within the Chilean banking industry in recent years has led to consolidation in the industry. We expect the trends of increased competition and consolidation to continue and result in the formation of large new financial groups. Consolidation in the industry, which can result in the creation of larger and stronger competitors, may adversely affect our financial condition and results of operations by decreasing the net interest margins we are able to generate. In addition, since November 7, 2001, insurance companies have been allowed to participate and compete with banks in the residential mortgage and credit card businesses.

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

As of September 30, 2010, our allowance for loan losses and other assets was Ch$428,881 million, and the ratio of our allowance for loan losses to total loans was 2.80%. The amount of allowances is based on our current assessment of and expectations concerning various factors affecting the quality of our loan portfolio. These factors include, among other things, our borrowers' financial condition, repayment abilities and repayment intentions, the realizable value of any collateral, the prospects for support from any guarantor, Chile's economy, government macroeconomic policies, interest rates and the legal and regulatory environment. As the recent global financial crisis has demonstrated, many of these factors are beyond our control. In addition, as these factors evolve, the models we use to determine the appropriate level of allowance for impairment losses on loans and other assets require recalibration, which can lead to increased provision expense. See "Operating and Financial Review and Prospects–Operating Results–Results of Operations for the nine-month periods ended September 30, 2010 and 2009–Provision for loan losses." We believe our allowance is adequate as of the date hereof for all known losses. If our assessment of and expectations concerning the above mentioned factors differ from actual developments, or if the quality of our loan portfolio deteriorates or the future actual losses exceed our estimates, our allowance for impairment losses may not be adequate to cover actual losses and we may need to make additional provisions for impairment losses, which may materially and adversely affect our results of operations and financial condition.

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

A substantial number of our customers consist of individuals (approximately 52.5% of the value of the total loan portfolio as of September 30, 2010, if interbank loans are included) and, to a lesser extent, small- and mid-sized companies (those with annual revenues of less than US$2.2 million), which comprised approximately 15.0% of the value of the total loan portfolio as of September 30, 2010. As part of our business strategy, we seek to increase lending and other services to small companies and individuals. Small companies and lower- to middle-income individuals are, however, more likely to be adversely affected by downturns in the Chilean economy than large corporations and individuals with high incomes. In addition, as of September 30, 2010, our residential mortgage loan book totaled Ch$4,498,799 million, representing 29.4% of our total loans. (See Note 7: "Interbank Loans" and "Note 8: Loans and Accounts Receivables from Customers" in our Condensed Consolidated Interim Financial Statements for a description and presentation of residential mortgages in the balance sheet). If the economy and real estate market in Chile experience a significant downturn, as they may due to the global financial and economic crisis, this could materially adversely affect the liquidity, businesses and financial conditions of our customers, which may in turn cause us to experience higher levels of past due loans, thereby resulting in higher provisions for loan losses and subsequent write-offs. This may materially and adversely affect our asset quality, results of operations and financial condition.

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

As of September 30, 2010, our non-performing loans were Ch$407,831 million, and the ratio of our non-performing loans to total loans was 2.66%. For additional information on our asset quality, see "Selected Statistical Information–Classification of Loan Portfolio Based on the Borrower's Payment Performance". We seek to continue to improve our credit risk management policies and procedures. However, we cannot assure you that our credit risk management policies, procedures and systems are free from any deficiency. Failure of credit risk management policies may result in an increase in the level of non-performing loans and adversely affect the quality of our loan portfolio. In addition, the quality of our loan portfolio may also deteriorate due to various other reasons, including factors beyond our control, such as the macroeconomic factors affecting Chile's economy. If such deterioration were to occur, it could materially adversely affect our financial conditions and results of operations.

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

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

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

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

From December 31, 2004 to December 31, 2009, our aggregate loan portfolio grew by 81.0% in nominal terms to Ch$13,751,276 million (US$27.1 billion), while our consumer loan portfolio grew by 106.2% in nominal terms to Ch$2,244,049 million (US$4.4 billion). From September 30, 2009 to September 30, 2010, our aggregate loan portfolio grew by 12.2% in nominal terms to Ch$15,304,251 million (US$31.6 billion), while our consumer loan portfolio grew by 18.6% in nominal terms to Ch$2,554,884 million (US$5.3 billion). The further expansion of our loan portfolio (particularly in the consumer, small- and mid-sized companies and real estate segments) can be expected to expose us to a higher level of loan losses and require us to establish higher levels of provisions for loan losses.

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

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

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

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

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

Inflation in Chile gained momentum in 2007 and 2008. In 2007 and 2008, inflation reached 7.1% and 7.8%, respectively. High levels of inflation in Chile could adversely affect the Chilean economy and have an adverse effect on our business, financial condition and results of operations. Extended periods of deflation could also have an adverse effect on our business, financial condition and results of operations. In 2009, Chile experienced deflation of 1.4%. During the first nine months of 2010, inflation was 2.7%.

Our assets and liabilities are denominated in Chilean pesos, UF and foreign currencies. The UF is revalued in monthly cycles. On each day in the period beginning on the tenth day of any given month through the ninth day of the succeeding month, the nominal peso value of the UF is indexed up (or down in the event of deflation) in order to reflect a proportionate amount of the change in the Chilean Consumer Price Index during the prior calendar month. For more information regarding the UF, see "Item 9: Quantitative and Qualitative Disclosure about Market Risk–Impact of Inflation" and "Item 3: D. Selected Statistical Information–Average Balance Sheets, Income Earned from Interest-Earning Assets And Interest Paid on Interest-Bearing Liabilities." Although we benefit from inflation in Chile, due to the current structure of our assets and liabilities (i.e., a significant portion of our loans are indexed to the inflation rate, but there are no corresponding features in deposits, or other funding sources that would increase the size of our funding base), there can be no assurance that our business, financial condition and result of operations in the future will not be adversely affected by changing levels of inflation, including from extended periods of inflation that adversely affect economic growth or periods of deflation.

Our results of operations are affected by interest rate volatility.

Our results of operations depend to a great extent on our net interest income. Net interest income represented 72.4% of our operating income in 2008 and 65.7% in 2009. Changes in market interest rates could affect the interest rates earned on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities, leading to a reduction in our net interest income or a decrease in customer demand for our loan or deposit products. Interest rates are highly sensitive to many factors beyond our control, including the reserve policies of the Central Bank, deregulation of the financial sector in Chile, domestic and international economic and political conditions and other factors. In the current economic climate, there is a greater degree of uncertainty and unpredictability in the policy decisions and the setting of interest rates by the Central Bank. Any changes in interest rates could adversely affect our business, our future financial performance and the price of our securities. The following table shows the yields on the Chilean government's 90-day notes as reported by the Central Bank of Chile at year-end 2004 to 2009, September 30, 2010 and December 21, 2010.

Year	90-day note at Period end (%)
2004	2.24
2005	4.90
2006	5.11
2007	6.15
2008	7.86
2009	0.48
September 30, 2010	3.05
December 21, 2010	3.25

Source: Central Bank.

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

Customer deposits are our primary source (56.3%) of funding. As of September 30, 2010, 92.9% of our customer deposits had remaining maturities of one year or less, or were payable on demand. A significant portion of our assets have longer maturities, resulting in a mismatch between the maturities of liabilities and the maturities of assets. If a substantial number of our depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, our liquidity position, results of operations and financial condition may be materially and adversely affected. We cannot assure you that in the event of a sudden or unexpected shortage of funds in the banking system, any money markets in which we operate will be able to maintain levels of funding without incurring high funding costs or the liquidation of certain assets. If this were to happen, our results of operations and financial condition may be materially adversely affected.

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

Chilean regulations impose restrictions on the share of assets that a Chilean pension fund management company (Administradora de Fondos de Pension, an “AFP”) may allocate to a single issuer, which is currently 7% per fund managed by an AFP (including any securities issued by the issuer and any bank deposits with the issuer). If the exposure of an AFP to a single issuer exceeds the 7% limit, the AFP is required to reduce its exposure below the limit within three years. As of September 20, 2010, the aggregate exposure of AFPs to us was approximately US$4.15 billion or 2.99% of their total assets. If the exposure of any AFP to us exceeds the regulatory limit, we would need to seek alternative sources of funding, which could be more expensive and, as a consequence, may have a material adverse effect on our financial condition and results of operations.

Pension funds must also comply with other investment limits. Recently approved legislation in Chile (Reformas al Mercado de Capitales II, also known as "MK2") relaxed the limits on making investments abroad in order to permit pension funds to further diversify their investment portfolios. As of September 30, 2010, the limit on making investments abroad was 60% and will gradually increase to 80% in 2011. As a result, pension funds may change the composition of their portfolios, including reducing their deposits with local banks. As of September 30, 2010, 8.5% of our time deposits were from AFPs. Although the legislation referred to above is intended to promote a gradual relaxation of the investment limits, and we may be able to substitute the reduced institutional funds with retail deposits, there can be no assurance that this occurrence will not have a materially adverse impact on our business, financial condition and results of operations.

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

Chilean banks are required by the Decreto con Fuerza de Ley N° 3. of 1997 - Ley General de Bancos (the "General Banking Law") to maintain regulatory capital of at least 8% of risk-weighted assets, net of required loan loss allowance and deductions, and paid-in capital and reserves ("basic capital") of at least 3% of our total assets, net of required loan loss allowances. As we are the result of the merger between two predecessors, we are currently required to maintain a minimum regulatory capital to risk-weighted assets ratio of 11%. As of September 30, 2010, the ratio of our regulatory capital to risk-weighted assets, net of loan loss allowance and deductions, was 14.52%. Certain developments could affect our ability to continue to satisfy the current capital adequacy requirements applicable to us, including:

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

In 2012, Chilean banks will most likely adopt the guidelines set forth under Basel II with adjustments incorporated by the SBIF. This should result in a different level of minimum capital required to be maintained by us. No assurance can be given that these changes will not have a material impact on our capitalization ratio.

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

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

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

Our business is highly dependent on the ability of our information technology systems to accurately process a large number of transactions across numerous and diverse markets and products in a timely manner. The proper functioning of our financial control, risk management, accounting, customer service and other data processing systems is critical to our business and our ability to compete effectively. We have backup data for our key data processing systems that could be used in the event of a catastrophe or a failure of our primary systems, and have established alternative communication networks where available. However, we do not operate all of our redundant systems on a real time basis and cannot assure you that our business activities would not be materially disrupted if there were a partial or complete failure of any of these primary information technology systems or communication networks. Such failures could be caused by, among other things, major natural catastrophes (such as earthquakes), software bugs, computer virus attacks or conversion errors due to system upgrading. In addition, any security breach caused by unauthorized access to information or systems, or intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

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

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

We must maintain higher regulatory capital to risk-weighted assets than other banks in Chile. Our current required minimum regulatory capital to risk-weighted assets ratio is 11% and as of September 30, 2010, we were at 14.52%. Although we have not failed in the past to comply with our capital maintenance obligations, there can be no assurance that we will be able to do so in the future.

Currently, there are discussions among the SBIF, SERNAC (Chile's Consumer Protection Agency) and the Minister of Finance regarding a proposal to place limitations on banks' ability sell products in packages combining multiple products. Any such limitation could have a material adverse effect on our financial condition or results of operations.

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

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

We are subject to market and operational risks associated with derivative transactions.

We enter into derivative transactions primarily for hedging purposes and, on a limited basis, on behalf of customers. They are subject to market and operational risks, including basis risk (the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedge cost) and credit or default risk (the risk of insolvency or other inability of a counterparty to perform its obligations to us).

Market practices and documentation for derivative transactions in Chile may differ from those in other countries. For example, documentation may not incorporate terms and conditions of derivatives transactions as commonly understood in other countries. In addition, the execution and performance of these transactions depend on our ability to develop adequate control and administration systems, and to hire and retain qualified personnel. Moreover, our ability to monitor and analyze these transactions depends on our information technology systems. These factors may further increase risks associated with derivative transactions and could materially and adversely affect our results of operations and financial condition.

We are subject to counterparty risk in our banking business.

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

Failure to protect personal information could adversely affect us.

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

Our loan portfolios are subject to risk of prepayment, which may result in reinvestment of assets on less profitable terms.

Our loan portfolios are subject to prepayment risk, which results from the ability of a borrower to pay a loan prior to maturity. Generally, in a declining interest rate environment, prepayment activity increases with the effect of reducing weighted average lives of interest earning assets and adversely affecting results. Prepayment risk also has an adverse impact on our credit card and residential mortgage portfolios, since prepayments could shorten the weighted average life of these portfolios, which may result in a mismatch in funding or in reinvestment at lower yields.

Risks Relating to Chile

The February 2010 earthquake and tsunami in Chile is likely to adversely affect the quality of our loan portfolio in segments of the Chilean economy that have been negatively affected and, as a result, is likely to negatively affect our results of operations.

Chile lies on the Nazca tectonic plate, making it one of the world's most seismically active regions. Chile has been adversely affected by powerful earthquakes in the past, including an 8.0 magnitude earthquake that struck Santiago in 1985 and a 9.5 magnitude earthquake in 1960 which was the largest earthquake ever recorded.

On February 27, 2010, an 8.8 magnitude earthquake struck central Chile. The quake epicenter was located 200 miles southwest of Santiago and 70 miles north of Concepción, Chile's second largest city.

The regions of Bío Bío and Maule were the most severely affected regions. Concepción, located approximately 200 miles south of Santiago, was the most affected city, with its infrastructure and numerous buildings severely damaged. The coastal area of Concepción, including the neighboring cities Talcahuano and Penco, were hit by a tsunami shortly after the earthquake that significantly damaged port facilities. Several cities in the Maule region, including its capital city of Talca, were also seriously affected by the earthquake. The region of Valparaíso, including the port of Valparaíso and the city of Viña del Mar, was also severely affected.

The earthquake and its aftershocks, as well as tsunamis from adjacent coastal waters, caused severe damage to Chile's infrastructure, including roads, bridges, ports and Santiago's international airport. According to an initial assessment by Chile's Minister of Infrastructure, the repair of these damages, excluding damages to port facilities, is likely to take between three and four years. On March 12, 2010, President Piñera said that preliminary assessments of reconstruction costs indicate that they could total approximately US$30 billion.

The Bank's branches, systems and employees were all impacted by the February 2010 earthquake and tsunami. By March 1, 2010 the systems were functioning normally, all open branches were online and all remote channels were operating normally. As of September 30, 2010, 3 of the Bank's 500 branches were still closed; the rest were functioning normally.

We estimate that the costs incurred and revenue foregone by us as a result of the February 2010 earthquake and tsunami was Ch$13,330 million in the first nine months of 2010, net of insurance proceeds and broken down in the following line items:

Line item	Impact (in millions of Ch$)
Net interest income	1,347
Fee income	600
Provision expense	6,827
Administrative and other expenses	4,556
Total	Ch$13,330

The damage to Chile's roads, port and other infrastructure is likely to have an adverse impact on the Chilean economy, and in particular on export businesses that operate in the affected areas. The Central Bank of Chile has stated that it expects the growth of Chilean gross domestic product to slow in 2010, compared to initial estimates, as a result of the earthquake and tsunami. The regions of Chile most affected by the earthquake and tsunami, regions VI, VII and VIII, account for approximately 12% of our loan portfolio and a broadly similar portion of our fee income.

Temporary increases in the corporate tax rate in Chile to finance part of the reconstruction effort may have an adverse effect on us and our corporate clients.

The government and congress approved legislation that increased the corporate income tax rate in order to pay for part of the reconstruction following the earthquake and tsunami of February 2010. The new legislation will increase the corporate tax rate from its current rate of 17% to 20% in 2011. The rate will decrease to 18.5% in 2012 and further decrease back to 17% in 2013. This legislation may have an adverse effect on us and our corporate clients.

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

A substantial amount of our loans are to borrowers doing business in Chile. Accordingly, the recoverability of these loans in particular, and our ability to increase the amount of loans outstanding and our results of operations and financial condition in general, are dependent to a significant extent on the level of economic activity in Chile. Our results of operations and financial condition could be affected by changes in economic or other policies of the Chilean government, which has exercised and continues to exercise substantial influence over many aspects of the private sector, or other political or economic developments in Chile. In line with the global economic climate, Chile's economy contracted in 2009 for the first time since 1999. However, in the first half of 2010, the Chilean economy recovered significantly and GDP increased by 4.0%. However, there can be no assurance that the Chilean economy will continue to grow in the future or that future developments will not negatively affect Chile's exports and economic activity.

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

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

We are directly exposed to risks related to the weakness and volatility of the economic and political situation in Asia, the United States, Europe, Brazil, Argentina and other nations, including the recent global financial and economic crisis. If these nations' economic conditions deteriorate, the economy in Chile could also be affected and could experience slower growth than in recent years. Thus, we may need to increase our allowances for loan losses, thus affecting our financial results, our results of operations and the price of our securities. As of September 30, 2010, approximately 0.87% of our assets were held abroad. The global financial and sub-prime crisis had a significant impact on the growth rate of the Chilean economy in 2009. Although the Chilean economy has had a 4.0% GDP growth in the first half of 2010, there can be no assurance that the ongoing effects of the global financial crisis will not negatively impact growth, consumption, unemployment, investment and the price of exports in Chile.

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

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

Historically, one of our principal sources of funds has been time deposits. Time deposits represented 37.6% and 36.1% of our total funding as of December 31, 2009 and September 30, 2010, respectively. Large-denominations in time deposits from institutional investors may, under some circumstances, be a less stable source of funding than savings and bonds, such as during periods of significant changes in market interest rates for these types of deposit products and any resulting increased competition for such funds. The recent liquidity crisis triggered by the U.S. subprime market impacted global markets and affected sources of funding, including time deposits. As of December 31, 2009, our investment portfolio did not contain instruments (i) backed by, or otherwise related to, U.S. subprime mortgages or (ii) with exposure to monoline financial guarantors. Although our results of operations and financial position have not suffered a significant impact as a consequence of the recent credit market instability in the U.S. and the liquidity available in the Chilean market has permitted us to fund out operations and maintain our regular business activities, we cannot assure you that we will be able to continue funding our business or, if so, maintain our current levels of funding without incurring higher funding costs or having to liquidate certain assets.

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

Any future changes in the value of the Chilean peso against the U.S. dollar will affect the U.S. dollar value of our securities. The Chilean peso has been subject to large devaluations and appreciations in the past and could be subject to significant fluctuations in the future. Our results of operations may be affected by fluctuations in the exchange rates between the peso and the dollar despite our policy and Chilean regulations relating to the general avoidance of material exchange rate exposure. In order to avoid material exchange rate exposure, we enter into forward exchange transactions. The following table shows the value of the Chilean peso relative to the U.S. dollar as reported by the Central Bank at period end for the last six years and the eleven months ended November 30, 2010 and the devaluation or revaluation of the peso relative to the U.S. dollar in each of those periods.

Year	Exchange rate (Ch$) Period end	Revaluation (Devaluation) (%)
2004	559.83	(6.6)
2005	514.21	(8.1)
2006	534.43	3.9
2007	495.82	(7.2)
2008	629.11	26.9
2009	506.43	(19.5)
November 30, 2010	486.39	(4.0)

Source: Central Bank.

On January 3, 2011, Chile’s Central Bank announced plans to increase its total international reserves by US$12 billion in 2011. In the first phase, the Central Bank will buy US$50 million a day from January 5 to February 9. The Central Bank will announce the rest of the phases at a later date and, depending on market conditions, could revise the currency intervention program, which is expected to last throughout 2011. We expect the effect of these purchases will be to devalue the peso against the dollar, although actual outcomes could differ due to macroeconomic and other factors.

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

Furthermore, Chilean trading in the shares underlying our ADSs is conducted in pesos. Cash distributions with respect to our shares of common stock are received in Chilean pesos by the Depositary, which converts such amounts to U.S. dollars at the then-prevailing exchange rate for the purpose of making payments in respect of our

ADSs. If the value of the Chilean peso falls relative to the U.S. dollar, the dollar value of our ADSs and any distributions to be received by our ADS holders from the Depositary will be reduced.

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

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

Chile's Congress passed a new law in August 2010 that aims to increase trading in Chile, Latin America's third-biggest securities market, by allowing trading of new instruments such as exchange-traded funds and covered bonds. The law also seeks to ease credit access for consumers and small companies. For example, the law makes it easier for foreign banks to offer loans in Chile, cuts securitization costs, allows banks to sell bonds backed by mortgages, offers tax breaks to foreign investors in Chilean mutual funds, and strikes down a law that prevented foreign banks from advertising loans. The law also aims to reduce the cost of setting up mutual funds, in part by removing limits on employing non-Chileans, and creates an exchange-traded funds industry by modifying mutual fund rules to allow secondary trading and enable pension funds to invest in such mutual funds. The new class of bonds that would be authorized by the law, known as "mortgage bonds," will be a debt obligation of the company that sells them and be secured by a pool of mortgages, as is the case with European covered bonds. Unlike covered bonds, they may be issued by banks and non-banks.

The current Finance Minister, Felipe Larrain, plans another package of reforms, the Reformas al Mercado Financiero Bicentenario, also known as "MKB." The MKB reforms are comprised of a series of administrative changes and new regulations over the next four years, including the creation of a financial consumer protection agency, the transformation of the local securities exchange regulator (SVS) into a securities commission and increasing the autonomy of the SBIF. These proposed regulations aim to expand the use of the Chilean peso, simplify taxes on fixed-income securities, increase bank penetration and household savings, reduce the pro-cyclicality of loan loss provisions and enhance solvency and liquidity (the latter must be done through a change in the General Banking Law). The reforms also aim to create new instruments that give more efficient financing alternatives to small and mid-sized companies and individuals, together with creating specific statutes for niche banks and micro-credit financing.

These new reforms could result in increased competition in the industry and thus may have a material adverse effect on our financial condition and results of operations.

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

As a result of the recent global financial crisis, there has been an increase in government regulation of the financial services industry in many countries. Such regulation may also be increased in Chile, including the imposition of higher capital requirements, heightened disclosure standards and restrictions on certain types of transaction structures. In addition, novel regulatory proposals abound in the current environment. If enacted, new regulations could require us to inject further capital into our business as well as in businesses we acquire, restrict the type or volume of transactions we enter into, or set limits on or require the modification of rates or fees that we charge on certain loans or other products, any of which could lower the return on our investments, assets and equity. We may also face increased compliance costs and limitations on our ability to pursue certain business opportunities.

In line with the future adoption of Basel II regulations in Chile, the SBIF has recently proposed to increase the minimum regulatory capital ratio from 8% to 10%, which would require an amendment to the General Banking Law. Although we currently have a regulatory capital ratio of 14.52%, this change could require us to inject additional capital to our business in the future.

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

As of September 30, 2010, on a consolidated basis we had 11,049 employees, of which 67.4% were unionized. In May 2010, a new collective bargaining agreement was signed, which will become effective on January 1, 2011 and that will expire on December 31, 2014, but this may become effective ahead of schedule with the consent of management and the union. We generally apply the terms of our collective bargaining agreement to unionized and non-unionized employees. We have traditionally enjoyed good relations with our employees and their unions, but we cannot assure you that in the future a strengthening of cross-industry labor movements will not materially and adversely affect our business, financial condition or results of operations.

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

Our foreign currency deposit ratings are equivalent to the Chilean sovereign ratings. On February 23, 2010, Moody's downgraded the subordinated debt ratings and preferred share ratings of our parent company, Banco Santander Spain. Moody's and Standard and Poor's both have a negative outlook for our parent company's ratings. Any adverse revisions to our parent company's ratings and/or Chile's credit ratings for domestic and international debt by international rating agencies may adversely affect our ratings, our business, future financial performance, stockholder's equity and the price of our equity shares and ADSs.

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

Accounting, financial reporting and securities disclosure requirements in Chile differ from those in the United States. Accordingly, the information about us available to you will not be the same as the information available to shareholders of a U.S. financial institution. There are also material differences between IFRS and U.S. accounting and financial reporting standards.

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

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

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

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

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

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

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

ADS holders may not be able to effect service of process on, or enforce judgments or bring original actions against, us, our directors or our executive officers, which may limit the ability of holders of ADSs to seek relief against us.

We are a Chilean corporation. None of our directors are residents of the United States and most of our executive officers reside outside the United States. In addition, a substantial portion of our assets and the assets of our directors and executive officers are located outside the United States. As a result, it may be difficult for ADS holders to effect service of process outside Chile upon us or our directors and executive officers or to bring an action against us or such persons in the United States or Chile to enforce liabilities based on U.S. federal securities laws. It may also be difficult for ADS holders to enforce in the United States or in Chilean courts money judgments obtained in United States courts against us or our directors and executive officers based on civil liability provisions of the U.S. federal securities laws. If a U.S. court grants a final money judgment in an action based on the civil liability provisions of the federal securities laws of the United States, enforceability of this money judgment in Chile will be subject to the obtaining of the relevant "exequatur" (i.e., recognition and enforcement of the foreign judgment) according to Chilean civil procedure law currently in force, and consequently, subject to the satisfaction of certain factors. The most important of these factors are the existence of reciprocity, the absence of a conflicting judgment by a Chilean court relating to the same parties and arising from the same facts and circumstances and the Chilean courts' determination that the U.S. courts had jurisdiction, that process was appropriately served on the defendant and that enforcement would not violate Chilean public policy. Failure to satisfy any of such requirements may result in non-enforcement of your rights.

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

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

Risks Relating to Our ADSs

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

Our ADSs are listed and traded on the NYSE. Our common stock is listed and traded on the Santiago Stock Exchange, the Chile Electronic Stock Exchange and the Valparaiso Stock Exchange, which we refer to collectively as the Chilean Stock Exchanges, although the trading market for the common stock is small by international standards. As of September 30, 2010, we had 188,446,126,794 shares of common stock outstanding. The Chilean securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. According to Article 14 of the Ley de Mercado de Valores, Ley No. 18,045, or the Chilean Securities Market Law, the Superintendencia de Valores y Seguros, or the Superintendency of Securities and Insurance, may suspend the offer, quotation or trading of shares of any company listed on one or more Chilean Stock Exchanges for up to 30 days if, in its opinion, such suspension is necessary to protect investors or is justified for reasons of public interest. Such suspension may be extended for up to 120 days. If, at the expiration of the extension, the circumstances giving rise to the original suspension have not changed, the Superintendency of Securities and Insurance will then cancel the relevant listing in the registry of securities. In addition, the Santiago Stock Exchange may inquire as to any movement in the price of any securities in excess of 10% and suspend trading in such securities for a day if it deems necessary.

Although our common stock is traded on the Chilean Stock Exchanges, there can be no assurance that a liquid trading market for our common stock will continue to exist. Approximately 23.09% of our outstanding common stock is held by the public (i.e., shareholders other than Banco Santander Spain and its affiliates), including our shares that are represented by ADSs trading on the NYSE. A limited trading market in general and our concentrated ownership in particular may impair the ability of an ADS holder to sell in the Chilean market shares of common stock obtained upon withdrawal of such shares from the ADR facility in the amount and at the price and time such holder desires, and could increase the volatility of the price of the ADSs.

You may be unable to exercise preemptive rights.

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

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

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

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

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

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

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

ITEM 2. INFORMATION ON THE COMPANY

A. History and Development of the Company

Overview

We are the largest bank in Chile in terms of total assets, total deposits and shareholders' equity. As of September 30, 2010, we had total assets of Ch$21,639,640 million (US$44,742 million), loans net of allowances outstanding of Ch$14,875,370 million (US$30,756 million), total deposits of Ch$11,146,945 million (US$23,048 million) and shareholders' equity of Ch$1,830,271 million (US$3,784 million). As of September 30, 2010, we employed 11,049 people (on a consolidated basis) and had the largest private branch network in Chile with 500 branches. Our headquarters are located in Santiago and we operate in every major region of Chile.

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

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

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

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

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

Relationship with Banco Santander Spain

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

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

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

B. Organizational Structure

Banco Santander Spain controls Santander-Chile through its holdings in Teatinos Siglo XXI Inversiones Ltda. and Santander-Chile Holding, which are controlled subsidiaries. This gives Banco Santander Spain control over 76.91% of the shares of the Bank and actual participation when excluding minority shareholders that participate in Santander Chile Holding is 76.59%.

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

Management Team

The chart below sets forth the names and areas of responsibility of our senior commercial managers during 2010.

Commercial Structure

The chart below sets forth the names and areas of responsibilities of our operating managers in 2010.

As of January 1, 2011 the Bank's management team will be organized the following way:

Commercial Structure

Operational Structure

C. Business Overview

We have 500 total branches, 260 of which are operated under the Santander brand name, with the balance under certain specialty names, including 98 under the Santander Banefe brand name, 46 under the SuperCaja brand name, 26 under the BancaPrime brand name and 41 as auxiliary and payment centers. We provide a full range of financial services to corporate and individual customers. We divide our clients into the following segments: (i) Retail, (ii) Middle–Market and (iii) Global Banking and Markets.

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

- Lower–middle to middle–income, consisting of individuals with monthly incomes between Ch$150,000 (US$310) and Ch$400,000 (US$827) and served through our Banefe branch network. This segment accounts for 4.4% of our total loans outstanding as of September 30, 2010. This segment offers customers a range of products, including consumer loans, credit cards, auto loans, residential mortgage loans, debit card accounts, savings products, mutual funds and insurance brokerage.

- Middle– and upper–income, consisting of individuals with a monthly income greater than Ch$400,000 (US$827). Clients in this segment account for 48.1% of our total loans outstanding as of September 30, 2010 and are offered a range of products, including consumer loans, credit cards, auto loans, commercial loans, foreign trade financing, residential mortgage loans, checking accounts, savings products, mutual funds and insurance brokerage.

- Small and mid-sized companies, consisting of small companies with annual revenue of less than Ch$1,200 million (US$2.5 million). As of September 30, 2010, this segment represented approximately 15.0% of our total loans outstanding. Customers in this segment are offered a range of products, including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, savings products, mutual funds and insurance brokerage.

- Institutional, such as universities, government agencies, municipalities and regional governments. As of September 30, 2010, these clients represented 2.2% of our total loans outstanding. Customers in this sub-segment are also offered the same products that are offered to the customers in our small businesses segment. This sub-segment is included in the Retail segment because customers in this sub-segment are a potential source for new individual customers.

The Middle–Market segment is comprised of the following sub–segments:

- Companies, consisting of companies with annual revenue over Ch$1,200 million (US$2.5 million) and up to Ch$10,000 million (US$20.7 million). Customers in this segment are offered a wide range of products, including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, cash management, treasury services, financial advisory, savings products, mutual funds and insurance brokerage. As of September 30, 2010, these clients represented 8.4% of our total loans outstanding.

- Real estate, consisting of all companies in the real estate sector with annual revenue over Ch$800 million (US$1.7 million), including construction companies and real estate companies that execute projects for sale to third parties. As of September 30, 2010, these clients represented 3.4% of our total loans outstanding. To these clients we offer, in addition to traditional banking services, specialized services for financing, primarily residential projects, in order to increase the sale of residential mortgage loans.

- Large corporations, consisting of companies with annual revenue over Ch$10,000 million (US$20.7 million). Customers in this segment are also offered the same products that are offered to the customers in our mid–sized companies segment. As of September 30, 2010, these clients represented 8.9% of our total loans outstanding.

The Global Banking and Markets segment is comprised of the following sub–segments:

- Wholesale banking corporate, consisting of companies that are foreign multinationals or part of a larger Chilean economic group with sales of over Ch$10,000 million (US$20.7 million). As of September 30, 2010, these clients represented 9.1% of our total loans outstanding. Customers in this segment are offered a wide range of products, including commercial loans, leasing, factoring, foreign trade, mortgage loans, checking accounts, cash management, treasury services, financial advisory, savings products, mutual funds and insurance brokerage.

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

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In addition, we have a Corporate Activities segment comprised of all other operational and administrative activities that are not assigned to a specific segment or product mentioned above. These activities include Financial Management, which manages global functions such as the management of our structural foreign exchange gap position, our structural interest rate risk and our liquidity risk. Financial Management also oversees the use of our resources, the distribution of capital among our different units and the overall financing cost of investments.

The table below sets forth our lines of business and certain statistical information relating to each of them for the nine-month period ended September 30, 2010. Please see “Note 4” to our Condensed Consolidated Interim Financial Statements for details of revenue by business segment in the last three years.

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As of September 30, 2010 (Ch$ million)

	Loans and accounts receivable from customers (1)	Net interest income	Net fee income	Financial transactions, net (2)	Provision for loan losses (3)	Operating expenses (4)	Net segment contribution (5)
SEGMENTS							
Individuals	8,035,617	400,204	138,506	1,782	(144,697)	(214,325)	181,470
Santander Banefe	668,987	77,975	23,594	10	(51,962)	(50,530)	(913)
Commercial Banking	7,366,630	322,229	114,912	1,772	(92,735)	(163,795)	182,383
SMEs	2,301,536	171,833	25,973	5,187	(46,255)	(49,987)	106,751
Institutional	340,274	19,172	1,848	1,714	(428)	(7,463)	14,843
Companies	3,160,681	103,401	16,304	11,337	(16,536)	(24,984)	89,522
Companies	1,286,341	54,744	8,421	4,948	(9,710)	(11,973)	46,430
Real estate	1,360,983	32,639	5,725	5,715	(8,146)	(9,899)	26,034
Large Corporations	513,357	16,018	2,158	674	1,320	(3,112)	17,058
Global Banking & Markets	1,406,210	16,836	17,497	49,325	(955)	(23,354)	59,349
Corporate	1,386,694	18,936	17,907	1,033	(955)	(8,608)	28,313
Treasury (6)	19,516	(2,100)	(410)	48,292	–	(14,746)	31,036
Other (7)	59,933	(3,592)	(6,183)	6,982	45	(15,443)	(18,191)
TOTAL	15,304,251	707,854	193,945	76,327	(208,826)	(335,556)	433,744
Other operating income							25,826
Other operating expenses							(36,822)
Income from investments in other companies							1,175
Income tax							(56,752)
Consolidated profit (loss) for the period							367,171

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

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

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

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

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

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

(7) Includes contribution of non-segmented items such as interbank loans, the cost of the Bank's capital and fixed assets. Financial transactions, net included in other is mainly comprised of the results from the Financial

Management Division (Gestion Financiera). The area of Financial Management carries out the function of managing the structural interest rate risk, the structural position in inflation indexed assets and liabilities, shareholder's equity and liquidity. The aim of Financial Management is to inject stability and recurrence into the net income of commercial activities and to assure the Bank complies with internal and regulatory limits regarding liquidity, regulatory capital, reserve requirements and market risk.

Operations through Subsidiaries

Today, the General Banking Law permits us to directly provide the leasing and financial advisory services that we could formerly offer only through our subsidiaries, to offer investment advisory services outside of Chile and to undertake activities we could not formerly offer directly or through subsidiaries, such as factoring, securitization, foreign investment funds, custody and transport of securities and insurance brokerage services. For the nine–month period ended September 30, 2010, our subsidiaries collectively accounted for 2.4% of our total consolidated assets.

Subsidiary	Percentage Owned As of September 2010			As of September 2009		
	Direct %	Indirect %	Total %	Direct %	Indirect %	Total %
Santander S.A. Corredores de Bolsa(1) (2)	50.59	0.41	51.00	50.59	0.41	51.00
Santander Corredores de Seguro Ltda. (Ex–Santander Leasing S.A.) (2) (3) (4)	99.75	0.01	99.76	99.75	0.01	99.76
Santander Asset Management S.A. Administradora General de Fondos	99.96	0.02	99.98	99.96	0.02	99.98
Santander Agente de Valores Limitada (Ex–Santander S.A. Agente de Valores)	99.03	–	99.03	99.03	–	99.03
Santander S.A. Sociedad Securitizadora	99.64	–	99.64	99.64	–	99.64
Santander Servicios de Recaudación y Pagos Limitada	99.90	0.10	100.00	99.90	0.10	100.00

(1) During the Extraordinary Shareholders' Meeting held on January 15, 2007 by Santander Investment S.A. Corredores de Bolsa, a related company to Banco Santander Chile, the merger between Santiago Corredores de Bolsa Limitada, a subsidiary of Banco Santander Chile, into Santander Investment S.A. Corredores de Bolsa was approved and became effective January 1, 2007. Santander Investment S.A. Corredores de Bolsa, as of January 15, 2007, became a subsidiary of Banco Santander Chile and the legal successor of Santiago Corredores de Bolsa Limitada.

(2) During fiscal year 2008, the following subsidiaries changed their registered commercial names:

a. Santander Corredores de Seguro Ltda.

b. Santander S.A. Corredores de Bolsa

(3) On December 4, 2007, the Superintendency of Bank, authorized the statutes modification, social rights sell and merger of the subsidiaries Santander Leasing S.A. (formerly Santiago Leasing S.A.) and Santander Corredora de Seguros Limitada (formerly Santander Santiago Corredora de Seguros Limitada).

(4) During the Extraordinary Shareholders' Meeting held on October 1, 2008 by Santander Corredora de Seguros S.A., a company affiliated with Banco Santander Chile, approved the merger which incorporated the affiliated Santander Corredora de Seguros Limitada into Santander Corredora de Seguro S.A. (previously Santander Leasing S.A.). The

merger was effective January 1, 2008. At the time of the above mentioned merger, Santander Corredora de Seguros S.A. became a legal extension of Santander Corredora de Seguros Limitada. The merger of Santander Corredora de Seguros S.A. and Santander Corredora de Seguros Limitada did not result in any changes in accounting for Banco Santander Chile.

The consolidation/valuation methods used up to December 31, 2008 will continue to be used for subsidiaries and investment in other companies. Furthermore, pursuant to the provisions of International Accounting Standard (IAS) 27 and Standard Interpretations Committee (SIC) 12, we must determine the existence of Special Purpose Entities (SPE), which must be consolidated with the financial results of the Bank. As a result, we have incorporated into our financial statements the following companies:

- Santander Gestión de Recaudación y Cobranzas Ltda. (collection services)
- Multinegocios S.A. (management of sales force)
- Servicios Administrativos y Financieros Ltda. (management of sales force)
- Servicios de Cobranzas Fiscalex Ltda. (collection services)
- Multiservicios de Negocios Ltda. (call center)
- Bansa Santander S.A. (management of repossessed assets and leasing of properties)

Competition

Overview

The Chilean financial services market consists of a variety of largely distinct sectors. The most important sector, commercial banking, includes a number of privately–owned banks and one public–sector bank, Banco del Estado (which operates within the same legal and regulatory framework as the private sector banks). The private–sector banks include local banks and a number of foreign–owned banks which are operating in Chile. The Chilean banking system is comprised of 24 private–sector banks and one public–sector bank. The five largest private–sector banks along with the state–owned bank together accounted for 82.3% of all outstanding loans by Chilean financial institutions at September 30, 2010.

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

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

	As of September 30, 2010, unless otherwise noted		
	Market Share		Rank
Commercial loans	18.3	%	2
Consumer loans	27.6		1
Residential mortgage loans	23.7		2
Foreign trade loans (loans for export, import and contingent)	18.7		2
Total loans	20.9		1
Deposits	18.2		3
Mutual funds (assets managed)	18.9		2
Credit card accounts	37.3		1
Checking Accounts(1)	26.3		1
Branches(2)	18.5		1

Source: Superintendency of Banks

(1) According to latest data available as of May 2010.

(2) According to latest data available as of June 2010. Excludes special–service payment centers.

The following tables set out certain statistics comparing our market position to that of our peer group, defined as the five largest banks in Chile in terms of total loans market share as of September 30, 2010.

Loans

As of September 30, 2010, our loan portfolio was the largest among Chilean banks. Our loan portfolio on a stand–alone basis represented 20.9% of the market for loans in the Chilean financial system at such date. The following table sets forth our and our peer group's market shares in terms of loans at the dates indicated.

	As of September 30, 2010			
Loans (1)	Ch$ million	US$ million	Market Share	
Santander Chile	15,232,019	31,494	20.9	%
Banco de Chile	13,658,422	28,240	18.7	
Banco del Estado	11,362,530	23,493	15.6	
Banco de Crédito e Inversiones	9,301,926	19,233	12.8	
Corpbanca	5,347,130	11,056	7.3	
BBVA, Chile	5,087,784	10,520	7.0	
Others	12,905,704	26,684	17.7	
Chilean financial system	72,895,515	150,720	100.0	%

Source: Superintendency of Banks

(1) Excludes interbank loans.

Deposits

On a stand alone basis, we had a 18.2% market share in deposits, ranking third among banks in Chile at September 30, 2010. Deposit market share is based on total time and demand deposits at the respective dates. The following table sets forth our and our peer group's market shares in terms of deposits at the dates indicated.

	As of September 30, 2010			
Deposits	Ch$ million	US$ million	Market Share	
Santander Chile	11,146,945	23,048	18.2	%
Banco de Chile	11,322,627	23,411	18.5	
Banco del Estado	11,858,621	24,519	19.3	
Banco de Crédito e Inversiones	7,968,866	16,477	13.0	
BBVA, Chile	3,864,401	7,990	6.3	
Corpbanca	4,095,860	8,469	6.7	
Others	11,074,242	22,897	18.0	
Chilean financial system	61,331,562	126,811	100.0	%

Source: Superintendency of Banks

Shareholders' equity

With Ch$1,786,939 million (US$3,695 million) in shareholders' equity at September 30, 2010, we were the largest commercial bank in Chile in terms of shareholders' equity. The following table sets forth our and our peer group's shareholders' equity at September 30, 2010.

Shareholders' Equity(1)	As of September 30, 2010 Ch$ million	US$ million	Market Share	
Santander Chile	1,786,939	3,695	21.3	%
Banco de Chile	1,375,768	2,845	16.4	
Banco del Estado	938,205	1,940	11.2	
Banco de Crédito e Inversiones	1,006,667	2,081	12.0	
Corpbanca	515,055	1,065	6.1	
BBVA, Chile	505,053	1,044	6.0	
Others	2,277,475	4,709	27.0	
Chilean financial system	8,405,162	17,379	100.0	%

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Source: Superintendency of Banks.

(1) According to local GAAP.

Efficiency

As of September 30, 2010, we were the most efficient bank in our peer group. The following table sets forth our and our peer group's efficiency ratio (defined as operating expenses as a percentage of operating revenue, which is the aggregate of net interest income, fees and income from services (net), net gains from mark–to–market and trading, exchange differences (net) and other operating income (net)) for the nine–month period indicated.

Efficiency ratio	As of September 30, 2010(1) %	
Santander Chile	33.7	%
Banco de Chile	43.0	
Banco del Estado	61.2	
Banco de Crédito e Inversiones	44.9	
BBVA, Chile	48.3	
Corpbanca	37.5	
Chilean financial system	45.0	%

Source: Superintendency of Banks.

(1) As defined by local GAAP.

Net income

For the nine–month period ended September 30, 2010 we were the largest bank in Chile in terms of net income with Ch$383,283 million (US$792.5 million). The following table sets forth our and our peer group's net income at September 30, 2010.

	As of September 30, 2010			
Net income(1)	Ch$ million(2)	US$ million	Market Share	
Santander Chile	383,283	792.5	30.1	%
Banco de Chile	308,633	638.1	24.3	
Banco de Crédito e Inversiones	178,427	368.9	14.0	
Corpbanca	92,340	190.9	7.3	
BBVA, Chile	58,085	120.1	4.6	
Banco del Estado	59,678	123.4	4.7	
Others	190,812	394.5	15.0	
Chilean financial system	1,271,258	2,628.4	100.0	%

Source: Superintendency of Banks.

(1) Net income before non-controlling interest.

(2) According to local GAAP.

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Return on average equity

As of September 30, 2010, we were the second most profitable bank in our peer group (as measured by return on average equity) and the most capitalized bank as measured by the BIS ratio. The following table sets forth our and our peer group's return on average equity and BIS ratio at the latest date available.

	Return on average equity as of September 30, 2010(1)		BIS Ratio as of September 30, 2010	
Santander Chile	29.6		14.5	%
Banco de Chile	30.5		13.6	
Banco del Estado	8.5		11.9	
Banco de Crédito e Inversiones	25.1		13.6	
BBVA, Chile	15.7		13.1	
Corpbanca	24.5		12.8	
Chilean Financial System	20.8	%	14.2	%

Source: Superintendency of Banks, except Santander Chile. Calculated by dividing annual net income by monthly average equity. For Santander Chile, the average equity is calculated on a daily basis.

(1) According to local GAAP.

Asset Quality

As of September 30, 2010, on a stand alone basis, we had the second highest loan loss allowance to total loans ratio (expected loss ratio) in our peer group. The following table sets forth our and our peer group's loan loss allowance to total loans ratio as defined by the Superintendency of Banks at the dates indicated.

	Loan loss allowances/total loans as of September 30, 2010	
Santander Chile	2.80	%
Banco de Chile	2.62	
Banco del Estado	2.93	
Banco de Crédito e Inversiones	2.52	
BBVA, Chile	1.85	
Corpbanca	1.94	
Chilean financial system	2.58	%

Source: Superintendency of Banks

Regulation and Supervision

General

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

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

The Central Bank

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

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

The Superintendency of Banks

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

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

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

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

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

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

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

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

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

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

Limitations on Types of Activities

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

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

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

Deposit Insurance

The Chilean government guarantees up to 90.0% of the principal amount of certain time and demand deposits and savings accounts held by natural persons with a maximum value of UF120 per person (Ch$2,560,799 or US$5,277 as of September 30, 2010) per calendar year in the entire financial system.

Reserve Requirements

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

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

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

Minimum Capital

Under the General Banking Law, a bank is required to have a minimum of UF800,000 (approximately Ch$17,072 million or US$35.20 million as of September 30, 2010) of paid-in capital and reserves, regulatory capital of at least 8% of its risk weighted assets, net of required allowances, and paid in capital and reserves of at least 3% of its total assets, net of required allowances.

Regulatory capital is defined as the aggregate of:

- a bank's paid-in capital and reserves, excluding capital attributable to subsidiaries and foreign branches or capital básico;
- its subordinated bonds, valued at their placement price (but decreasing by 20.0% for each year during the period commencing six years prior to maturity), for an amount up to 50.0% of its basic capital; and

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

Capital Adequacy Requirements

According to the General Banking Law, each bank should have regulatory capital of at least 8.0% of its risk-weighted assets, net of required allowances. The calculation of risk weighted assets is based on a five-category risk classification system for bank assets that is based on the Basel Committee recommendations. On 2009, the Superintendency of Banks postponed until 2012 the application of the third pillar of Basel II in Chile, which includes the implementation of capital limits with market risk and operational risk-weighted assets. These changes must be approved by Congress as it involves a modification to the General Banking Law.

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

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

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

Lending Limits

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

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

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

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

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

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

Allowance for Loan Losses

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

Under our loan classification categories loans are divided into: (i) consumer loans (including loans granted to individuals for the purpose of financing the purchase of consumer goods or payment of services); (ii) residential mortgage loans (including loans granted to individuals for the purchase, construction or improvements of residential real estate, in which the value of the property covers at least 100% of the amount of the loan); and (iii) commercial loans (includes all loans other than consumer loans and residential mortgage loans). A detailed description of the models established for determining loan loss allowances is set forth in “Item 3: D. Selected Statistical Information–Classification of Loan Portfolio” and in Note 1 of our Interim Consolidated Financial Statements.

Loans analyzed on an individual basis (2011)

Beginning in January 2011, for large commercial loans, leasing and factoring, the Bank assigns a risk category level to each borrower and its loans. The Bank considers the following risk factors: industry or sector of the borrower, owners or managers of the borrower, the borrower’s financial situation, its payment capacity and its payment behavior. Based on those risk factors, the Bank will assign one of the following risk categories to each loan or borrower:

i. “Normal Loans” or loans classified in categories A1 through A6 correspond to borrowers who are current on their payment obligations and show no sign of deterioration in their credit quality.

ii. “Substandard Loans” or loans classified in categories B1 through B4 correspond to borrowers with some credit financial difficulties or an important deterioration of payment capacity. Substandard loans also include all loans that have been nonperforming for more than 30 days.

iii. “Non-complying Loans” including nonperforming loans and other loans classified in categories C1 through C6 correspond to borrowers whose payment capacity is seriously at risk and who have a high likelihood of filing for bankruptcy or are renegotiating credit terms to avoid bankruptcy. These loans also include all loans, including contingent operations, with at least one installment overdue more than 90 days.

Allowances for Normal and Substandard Loans

For Normal and Substandard Loans, expected loss has been set in accordance with SBIF standards, as set forth in the following table:

Classification	Probability of default (PD) (%)	Loss given default (LGD) (%)	Expected loss (EL) (%)
	Normal loans		
A1	0.04	90.0	0.036
A2	0.1	82.5	0.0825
A3	0.25	87.5	0.21875
A4	2	87.5	1.75
A5	4.75	90.0	4.275
A6	10	90.0	9.0
	Substandard loans		
B1	15	92.5	13.875
B2	22	92.5	20.35
B3	33	97.5	32.175
B4	45	97.5	43.875

Banks individually assign a specific classification and therefore provision level to each borrower. Accordingly, the amount of loan loss allowance is determined on a case-by-case basis. In determining provisions on an individual basis for Normal and Substandard Loans, banks must use the following equation established by the SBIF:

Provision = (ESA-GE) * (PDdebtor/100) * (LGDdebtor/100) + GE * (PDguarantor/100) * (LGDguarantor/100)

ESA = Exposure subject to allowances
PD = Probability of default
GE = Guaranteed exposure
LGD = Loss Given Default

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However, independent of the results obtained from the equation above, as of July 2010, Normal Loans (including contingent loans) must be assigned a minimum provision level of 0.5%.

Allowances for Non-complying Loans

For loans classified in Categories C1 through C6, the Bank must have the following levels of allowance, which are required by the SBIF:

Classification	Expected loss	Allowance % (1)
C1	Up to 3%	2
C2	More than 3% up to 20%	10
C3	More than 20% up to 30%	25
C4	More than 30% up to 50%	40
C5	More than 50% up to 80%	65
C6	More than 80%	90

(1) Represents percentages of the aggregate amount of principal and accrued but unpaid interest of the loan.

For these loans the expected loss must be calculated in the following manner:

Expected loss = (TE – Rec) / TE
Allowance (Ch$) = TE * Allowance %

TE = Total exposure
REC = Recoverable amount based on estimates of collateral value and collection efforts

These regulations will have an estimated initial cost of implementation of Ch$39,800 million in additional loan loss allowances recognized in local GAAP and thereafter will require a higher ongoing level of loan loss allowances under local GAAP than had previously been required. In local GAAP, these will be recognized in 2010 earnings as additional provisions. Such provisions are not expected to be reflected in the Bank's financial statements prepared in accordance with IFRS and filed with the U.S. Securities and Exchange Commission because such provisions are not expected to relate to incurred losses.

Capital Markets

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

Legal Provisions Regarding Banking Institutions with Economic Difficulties

The General Banking Law provides that if specified adverse circumstances exist at any bank, its Board of Directors must correct the situation within 30 days from the date of receipt of the relevant financial statements. If the Board of

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

Dissolution and Liquidation of Banks

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

Obligations Denominated in Foreign Currencies

Foreign currency denominated obligations of Chilean banks are subject to various limits and obligations. The regulations of the Central Bank do not permit the difference, whether positive or negative, between a bank's assets and liabilities denominated in any foreign currency (including assets and liabilities denominated in U.S. dollars but payable in pesos, as well as those denominated in pesos and indexed to the U.S. dollar exchange rate) to exceed 20% of the bank's paid-in capital and reserves; except in the case where the balance of such assets exceeds the balance of such liabilities and the excess difference does not exceed the bank's allowances and reserves denominated in such foreign currency (excluding profits to be remitted abroad). Santander-Chile must also comply with various regulatory and internal limits regarding exposure to movements in foreign exchange rates (See "Item 9: Quantitative and Qualitative Disclosures About Market Risks").

Investments in Foreign Securities

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

Table 1

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

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

Table 2

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

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

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

Table 3

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

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

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

New regulations for the financial markets

Chile's Congress passed a new law in August 2010 that aims to increase trading in Chile, Latin America's third-biggest securities market, by allowing trading of new instruments such as exchange-traded funds and covered bonds. The law also seeks to ease credit access for consumers and small companies. For example, the law makes it easier for foreign banks to offer loans in Chile, cuts securitization costs, allows banks to sell bonds backed by mortgages, offers tax breaks to foreign investors in Chilean mutual funds, and strikes down a law that prevented foreign banks from advertising loans. The law also aims to reduce the cost of setting up mutual funds, in part by removing limits on employing non-Chileans, and creates an exchange-traded funds industry by modifying mutual fund rules to allow secondary trading and enable pension funds to invest in such mutual funds. The new class of bonds that would be authorized by the law, known as "mortgage bonds," will be debt obligations of the company that sells them and be secured by a pool of mortgages, as is the case with European covered bonds. Unlike covered bonds, they may be issued by banks and non-banks. See "Risk Factors–Chile's banking regulatory and capital markets environment is continually evolving and may change."

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

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

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

D. Property, Plants and Equipment

We are domiciled in Chile and own our principal executive offices located at Bandera 140, Santiago, Chile. We also own nine other buildings in the vicinity of our headquarters and we rent five other buildings. At September 30, 2010, we owned the locations at which 30.6% of our branches were located. The remaining branches operate at rented locations. We believe that our existing physical facilities are adequate for our needs.

The Bank's branches, systems and employees were all impacted by the recent earthquake. Of the Bank's 500 branches, 405 had some form of damage, of which 32 sustained serious damages and 9 were closed as of May 31, 2010. As of September 30, 2010, no branches were closed. The Bank's systems were not functioning immediately following the earthquake, but by March 1, 2010 the systems were functioning normally, all open branches were online and all remote channels were operating normally. Total expenses related to the earthquake, net of insurance coverage, was Ch$4,556 million (US$9.4 million).

Main properties as of September 30, 2010	Number
Central Offices	
Own	9
Rented	5
Total	14
Branches (1)	
Own	153
Rented	261
Total	414
Other property (2)	
Own	62
Rented	6
Total	68

(1) Some branches are located inside central office buildings and other properties. Including these branches the total number of branches is 500. Special payment centers are included in Other property.

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

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

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

The main software systems that we use are:

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

ITEM 3. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

1.1. A. Accounting Standards Applied in 2010

Santander-Chile is a Chilean bank and maintains its financial books and records in Chilean pesos and prepares its condensed consolidated interim financial statements in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), in order to comply with requirements of the Securities and Exchange Commission (the "SEC").

As required by local regulations, our locally filed consolidated financial statements have been prepared in accordance with accounting principles issued by the Superintendency of Banks and Financial Institutions (the "SBIF"). The accounting principles issued by the SBIF are substantially similar to IFRS but there are some exceptions. Therefore, our locally filed condensed consolidated interim financial statements have been adjusted according to IAS 34: Interim Financial Reporting.

In Chile, the local securities exchange regulator (SVS) announced in 2004 that all public companies will be required to present full IFRS financial statements beginning in 2009. The convergence from local accounting regulations to IFRS is to follow a gradual adoption plan which will take place over at least a three-year period from 2009 to 2011, beginning with banking institutions in 2009. Full convergence is the intended goal of the transition to IFRS. However, due to the gradual approach to the adoption of IFRS and because not all regulators require full IFRS, different accounting frameworks will coexist for a period of time.

Chilean banks are subject to the regulatory supervision of the SBIF under the provisions of the General Banking Act ("Act") of 1997. The Act establishes that in accordance with legal regulations, Chilean banks must abide by the accounting standards stipulated by the SBIF.

The SBIF, by means of Circular No. 3,410 (2007) and Circular No. 3,443 (2008) announced the "Compendium of Accounting Standards", which contains new accounting standards and reporting formats for the financial industry required to be adopted by banking institutions effective January 1, 2009. Banks are required to apply the new accounting and reporting to the current period financial statements for 2009 and to retrospectively apply the new standard to January 1, 2008 and include an opening balance sheet for the reporting period ended December 31, 2008.

Although banks are required to apply IFRS as of January 1, 2009, certain exceptions introduced by the SBIF prevent the banks from achieving full convergence with IFRS. In those situations which are not addressed by the guidance issued by the SBIF, institutions shall follow the generally accepted accounting principles issued by the Association of Chilean Accountants which coincide with IFRS as issued by the IASB ("IFRS-IASB").

Therefore, as stated above, in order to comply with requirements of the SEC, the Bank has prepared the interim consolidated financial statements included in this report under IFRS-IASB.

B. Operating Results

Chilean Economy

All of our operations and substantially all of our customers are located in Chile. Accordingly, our financial condition and results of operations are substantially dependent upon economic conditions prevailing in this country. In the first half of 2010, the Chilean economy began to recover following the 2009 recession and GDP increased 4.1%.

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Quarterly and Yearly Evolution of GDP, %

Source: Banco Central de Chile and Santander Chile estimates

On February 27, 2010, Chile was struck by an 8.8 magnitude earthquake and a tsunami, which mainly affected the mid-southern regions of Chile. As a result of these developments, economic activity in Chile has been adversely affected, especially in March 2010.

Growth of private and public sector investments and the rebound of consumption has offset the negative impacts caused by the February 2010 earthquake and tsunami. In the first half of 2010, internal demand increased 15.7%, private investment increased 18.5% and private consumption increased 9.3%. Unemployment has also been decreasing. As of August 2010, the unemployment rate was 8.6% compared to 11.6% as of August 2009.

The recovery of the Chilean economy in 2010 is also being led in part by a recovery of the prices of Chile's main exports, greater levels of investment, both private and public, and higher consumption levels. The average price of copper in the nine-month period ended September 30, 2010 has increased 54.1% compared to the same period in 2009. In this same period, fish meal prices increased 72.0% and paper pulp prices increased 63.8%.

As a result of the economic recovery, the consumer price index ("CPI") and interest rates have been increasing. CPI inflation year-to-date in the nine-month period ended September 30, 2010 increased 1.9% compared to a 1.1% decrease year-to-date in the nine-month period ended September 30, 2009. As a result of rising price levels and higher economic activity, interest rates have also been increasing in 2010. The overnight interbank rate set by the Central Bank has increased 225 basis points since year-end 2009 and currently stands at 2.75%.

Banking Sector

- The Chilean banking sector evolved in line with the economic developments with an increase in the volume of loans. Total loans as of September 30, 2010 in the Chilean financial system were Ch$72,895,515 million (US$151 billion), an increase of 5.7% since year-end 2009. Total customer deposits (defined as time deposits plus checking accounts) totaled Ch$61,331,562 million (US$127 billion) as of September 30, 2010, an increase of 4.7% compared to year-end 2009. The non-performing loan ratio in the Chilean banking industry decreased from 3.0% at year-end 2009 to 2.7% as of September 30, 2010.

Impact of Inflation

Our assets and liabilities are denominated in Chilean pesos, Unidades de Fomento (UF) and foreign currencies. The Bank no longer performs inflation accounting and has eliminated price level restatement in line with IFRS, but inflation impacts our results of operations as some loan and deposit products are contracted in UF. The UF is revalued in monthly cycles. Each day in the period beginning on the tenth day of the current month through the ninth day of the succeeding month, the nominal peso value of the UF is indexed up (or down in the event of deflation) in order to reflect a proportionate amount of the change in the Chilean Consumer Price Index during the prior calendar month. One UF equaled Ch$21,452.57 at December 31, 2008, Ch$20,942.88 at December 31, 2009 and Ch$21,339.99 at September 30, 2010.

High levels of inflation in Chile could adversely affect the Chilean economy and have an adverse effect on our business, financial condition and results of operations. Negative inflation rates also negatively impact our results. In

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2009, CPI deflation reached 1.6% compared to a rise of 7.1% and 7.8% in 2008 and 2007, respectively. CPI inflation year-to-date in the nine-month period ended September 30, 2010 increased 1.9% compared to a 1.1% decrease year-to-date in the nine-month period ended September 30, 2009. There can be no assurance that Chilean inflation will not change significantly from the current level. Although we currently benefit from moderate levels of inflation, due to the current structure of our assets and liabilities (i.e., a significant portion of our loans are indexed to the inflation rate, but there are no corresponding features in deposits or other funding sources that would increase the size of our funding base), there can be no assurance that our business, financial condition and result of operations in the future will not be adversely affected by changing levels of inflation. In summary:

- UF-denominated assets and liabilities. In 2009, UF inflation was -2.4% compared to 9.3% in 2008. UF inflation in the nine-month period ended September 30, 2010 increased 1.9% compared to a 2.9% decrease in the nine-month period ended September 30, 2009. The effect of any changes in the nominal peso value of our UF-denominated interest earning assets and interest bearing liabilities is reflected in our results of operations as an increase (or decrease, in the event of deflation) in interest income and expense, respectively. Our net interest income will be positively affected by an inflationary environment to the extent that our average UF-denominated interest earning assets exceed our average UF-denominated interest bearing liabilities. Our net interest income will be negatively affected in a deflationary environment if our average UF-denominated interest earning assets exceed our average UF-denominated interest bearing liabilities. Our net interest income will be negatively affected by inflation in any period in which our average UF-denominated interest bearing liabilities exceed our average UF-denominated interest earning assets. Our average UF-denominated interest earning assets exceeded our average UF-denominated interest bearing liabilities by Ch$3,092,340 million in the nine-month period ended September 30, 2010 compared to Ch$2,640,907 million in the same period in 2009. See "Selected Statistical Information Average Balance Sheets, Income Earned from Interest-Earning Assets And Interest Paid on Interest Bearing Liabilities." In general, the Bank has more UF-denominated financial assets than UF-denominated financial liabilities. In the nine-month period ended September 30, 2010, the interest gained on interest earning assets denominated in UF increased 505% compared to the same period in 2009 as a result of the higher inflation rates. The interest paid on these liabilities increased to Ch$223,068 million compared to a reversal of Ch$9,279 million in the same period in 2009.

- Inflation and interest rate hedge. A key component of our asset and liability policy is the management of interest rate risk. The Bank's assets generally have a longer maturity than our liabilities. As the Bank's mortgage portfolio grows, the maturity gap tends to rise as these loans, which are contracted in UF, have a longer maturity than the average maturity of our funding base. As most of our long term financial instruments and mortgage loans are contracted in UF and most of our deposits are in nominal pesos, the rise in mortgage lending increases the Bank's exposure to inflation and to interest rate risk. The size of this gap is limited by internal and regulatory guidelines in order to avoid excessive potential losses due to strong shifts in interest rates (see "Item 9: Quantitative and Qualitative Disclosures About Market Risk"). In order to keep this duration gap below regulatory limits the Bank issues long term bonds denominated in UF or interest rate swaps. The financial cost of the bonds and the efficient part of these hedges is recorded as net interest income. In the nine-month period ended September 30, 2010, the gain from the swaps taken in order to hedge mainly for inflation and interest rate risk totaled Ch$2,965 million compared to Ch$28,212 million in the same period in 2009.

	As of September 30,		% Change	
Inflation sensitive income	2010	2009	2010/2009	
	(In million of Chilean pesos)			
Interest gained on UF assets(1)	405,419	67,014	505.0	%
	(223,068)	9,279	–	%

Interest paid on UF liabilities(1)				
Hedging results	2,965	28,212	(89.5	%)
Net gain	185,316	104,505	77.3	%

(1) Excludes results from hedging

- Peso-denominated assets and liabilities. Interest rates prevailing in Chile during any period primarily reflect the inflation rate during the period and the expectations of future inflation. The sensitivity of our peso-denominated interest earning assets and interest bearing liabilities to changes to such prevailing rates

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varies. (See “Item 3: C. Operating Results–Interest Rates”). We maintain a substantial amount of non-interest bearing peso-denominated demand deposits. Because such deposits are not sensitive to inflation, any decline in the rate of inflation would adversely affect our net interest margin on inflation indexed assets funded with such deposits, and any increase in the rate of inflation would increase the net interest margin on such assets. (See “Item 9: Quantitative and Qualitative Disclosures About Market Risk”). The ratio of the average of such demand deposits to average interest-earning assets was 28.2% as of September 30, 2010 and 24.7% as of September 30, 2009.

Interest Rates

Interest rates earned and paid on our assets and liabilities reflect, to a certain degree, inflation, expectations regarding inflation, changes in short term interest rates set by the Central Bank and movements in long term real rates. The Central Bank manages short term interest rates based on its objectives of balancing low inflation and economic growth. Because our liabilities generally reprice sooner than our assets, changes in the rate of inflation or short term rates in the economy are reflected in the rates of interest paid by us on our liabilities before such changes are reflected in the rates of interest earned by us on our assets. Therefore, when short term interest rates fall, our net interest margin is positively impacted, but when short term rates increase, our interest margin is negatively affected. At the same time, our net interest margin tends to be adversely affected in the short term by a decrease in inflation rates since generally our UF-denominated assets exceed our UF-denominated liabilities. (See “Item 3: C. Operating Results–Impact of Inflation–Peso-denominated assets and liabilities”). An increase in long term rates has a positive effect on our net interest margin, because our interest earning assets generally have longer terms than our interest bearing liabilities. In addition, because our peso-denominated liabilities have relatively short repricing periods, they are generally more responsive to changes in inflation or short term rates than our UF-denominated liabilities. As a result, during periods when current inflation or expected inflation exceeds the previous period’s inflation, customers often switch funds from UF-denominated deposits to peso-denominated deposits, which generally bear higher interest rates, thereby adversely affecting our net interest margin.

Foreign Exchange Fluctuations

The Chilean government’s economic policies and any future changes in the value of the Chilean peso against the U.S. dollar could adversely affect our financial condition and results of operations. The Chilean peso has been subject to significant devaluation in the past and may be subject to significant fluctuations in the future. In 2009, the Chilean peso in relation to the U.S. dollar appreciated 19.5% compared to a 26.9% depreciation in 2008. Year-to-date as of September 30, 2010, the Chilean peso has appreciated 4.2% (See “Item 1: A. Selected Financial Data–Exchange Rates”). A significant portion of our assets and liabilities are denominated in foreign currencies, principally the U.S. dollar, and we historically have maintained and may continue to maintain material gaps between the balances of such assets and liabilities. Because such assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains and losses realized upon the sale of such assets, are translated to Chilean pesos in preparing our financial statements, our reported income is affected by changes in the value of the Chilean peso relative to foreign currencies (principally the U.S. dollar). The translation gain or loss over assets and liabilities (excluding derivatives held for trading) is included as foreign exchange transactions in the income statement. The translation and mark-to-market of foreign currency derivatives held for trading is recognized as a gain or loss in the net results from mark-to-market and trading.

The Bank also uses a sensitivity analysis both internal limits and according to regulatory limits to minimize the potential loss in net interest income resulting from fluctuations of interest rates on U.S. dollar denominated assets and liabilities and a VaR model to limit foreign currency trading risk (see “Item 9: Quantitative and Qualitative Disclosures About Market Risk”).

Results of Operations for the Nine-Month Periods Ended September 30, 2010 and 2009

The following discussion is based upon and should be read in conjunction with the Interim Condensed Consolidated Financial Statements included in this report. The Interim Condensed Consolidated Financial Statements have been prepared in accordance with IFRS. The following table sets forth the principal components of our net income for the nine-month periods ended September 30, 2010 and 2009.

CONSOLIDATED INCOME STATEMENT DATA	For the Nine-Month Period ended September 30, 2010 US$ ths.(1)	2010 Ch$ million of constant pesos	2009 Ch$ million of constant pesos	% Change 2010 /2009
IFRS:				
Interest income and expense				
Interest income	2,161,898	1,045,602	865,415	20.8 %
Interest expense	(698,331)	(337,748)	(234,278)	44.2 %
Net interest income	1,463,567	707,854	631,137	12.2 %
Fees and income from services				
Fees and commission income	511,415	247,346	235,424	5.1 %
Fees and commission expense	(110,412)	(53,401)	(45,892)	16.4 %
Net fees and commission income	401,003	193,945	189,532	2.3 %
Operating profit before loan losses				
Net income from financial operations	107,404	51,946	52,013	(0.1 %)
Foreign exchange gains (losses), net	50,410	24,381	77,968	(68.7 %)
Financial transactions, net	157,814	76,327	129,981	(41.3 %)
Other operating income	53,398	25,826	4,623	458.6 %
Operating profit before loan losses	211,212	102,153	134,604	(24.1 %)
Net operating profit before loan losses	2,075,782	1,003,952	955,273	5.1 %
Provision for loan losses	(431,771)	(208,826)	(266,093)	(21.5 %)
Total operating income, net of loan losses, interest, fees and commission	1,644,011	795,126	689,180	15.4 %
Operating expenses				
Personnel salaries and expenses	(382,345)	(184,921)	(167,846)	10.2 %
Administrative expenses	(226,906)	(109,743)	(102,661)	6.9 %
Depreciation and amortization	(74,903)	(36,227)	(34,655)	4.5 %
Impairment	(9,645)	(4,665)	–	– %
Other operating expenses	(76,134)	(36,822)	(24,670)	49.3 %
Total operating expenses	(769,933)	(372,378)	(329,832)	12.9 %
Total net Operating income	874,078	442,748	359,348	23.2 %
Other non-operating results				
Income from investments in other companies	2,429	1,175	863	36.2 %
Total other non-operating results	2,429	1,175	863	36.2 %
Income before income taxes	876,507	423,923	360,211	17.7 %
Income taxes	(117,341)	(56,752)	(60,673)	(6.5 %)
Consolidated income for the period	759,166	367,171	299,538	22.6 %
Net income attributable to:				
Equity holders of the Bank	759,371	367,270	294,725	24.6 %
Non-controlling interest	(205)	(99)	4,813	– %

(1) Amounts stated in U.S. dollars at and for the nine-month period ended September 30, 2010, have been translated from Chilean pesos at the exchange rate of Ch$483.65 = US$1.00 as of September 30, 2010. See “Item 1: A. Selected Financial Data–Exchange Rates” for more information on exchange rate.

Net income for the nine-month period ended September 30, 2010, increased 22.6% to Ch$367,171 million. Our return on average equity was 28.3% in the nine-month period ended September 30, 2010 compared to 25.3% in the same period in 2009.

In the nine-month period ended September 30, 2010, total operating income was Ch$1,003,952 million, an increase of 5.1% compared to the corresponding period in 2009. Our net interest income increased by 12.2% to Ch$707,854 million. The average balance of our interest-earning assets increased by 5.4% in the nine-month period ended September 30, 2010 compared to the corresponding period in 2009. Our net interest margin increased 33 basis points to 5.51% in the same period mainly due to higher inflation rates and lower funding costs. As discussed in further detail below, the rise in the average rate of interest earned resulted from the effect of higher inflation on our UF-denominated assets, resulting from the recovery of the economy throughout 2010. The Bank's ALCO which manages the Bank's UF gap was the main beneficiary of this rise in inflation. The UF gap on UF-denominated assets produced by our commercial activities is managed by our Financial Management Division and is included in their results. The inflationary impact on the other areas of our business was largely neutral because of the almost exact balance between our assets and liabilities denominated in UF.

Net fees and commission income grew by 2.3% to Ch$193,945 million in the nine-month period ended September 30, 2010 compared to the same period in 2009. Fee income has been positively affected by the rebound of the Chilean economy and the Bank's marketing and promotion efforts to increase product usage. Fees from credit, debit and ATM cards increased by 9.4%, fees from our asset management business increased 32.7%, insurance brokerage fees increased by 85.4% and brokerage fees increased 33.6% in the periods being analyzed. These increases were partially offset by a 11.6% decrease in fees from collections. This was mainly due to the February 2010 earthquake and tsunami as some of these fees were temporarily waived in the more affected zones and the collection process was also disrupted. Fees from checking accounts and lines of credit, which includes the maintenance fee for checking accounts and lines of credit and fees charged for the unauthorized overdraft of lines of credit, decreased 21.9%. Fees from unauthorized overdrafts of credit lines were prohibited by the SBIF beginning in May 2009. In the nine-month period ended September 30, 2010, these fees totaled Ch$0 million compared to Ch$8,001 million in the same period in 2009. This decline was also due in part to the February 2010 earthquake and tsunami as some of these fees were temporarily waived in the more affected zones.

Net gains from financial transactions, which is the sum of net income from financial operations and foreign exchange gains (losses), net, totaled Ch$76,327 million in the nine-month period ended September 30, 2010, a decrease of 41.3% compared to the corresponding period in 2009. These results include the results of our Treasury Department's trading business and financial transactions with customers as well the results of our Financial Management Division. The results from Santander Global Connect (SGC), a specialized platform designed to facilitate the sale of derivatives to a broad range of companies in all segments through our branch network and through market-making, decreased 13.0% mainly as a result of a decrease in revenues from market-making activities that were adversely affected by the rising interest rate environment. Our proprietary trading results totaled a gain of Ch$6,897 million in the nine-month period ended September 30, 2010, which represented a decrease of 50.6% compared to the corresponding period in 2009. This was mainly due to the rise in interest rates, which had an adverse effect on our proprietary trading positions compared to the reverse scenario in the same period in 2009. The results from the Financial Management Division and other results totaled a gain of Ch$2,399 million in the nine-month period ended September 30, 2010 compared to a gain of Ch$43,100 million in the nine-month period ended September 30, 2009. The lower gain recognized by the Financial Management Division was mainly due to lower gains from the sale of available-for-sale fixed income instruments in a rising interest rate environment.

Other operating income totaled a gain of Ch$25,826 million in the nine-month period ended September 30, 2010, a 458.6% increase from Ch$4,623 million in the corresponding period in 2009, mainly due to the sale of branches. In the nine-month period ended September 30, 2010, the Bank sold 16 branches for a gain of Ch$12,975 million recognized as income from the sale of Bank property, plant and equipment. These branches are now rented to us. The Bank did not finance this acquisition and the acquirers were non-related parties.

Net provision expense decreased by 21.5% to Ch$208,826 million in the nine-month period ended September 30, 2010 compared to the nine-month period ended September 30, 2009 principally reflecting a 38.7% decrease in charge-offs. This was mainly due to an improvement in asset quality in consumer loans. The ratio of non-performing consumer loans to total consumer loans improved from 3.06% as of September 30, 2009 to 2.87% as of September 30,

2010. Coverage of consumer non-performing loans has also increased from 252.6% as of September 30, 2009 to 294.9% as of September 30, 2010. The Bank believes its allowance for loan losses as of the date hereof is sufficient to cover all known losses in its loan portfolio.

As a result of rising net interest income and fee income and lower provision expense, operating income, net of loan losses, interest, fees and commissions, increased 15.4% in the nine-month period ended September 30, 2010 compared to the nine-month period ended September 30, 2009 and totaled Ch$795,126 million.

Operating expenses in the nine-month period ended September 30, 2010 increased 12.9% compared to the corresponding period in 2009. The 10.2% increase in personnel salaries and expenses was mainly due to higher salary expenses and higher variable incentives as a result of greater commercial activity and productivity, as well as higher severance payments. Administrative expenses increased 6.9%. This was mainly due to higher rent and maintenance expenses relating to our branches, ATM locations and other equipment as a result of higher expenses incurred due to the February 2010 earthquake and tsunami. Depreciation and amortization expense increased 4.5%, mainly due to higher amortization expenses of intangible assets such as software and other computer systems. Operating expenses were also adversely affected by the Ch$4,665 million impairment charge recognized in the nine-month period ended September 30, 2010, which was mainly due to impairment charges directly related to earthquake-related effects on the Bank's branches and other installations. The efficiency ratio was 37.1% in the nine-month period ended September 30, 2010 compared to 34.5% in the same period in 2009, as costs rose at a more rapid pace than operating income mainly due to the February 2010 earthquake and tsunami.

Other operating expenses were Ch$36,822 million in the nine-month period ended September 30, 2010, a 49.3% increase compared to the same period in 2009. The increase in other expenses was due to higher provisions for tax, legal and other contingencies. These expenses totaled Ch$5,952 million in the nine-month period ended September 30, 2010 compared to Ch$234 million in the corresponding period in 2009. Other operating expenses also included Ch$2,544 million in earthquake related expenses.

Our income tax expense decreased by 6.5% in the nine-month period ended September 30, 2010 compared to the same period in 2009. The effective tax rate paid was 13.4% in the nine-month period ended September 30, 2010 compared to 16.8% in the corresponding period in 2009. The statutory tax rate in Chile has not changed in 2010 and is 17% on income before taxes. The lower effective tax rate is mainly due to the fact that Chilean tax regulations still require corporations to recognize the effects of price level restatement on equity even though inflation accounting is no longer required by Chilean GAAP. The Chilean government and Congress has approved a temporary increase in the corporate tax rate to 20% in 2011, 18.5% in 2012 and back to 17% in 2013, as part of the plan to finance the reconstruction of public works in the zones more affected by the February 2010 earthquake and tsunami. As a result of these changes, the Bank had to apply these rates over deferred taxes. The application of the new corporate tax rates over deferred taxes, resulted in a higher net asset position in deferred taxes and therefore a lower effective tax rate in 2010.

Net interest income

(in millions of Ch$, except percentages)	Nine-Month Period ended September 30,		% Change
	2010	2009	2010/2009
Individuals	400,204	402,728	(0.6 %)
Small and mid sized companies	171,833	161,857	6.2 %
Institutional	19,172	14,529	32.0 %
Middle-market	103,401	101,169	2.2 %
Global banking & markets	16,836	30,630	(45.0 %)
Other(1)	(3,592)	(79,776)	(95.5 %)
Net interest income(2)	707,854	631,137	12.2 %
Average interest-earning assets	17,135,052	16,250,793	5.4 %
Average non-interest-bearing demand deposits	3,112,688	2,437,072	27.7 %
Net interest margin(3)	5.51 %	5.18 %	
Average shareholders' equity and average non-interest-bearing demand deposits to total average interest-earning assets	28.2 %	24.7 %	

(1) Consists mainly of net interest income from Financial Management and the cost of funding our fixed income trading portfolio.

(2) Each segment obtains funding from its clients. Any surplus deposits are transferred to the Financial Management Division, which in turn sells it to those areas that need funding. The Financial Management Division also sells the funds it obtains in the institutional funding market at a transfer price.

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

Our net interest income increased 12.2% to Ch$707,854 million in the nine-month period ended September 30, 2010 from net interest income of Ch$631,137 million in the corresponding period in 2009. Average interest earning assets increased 5.4% in the nine-month period ended September 30, 2010 compared to the same period in 2009. Net interest margin in the same period in 2010 was 5.51% compared to 5.18% in the same period in 2009, reflecting the higher inflationary environment. In the nine-month period ended September 30, 2010, the value of the UF increased by 1.9% compared to a decline of 2.9% in the corresponding period in 2009. As we have more interest-earning assets than liabilities linked to the UF, our net interest income was positively affected by this change in inflationary trends. In the nine-month period ended September 30, 2010, the average gap between UF-denominated interest-earning assets and UF-denominated average interest bearing liabilities was approximately Ch$3,092,340 million compared to Ch$2,640,907 million in the corresponding period in 2009. The average nominal rate earned over interest earning assets increased to 6.1% in the nine-month period ended September 30, 2010 from 5.3% in the nine-month period ended September 30, 2009.

Net interest income and margins were also positively affected by the fall in average short-term interest rates. As interest-bearing liabilities generally have shorter terms than interest-earning assets, a fall in short-term rates has a positive effect on our margins. As a result, the average nominal rate we paid on our peso denominated interest-bearing liabilities was 1.6% in the nine-month period ended September 30, 2010 compared to 3.5% in the nine-month period ended September 30, 2009. Going forward, as the Central Bank continues to increase interest rates, this will negatively impact our funding costs in pesos and our margins.

The Bank's funding mix also improved. The ratio of non-interest bearing demand deposits and shareholders' equity to interest earning assets was 28.2% as of September 30, 2010 compared to 24.7% as of September 30, 2009. Average non-interest bearing demand deposits increased 27.7% in the nine-month period ended September 30, 2010 as compared to the nine-month period ended September 30, 2009.

These factors were partly offset by the lower interest income earned on consumer loans, which are mainly denominated in nominal pesos and, therefore, are more impacted by the decline in short-term interest rates than by the rise in inflation. Interest income from consumer loans decreased 8.2%, in the nine-month period ended September 30, 2010 compared to the corresponding period in 2009. In 2009, the Bank increased its consumer loan yields in order to compensate for the expected rise in non-performing levels and charge-offs. As the economy has rebounded and provision expense has decreased (See –Provision Expense) yields on these products have normalized.

The changes in net interest income by segment in the nine-month period ended September 30, 2010 as compared to the nine-month period ended September 30, 2009 were as follows:

- Net interest income from individuals in our retail segment decreased 0.6%, mainly as a result of the normalization of loan spreads mentioned above. This was partially offset by a 15.1% increase in loan volumes to individuals in the period being analyzed due to the more favorable economic environment and improvements in asset quality after the 2009 recession.

- Net interest income from small and mid-sized companies in our retail segment increased 6.2% mainly as a result of an 11.9% increase in loans to this segment in the same period. This was partially offset by the normalization of loan spreads mentioned above and the decrease in average short-term interest rates.

- Net interest income from the middle-market segment increased 2.2%, mainly as a result of the 11.4% increase in loans to this segment in the same period due to the general economic recovery. This was partially offset by the normalization of loan spreads in line with the improvements in asset quality after the 2009 recession.

- Net interest income from the global banking and markets segment decreased 45.0% the nine-month period ended September 30, 2010 compared to the same period in 2009 mainly due to the 3.0% decrease in loans in this segment, lower spreads due to competition and the appreciation of the peso against the dollar, which negatively affected interest income on dollar denominated loans. This was partially offset by the higher inflation rate that positively affected net interest income from financial investments that are mainly denominated in UFs.

- Net interest income from other non-segmented portions of interest earning assets, which consists mainly of net interest income from the Financial Management Division's available for sale investment portfolio improved from a loss of Ch$79,776 million in the nine-month period ended September 30, 2010 to a loss of Ch$3,592 million in the same period in 2009. This was mainly as a result of higher net interest revenue from financial investments that are mainly denominated in UFs and, therefore, were positively affected by the rise in inflation. See "Item 9: Quantitative and Qualitative Disclosures About Market Risk–Impact of Inflation"

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

Loans by segment (Ch$ million)	Nine-Month Period ended September 30, 2010	2009	% Change 2010/2009	
Individuals	8,035,617	6,980,092	15.1	%
Small and mid sized companies	2,301,536	2,055,911	11.9	%
Institutional	340,274	285,129	19.3	%
Middle-market	3,160,681	2,838,365	11.4	%
Global banking & markets(1)	1,406,210	1,449,001	(3.0	%)
Other(1)	59,933	31,840	88.2	%
Total loans(1)	15,304,251	13,640,338	12.2	%

(1) Includes interbank loans.

Fee and commission income

The following table sets forth certain components of our income from services (net of fees paid to third parties directly connected to providing those services, principally fees relating to credit card processing and ATM network administration) in the nine-month periods ended September 30, 2010 and 2009.

(in millions of Ch$, except percentages)	Nine-Month Period ended September 30,		% Change	
	2010	2009	2010/2009	
Collections	43,372	49,085	(11.6	%)
Credit, debit and ATM cards	41,222	37,667	9.4	%
Checking accounts and lines of credit	32,340	41,394	(21.9	%)
Asset management	29,111	21,941	32.7	%
Insurance brokerage	22,750	12,268	85.4	%
Letters of credit	17,351	18,400	(5.7	%)
Custody and brokerage services	6,404	4,792	33.6	%
Office banking	1,344	1,729	(22.3	%)
Other fees	51	2,256	(97.7	%)
Total fees and commission income, net	193,945	189,532	2.3	%

Net fees and commission income grew by 2.3% to Ch$193,945 million in the nine-month period ended September 30, 2010 compared to the same period in 2009.

Fees from collections decreased by 11.6% in the nine-month period ended September 30, 2010 compared to the same period in 2009. This was mainly due to the impact of the February 2010 earthquake and tsunami as some collection fees were temporarily waived in the more affected zones and the collection process was disrupted because many of the persons from whom the Bank was collecting could not be contacted.

Fees from credit, debit and ATM cards increased by 9.4%, reflecting increased usage of our credit cards. Usage measured in terms of monetary purchases was up 30.3% in the nine-month period ended September 30, 2010 compared to the corresponding period in 2009. As of September 30, 2010, the Bank, which has a 29.9% market share of all bank credit card accounts, had generated 38.3% of all monetary purchases year-to-date.

Fees from checking accounts and lines of credit, which includes the maintenance fee for checking accounts and lines of credit and fees charged for the unauthorized overdraft of lines of credit, decreased 21.9% in the nine-month period ended September 30, 2010 compared to the nine-month period ended September 30, 2009. This decrease was in part a result of the decline in fees from unauthorized overdrafts of credit lines which were prohibited by the SBIF beginning in May 2009. In the nine-month period ended September 30, 2010, these fees totaled Ch$0 compared to Ch$8,001 million in the same period in 2009. Additionally, this decrease was also due in part to the February 2010 earthquake and tsunami as some of these fees were temporarily waived in the more affected zones.

Fees from our asset management business increased 32.7% in the in the nine-month period ended September 30, 2010 compared to the same period in 2009. Total funds under management decreased 4.9% in the period being analyzed and totaled Ch$3,305,683 million (US$6.8 billion). The recovery of the local and global equity markets in 2010 has resulted in an increase in equity funds which earn higher management fees than non-equity funds. This has been partially offset by the reduction in fixed income funds due to mark-to-market as rates have increased, and by the translation loss on foreign currency denominated funds due to the appreciation of the peso against the dollar.

Fees from letters of credit and other contingent operations decreased 5.7%. This was mainly due to a 16.7% decrease in stand-by letters of credit in our foreign trade business, which in turn resulted from lower average fees as the peso has appreciated against the dollar in 2010.

Insurance brokerage fees increased by 85.4%. This was mainly due to an increase in prices on behalf of insurance underwriters following the February 2010 earthquake and tsunami, greater business volumes in our insurance brokerage subsidiary and higher sales of insurance products through our website.

Custody and brokerage fees increased 33.6% in the nine-month period ended September 30, 2010 as compared to the corresponding period in 2009. This was primarily due to higher stock brokerage fees, which increased 39.1%

to Ch$5,356 million as equity markets have performed well, and also higher brokerage volumes as more clients have used our online brokerage services.

Fees from office banking decreased 22.3%. Income from office banking increased 7.3% as more clients used this product, but costs associated with this program rose 18.4% as the Bank increased incentives for clients to switch to online banking services.

Other fee income decreased by 97.7% mainly due to higher fee expenses paid to correspondent banks and other expenses related to marketing efforts of various products and services.

The following table sets forth, for the periods indicated our fee income broken down by segment.

(in millions of Ch$, except percentages)	Nine-Month Period ended September 30,		% Change
	2010	2009	2010/2009
Individuals	138,506	125,646	10.2 %
Small and mid sized companies	25,973	30,347	(14.4 %)
Institutions	1,848	1,493	23.8 %
Middle-market	16,304	16,983	(4.0 %)
Global banking and markets	17,497	16,674	4.9 %
Other	(6,183)	(1,611)	283.8 %
Total fees and commission income, net	193,945	189,532	2.3 %

Fees from individuals increased 10.2% in the nine-month period ended September 30, 2010 compared to the same period in 2009 mainly as a result of the increase in fees from credit and debit cards, asset management, stock brokerage and insurance brokerage.

Fees from small and mid-sized companies in our retail segment decreased 14.4% mainly as a result from lower fees from the unauthorized overdraft of checking accounts.

Fees from institutions increased 23.8% primarily as a result of our increased business activity with universities.

Fees in the middle-market decreased by 4.0%, mainly as a result of a decrease in stand-by letters of credit in our foreign trade business and lower fees from the unauthorized overdraft of checking accounts.

Fees from the global banking and markets segments increased by 4.9%, mainly as a result of an increase in fees from mutual funds, brokerage services, custody services and investment banking activities.

Financial transactions, net

The following table sets forth information regarding our income (expenses) from financial transactions in the nine-month periods ended September 30, 2010 and 2009.

(in millions of Ch$, except percentages)	Nine-Month Period ended September 30,		% Change
	2010	2009	2010/2009

Derivatives classified as trading	27,686	(47,923)	– %
Trading investments	26,596	7,721	244.5 %
Sale of loans	3,867	347	1,014.4 %
Available-for-sale instruments sales	(6,244)	92,236	– %
Other results	41	(368)	– %
Net income from financial operations	51,946	52,013	(0.1 %)
Foreign exchange transactions	156,904	285,899	(45.1 %)
Hedge-accounting derivatives	(132,343)	(230,590)	(42.6 %)
Translation gains and losses over assets and liabilities indexed to foreign currencies	(180)	22,659	– %
Net results from foreign exchange profit (loss)	24,381	77,968	(68.7 %)
Total financial transactions, net	76,327	129,981	(41.3 %)

The net gains from financial transactions, which is the sum of trading activities, mark-to-market adjustments and foreign exchange transactions totaled Ch$76,327 million in the nine-month period ended September 30, 2010, a decrease of 41.3% compared to the corresponding period in 2009. These results include the results of our Treasury Department's trading business and financial transactions with customers as well the results of our Financial Management Division.

The net income from financial operations was Ch$51,946 million in the nine-month period ended September 30, 2010 compared to Ch$52,013 million in the corresponding period in 2009. Year-to-date in 2010, these results have been positively affected by higher inflation rates, which has increased the interest earned from our fixed income portfolio classified as trading which is included in this line item. This totaled Ch$26,596 million in the nine-month period ended September 30, 2010 compared to Ch$7,721 million in the same period in 2009.

The Bank in the nine-month period ended September 30, 2010 also recorded a gain of Ch$3,867 million from the sale of loans, mainly loans that have been previously charged-off compared to Ch$347 million in the same period in 2009.

In the nine-month period ended September 30, 2010, the Chilean peso appreciated 4.2% compared to a 13.2% depreciation in the same period in 2009. This explains the difference in results from derivatives classified as trading which totaled Ch$27,686 million in the nine-month period ended September 30, 2010 compared to a loss of Ch$47,923 million in the nine-month period ended September 30, 2009. The majority of the derivatives are composed of forwards and swaps that hedge the Bank's spot position in foreign currency. As the peso appreciates, the Bank usually records a low or negative result from the mark-to-market of its derivatives held for trading. Going forward, if the peso continues to appreciate the results from derivatives classified as trading should decrease, but will be offset by higher results in foreign exchange transaction, which includes the mark-to-market of the Bank's spot foreign currency position.

These positive factors have been partially offset by the higher interest rate environment which has negatively affected realized gains from the sale of available for sale fixed income instruments, which totaled a loss of Ch$6,244 million in the nine-month period ended September 30, 2010 compared to a gain of Ch$92,236 million in the same period in 2009 when interest rates declined significantly and the Bank sold available for sale fixed income investments.

Foreign exchange profit (loss), net totaled a net gain of Ch$24,381 million in the nine-month period ended September 30, 2010 compared to a gain of Ch$77,968 million in the corresponding period in 2009. This decrease is the result of the lower rate of appreciation of the Chilean peso against the dollar in the nine-month period ended September 30, 2010 compared to the same period in 2009. The effects on net income from the change in value of the Bank's spot foreign currency position should continue to be positive if the peso continues to appreciate as the Bank's funding base in foreign currency is larger than its spot asset position in foreign currency.

The derivatives included in this line item are mainly cross-currency swaps that hedge the interest rate risk of bonds issued abroad. Foreign exchange profit (loss), net totaled a net gain of Ch$156,904 million in the nine-month period ended September 30, 2010 compared to a gain of Ch$285,899 million in the corresponding period in 2009. This lower result was mainly due to the lower rate of appreciation of the peso in the nine-month period ended September 30, 2010 compared to the in the nine-month period ended September 30, 2009. This is largely offset by the mark-to-market of foreign exchange derivatives in net gains from trading and mark-to-market as described above.

Excluding derivatives that qualify for hedge accounting, the conversion and mark-to-market of foreign currency derivatives are for the most part recognized as a gain or loss in the net results from mark-to-market and trading and not as foreign exchange transactions. This distorts the results from mark-to-market and trading and foreign exchange transactions. In order to more easily compare the results from financial transactions, net, we present the following table that separates the results by line of business.

	Nine-Month Period ended September 30, 2010	2009	% Change 2010/2009
	(in millions of Ch$, except percentages)		
Santander Global Connect and market-making	63,164	72,573	(13.0 %)
Proprietary trading	6,897	13,961	(50.6 %)
Sale of loans and charged-off loans	3,867	347	1,014.4 %
Financial Management (ALCO) and other results	2,399	43,100	(94.4 %)
Total financial transactions, net	76,327	129,981	(41.3 %)

The results from Santander Global Connect (SGC) and market-making mainly include the results from the sale of derivatives, foreign exchange and fixed income instruments to our client base. Santander Global Connect is a specialized platform designed to facilitate the sale of derivatives to a broad range of companies in all segments and through the branch network. In the nine-month period ended September 30, 2010, the results from Santander Global Connect and market making decreased 13.0% mainly as a result of a fall in revenues from market-making activities that were negatively affected by the rising interest rate environment. This decrease can also be attributed to a decline in demand for derivative instruments due to more stable market conditions in 2010 compared to 2009.

The results from proprietary trading totaled a gain of Ch$6,897 million in the nine-month period ended September 30, 2010 and decreased 50.6% compared to the same period in 2009. This was mainly due to the rise in interest rates, which had a negative effect on our proprietary trading positions compared to the inverse scenario in 2009.

The results from the Financial Management Division and other results totaled a gain of Ch$2,399 million in the nine-month period ended September 30, 2010 compared to a gain of Ch$43,100 million in the nine-month period ended September 30, 2009. The lower gain recognized by the Financial Management Division was mainly due to lower gains from the sale of available-for-sale fixed income instruments in a rising interest rate environment.

Other operating income

	Nine-Month Period ended September 30, 2010	2009	% Change 2010/2009	
	(in millions of Ch$, except percentages)			
Income from assets received in lieu of payment	1,247	354	252.3	%
Net results from sale of investment in other companies	–	1,859	–	%
Operational leases	308	551	(44.1	%)
Gain on sale of Bank premises and equipment	13,243	461	2,772.7	%
Recovery of provisions for non-specific contingencies	7,029	782	798.8	%
Insurance coverage for earthquake	3,611	–	–	%
Other	388	616	37.0	%
Total other operating income	25,826	4,623	458.6	%

Other operating income totaled a gain of Ch$25,826 million in the nine-month period ended September 30, 2010, a 458.6% increase from Ch$4,623 million in the corresponding period in 2009.

In the nine-month period ended September 30, 2010, the Bank sold 16 branches for a gain of Ch$12,975 million recognized as income from the sale of Bank property, plant and equipment. These branches are now rented to us. The Bank did not finance this acquisition and the acquirers were non-related parties.

Gains from the recovery of provisions for non-specific contingencies increased to Ch$7,029 million in the nine-month period ended September 30, 2010 compared to Ch$782 million in the nine-month period ended September 30, 2009 due to the reversal of provisions recognized in the early part of 2010 in anticipation of the potential negative impact of various events such as the February 2010 earthquake and tsunami and changes in our collective bargaining agreements; these negative impacts did not materialize to the extent initially estimated. However, this gain was offset in part by higher provisions of Ch$5,952 million recognized for non-specific contingencies in other operating expenses.

The Bank also recognized Ch$3,611 million from insurance claims from earthquake damage to branches and other installations, which in turn partially offset the impairment recognized in operating expenses as a result of the loss in value of some fixed assets attributable to this same event.

Provision for loan losses

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

(in millions of Ch$, except percentages)	Nine-Month Period ended September 30, 2010	2009	% Change 2010/2009
Gross provision expenses(1)	(81,149)	(50,877)	59.5 %
Charge-offs	(151,232)	(246,739)	(38.7 %)
Recoveries of loans previously charged-off	23,555	31,523	(25.3 %)
Provision expenses, net	(208,826)	(266,093)	(21.5 %)
Period-end loans(2)	15,304,251	13,640,338	12.2 %
Non-performing loans(3)	407,831	383,172	6.4 %
Impaired loans(4)	1,488,116	1,084,785	37.2 %
Loan loss allowance(5)	428,881	338,056	26.9 %
Non-performing loans / period-end loans(6)	2.66 %	2.81 %	
Risk Index(7)	2.80 %	2.48 %	
Coverage ratio non-performing loans(8)	105.16 %	88.23 %	

(1) Net of the reversal of allowances on loans charged off during the period.

(2) Includes Ch$72,232 million as of September 30, 2010 and Ch$56,711 million as of September 30, 2009 in interbank loans.

(3) Non-performing loans include the principal and interest of any loan with one installment that is 90 days overdue, and do not accrue interest

(4) Impaired loans prior to December 2009 include: (i) all non-performing loans, (ii) all renegotiated consumer loans, (iii) all commercial loans that are at risk of default. As of December 31, 2009, impaired loans include: (A) for loans whose allowance is determined on an individual basis, impaired loans include: (1) all loans to a debtor that are rated C1 through D2 and (2) total loans to single debtors with a loan that is non-performing, excluding residential mortgage loans if the non-performance of the mortgage loans is less than 90 days. (B) for loans whose loan loss allowance is determined on a group basis, impaired loans include: (1) total loans to a debtor, when a loan to that debtor is non-performing or has been renegotiated, excluding performing residential mortgage loans and (2) if the loan that is non-performing or renegotiated is a residential mortgage loan all loans to that debtor are considered impaired. See Note 10(a) of the Consolidated Financial Statements included in our Annual Report on Form 20-F. As a result of this change in definition impaired loans as of September 30, 2009 are not comparable to September 30, 2010 figures.

(5) Includes Ch$48 million as of September 30, 2010 and Ch$37 million as of September 30, 2009 in loan loss allowances for interbank loans.

(6) Non-performing loans divided by total loans.

(7) Loan loss allowance divided by total loans.

(8) Loan loss allowance divided by non-performing loans.

Net provision expense decreased by 21.5% to Ch$208,826 million in the nine-month period ended September 30, 2010 compared to the nine-month period ended September 30, 2009.

Gross provision expense increased 59.5% to Ch$81,149 million. This increase was mainly due to higher gross provisions in consumer lending. The Bank recognized Ch$30,466 million in provisions mainly for consumer loans as a result of improvements made to our credit scoring models. The minimum provision required for clients in most risk profiles was increased for performing consumer loans (See Item 3: D-Selected Statistical Information-Classification of Loan Portfolio-Allowance for Consumer Loans) and this effect was recognized as a larger Provision Expenses and greater Loan Loss Allowances. Additionally, as part of the SBIF guidelines, banks must apply a minimum provision of 0.5% for Normal Loans as of July 2010 (See Item 3: D-Selected Statistical Information-Classification of Loan Portfolio-Allowance for large commercial loans). This modification had an impact of Ch$7,500 million in the nine-month period ended September 30, 2010 and will have an impact of Ch$14,000 million for all of 2010. The rise in gross provision expense was also due, in part, to the negative impacts of the earthquake on asset quality. This was offset by an improvement in asset quality in the commercial loan portfolio, especially in zones unaffected by the earthquake. These factors explain the increase in the Bank's risk index from 2.48% as of September 30, 2009 to 2.80% as of September 30, 2010. The risk index is defined as loan loss allowances over total loans and measures how much we expect to lose on our loan book, according to our internal models and the guidelines of the SBIF. The following table shows gross provision expense by type of loan:

Gross provision expense by loan product (in millions of Ch$, except percentages)	Nine-Month Period ended September 30, 2010	2009	% Change 2010
Consumer loans	(49,760)	(5,735)	767.7 %
Residential mortgage loans	(1,098)	(3,666)	(70.0 %)
Commercial loans	(29,455)	(40,707)	(27.6 %)
Contingent loans (off-balance sheet)	(830)	(767)	8.2 %
Interbank loans	(6)	(2)	200.0 %
Total gross provisions	(81,149)	(50,877)	59.5 %

Charge-offs decreased 38.7% in the periods being analyzed, totaling Ch$151,232 million. This was mainly due to an improvement in the asset quality of our consumer loans. Consumer loan charge-offs decreased 55.8% in the nine-month period ended September 30, 2010 compared to the corresponding period in 2009. The ratio of non-performing consumer loans to total consumer loans improved from 3.06% as of September 30, 2009 to 2.87% as of September 30, 2010. Coverage of consumer non-performing loans has also increased from 252.6% as of September 30, 2009 to 294.9% as of September 30, 2010. The rise in charge-offs in residential mortgage and commercial loans was mainly due to impacts of the earthquake. The following table shows charge-offs by type of loan:

Charge-offs by loan product (in millions of Ch$, except percentages)	Nine-Month Period ended September 30, 2010	2009	% Change 2010
Consumer loans	(91,219)	(206,489)	(55.8 %)
Residential mortgage loans	(10,589)	(5,733)	84.7 %
Commercial loans	(49,424)	(34,517)	43.2 %
Contingent loans (off-balance sheet)	–	–	– – %
Interbank loans	–	–	– – %
Total gross provisions	(151,232)	(246,739)	(38.7 %)

Recoveries on loans previously charged-off decreased by 25.3% in the nine-month period ended September 30, 2010 compared to the corresponding period in 2009. In previous periods, the Bank has sold charged-off loans to third parties, recognizing a gain in financial transactions, net. The Bank views this as a more efficient manner to recover value from its older stock of charged-off loans; however, this leads to a decrease in recoveries recognized in this line item. The following table shows recoveries by type of loan:

Recoveries (in millions of Ch$, except percentages)	Nine-Month Period ended September 30, 2010	2009	% Change 2010
Consumer loans	17,067	21,936	(22.2 %)
Residential mortgage loans	1,229	2,305	(46.7 %)
Commercial loans	5,259	7,282	(27.8 %)
Contingent loans (off-balance sheet)	–	–	– – %
Interbank loans	–	–	– – %

Total gross provisions	23,555	31,523	(25.3 %)

We only recognize recoveries on loans previously charged off when interest and/or principal is paid in cash in connection with a loan that has already been charged-off in its entirety. Such recoveries do not have an impact on our allowance for loan losses because these recoveries are for loans that have been already charged-off and recognized as a loss in our income statement and are no longer on our balance sheet.

In some instances, the Bank will sell a portfolio of charged-off loans to a third party. The income received from the sale of these charged-off loans is recognized as net income from financial transactions as disclosed in Note 24 of our Condensed Consolidated Interim Financial Statements.

	Nine-Month Period ended September 30, 2010	2009	% Change 2010/2009
	(in millions of Ch$, except percentages)		
Sale of charged-off loans	3,926	43	9,030.2 %

The following table shows provision expense by business segment type of loan:

Net provision expense by loan product (in millions of Ch$, except percentages)	Nine-Month Period ended September 30, 2010	2009	% Change 2010/2009
Consumer loans	(123,912)	(190,288)	(34.9 %)
Residential mortgage loans	(10,458)	(7,094)	47.4 %
Commercial loans	(73,620)	(67,942)	8.4 %
Contingent loans (off-balance sheet)	(830)	(767)	8.2 %
Interbank loans	(6)	(2)	200.0 %
Total gross provisions	(208,826)	(266,093)	(21.5 %)

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

(i) New Guidelines for Provision Levels for Commercial Loans in 2011

On August 12, 2010, the SBIF published new guidelines for classifying and provisioning of the loan portfolio that will be mandatory as of January 1, 2011. Please see Item 3: D-Selected Statistical Information-Classification of Loan Portfolio-Allowance for large commercial loans for a detailed explanation of these new guidelines. These regulations will have an estimated initial cost of implementation of Ch$39,800 million in additional loan loss allowances recognized in local GAAP and thereafter will require a higher ongoing level of loan loss allowances under local GAAP than had previously been required. In local GAAP, these will be recognized in 2010 earnings as additional provisions. Such provisions are not expected to be reflected in the Bank's financial statements prepared in accordance with IFRS and filed with the U.S. Securities and Exchange Commission because such provisions are not expected to relate to incurred losses.

Operating expenses

The following table sets forth information regarding our operating expenses in the nine-month period year ended September 30, 2010 and 2009.

(in millions of Ch$, except percentages)	Nine-Month Period ended September 30, 2010	2009	% Change 2010/2009
Personnel salaries and expenses	(184,921)	(167,846)	10.2 %
Administrative expenses	(109,743)	(102,661)	6.9 %
Depreciation and amortization	(36,227)	(34,655)	4.5 %

Impairment	(4,665)	–	– – %
Other operating expenses	(36,822)	(24,670)	49.3 %
Total operating expenses	(372,378)	(329,832)	12.9 %
Efficiency ratio (1)	37.1 %	34.5 %	

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

Operating expenses in the nine-month period ended September 30, 2010 increased 12.9% compared to the corresponding period in 2009. The efficiency ratio was 37.1% in the nine-month period ended September 30, 2010 compared to 34.5% in the same period in 2009, as the increase in operating income was offset by earthquake-related expenses and greater expenses incurred as a result of stronger business activity.

The 10.2% increase in personnel salaries and expenses was mainly due to higher salaries and higher variable incentives as a result of greater commercial activity and productivity, as well as higher severance payments. Average headcount in the periods being analyzed decreased 2.9%

Administrative expenses increased 6.9%. This was mainly due to higher rent and maintenance expenses of branches, ATM locations and other equipment as a result of higher expenses incurred due to the February 2010 earthquake and tsunami. The rise in administrative expenses was also due to an increase in IT and communication services and higher marketing expenses.

Depreciation and amortization expense increased 4.5%, mainly due to higher amortization expenses of intangible assets such as software and other computer systems.

Operating expenses were also negatively affected by the Ch$4,665 million impairment charged recognized in the nine-month period ended September 30, 2010. This was mainly due to impairment charges directly related to earthquake related effects on the Bank's installations. This was partially offset by insurance claim revenue recognized in other operating income.

The following table sets forth information regarding other operating expenses in the nine-month periods ended September 30, 2010 and 2009.

Other operating expenses (in millions of Ch$, except percentages)	Nine-Month Period ended September 30, 2010	2009	% Change 2010/2009	
Repossessed asset expenses	5,792	5,087	13.9	%
Credit card expenses	5,175	4,358	18.7	%
Customer service expenses	6,528	6,138	6.4	%
Earthquake related expenses	2,544	—	—	%
Provision for contingencies	5,952	234	2,443.6	%
Other expenses	10,831	8,853	22.3	%
Total	36,822	24,670	49.3	%

Other operating expenses were Ch$36,822 million in the nine-month period ended September 30, 2010, a 49.3% increase compared to the same period in 2009. Other operating expenses include provisions and expenses related to repossessed assets, expenses related to our credit card business, customer service expenses mainly related to our call-center and other expenses such as non-credit charge-offs, the cost of insurance policies (mainly life insurance) over products and taxes paid on debt issued by us abroad. The increase in other expenses was due in part to higher credit card and other customer expenses in line with greater commercial activity. Other operating expenses also include provisions for contingencies that may be related to non-specific credits or other impairments such as tax, legal and labor contingencies. These expenses totaled Ch$5,952 million in the nine-month period ended September 30, 2010 compared to Ch$234 million in the corresponding period in 2009. This increase was due to provisions for contingencies related to the earthquake and the collective bargaining agreement. This increase was offset by the Ch$7,029 million reversal of provisions for contingencies recognized in other operating income. The net effect on income for provisions for other contingencies totaled Ch$1,077 million in the nine-month period ended September 30, 2010, as set forth in the following chart.

	Nine-Month Period ended September 30,	% Change

Provisions for contingencies, net	2010	2009	2010/2009
Gross provision for contingencies (other operating expenses)	(5,952)	(234)	2,443.6 %
Reversal of provisions for contingencies (other operating income)	7,029	782	798.8 %
Total	1,077	548	96.5 %

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Income tax

	Nine-Month Period ended September 30,		% Change
	2010	2009	2010
Income before tax	423,923	360,211	17.7 %
Income tax	(56,752)	(60,673)	(6.5 %)
Effective tax rate(1)	13.4 %	16.8 %	

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

Our income tax expense decreased by 6.5% in the nine-month period ended September 30, 2010 compared to the same period in 2009. The effective tax rate paid was 13.4% in the nine-month period ended September 30, 2010 compared to 16.8% in the corresponding period in 2009. The statutory tax rate in Chile has not changed in 2010 and is 17% on income before taxes. The lower effective tax rate is mainly due to the fact that Chilean tax regulations still require corporations to recognize the effects of price level restatement on equity even though inflation accounting is no longer required by Chilean GAAP. In 2009, as inflation was negative, stated net income and taxable net income were similar. In 2010, the higher inflation rate has resulted in a tax deductible loss from price level restatement and thus a lower effective tax rate.

The Chilean government and Congress has approved a temporary increase in the corporate tax rate to 20% in 2011, 18.5% in 2012 and back to 17% in 2013, as part of the plan to finance the reconstruction of public works in the zones most affected by the February 2010 earthquake and tsunami. As a result of these changes, the Bank had to apply these rates over deferred taxes. The application of the new corporate tax rates over deferred taxes, resulted in a higher net asset position in differed taxes and therefore a lower effective tax rate in 2010.

C. Liquidity and Capital Resources

Sources of Liquidity

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

Risk-Weighted Assets and Regulatory Capital

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

The following table sets forth our consolidated and risk-weighted assets and regulatory capital as of September 30, 2010 and December 31, 2009 under local GAAP.

	Consolidated assets as of		Risk-weighted assets	
	September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009
	(Ch$ million)			
Asset Balance (Net of allowances)(3)				
Cash and deposits in bank	1,522,587	2,043,458	–	–
Unsettled transactions	485,262	468,134	178,641	191,287
Trading investments	397,342	798,539	65,643	41,918
Investments under resale agreements	64,995	14,020	64,995	14,020
Financial derivative contracts	1,431,288	1,391,886	884,102	837,692
Interbank loans	72,184	23,370	14,437	4,674
Loans and accounts receivables from customers	14,803,186	13,378,379	12,998,935	11,717,337
Available for sale investments	1,601,025	1,830,090	75,762	154,089
Investments in other companies	7,301	7,417	7,287	7,417
Intangibles assets	69,975	77,260	69,975	77,260
Property, plant and equipment	160,435	184,122	160,435	184,122
Current taxes	5,948	4,541	595	454
Deferred taxes	137,958	95,229	13,796	9,523
Other assets	653,285	452,559	406,034	269,313
Off-balance sheet assets				
Contingent loans	2,999,843	1,160,118	1,799,071	693,009
Total	24,412,614	21,929,122	16,739,708	14,202,115

			Ratio			
	September 30, 2010	December 31, 2009	September 30, 2010		December 31, 2009	
	(Ch$ million)		%		%	
Basic capital	1,757,340	1,658,316	7.20	(1)	7.56	(1)
Regulatory capital	2,430,080	2,214,092	14.52	(2)	15.59	(2)

(1) As a percentage of total assets.

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

(3) As required by local regulations.

Financial Investments

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

a) Trading

	As of September 30, 2010	As of December 31, 2009
	(in millions of Ch$)	
Chilean Central Bank and Government Securities		
Chilean Central Bank bonds	235,204	667,703
Chilean Central Bank notes	5,852	63,868
Other Chilean Central Bank and government securities	100,992	29,806
Subtotal	342,048	761,377
Other Chilean Securities		
Time deposits in Chilean financial institutions	–	–
Mortgage bonds of Chilean financial institutions	–	11
Chilean financial institutions bonds	31,687	–
Chilean corporate bonds	23,218	–
Other Chilean securities	–	–
Subtotal	54,905	11
Foreign Financial Securities		
Other foreign financial instruments	–	–
Subtotal	–	–
Investments in mutual funds		
Funds managed by related entities	389	37,151
Subtotal	389	37,151
Total	397,342	798,539

b) Available for sale

	As of September 30, 2010	As of December 31, 2009
	(in millions of Ch$)	
Chilean Central Bank and Government Securities		
Chilean Central Bank bonds	667,650	1,063,879
Chilean Central Bank notes	519,873	264,011
Other Chilean Central Bank and government securities	174,491	212,362
Subtotal	1,362,014	1,540,252
Other Chilean Securities		
Time deposits in Chilean financial institutions	–	41,407

Mortgage bonds of Chilean financial institutions	227,593	236,847
Chilean corporate bonds	–	11,584
Chilean corporate bonds	287	–
Subtotal	227,880	289,838
Others Financial Securities		
Central Bank and Government Foreign Securities		–
Other Foreign financial securities(1)	11,131	–
Subtotal	11,131	–
Total	1,601,025	1,830,090

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

c) Held-to-maturity

No financial investments were classified as held-to-maturity as of September 30, 2010 and December 31, 2009.

Working Capital

As a bank, we satisfy our working capital needs through general funding, the majority of which derives from deposits and other borrowings from the public. (See “Item 3: D. Liquidity and Capital Resources–Deposits and Other Borrowings”). In our opinion, our working capital is sufficient for our present needs.

Liquidity Management

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

Our general policy is to maintain liquidity adequate to ensure our ability to honor withdrawals of deposits, make repayments of other liabilities at maturity, extend loans and meet our own working capital needs. Our minimum amount of liquidity is determined by the statutory reserve requirements of the Central Bank. Deposits are subject to a statutory reserve requirement of 9% for demand deposits and 3.6% for Chilean peso, UF-denominated and foreign currency denominated time deposits with a term of less than a year. (See “Item 2: C Business Overview–Regulation and Supervision”). The Central Bank has statutory authority to increase these percentages to up to 40% for demand deposits and up to 20% for time deposits. In addition, a 100% special reserve (reserva técnica) applies to demand deposits, deposits in checking accounts, other demand deposits received or obligations payable on sight and incurred in the ordinary course of business, other than deposits unconditionally payable immediately. This special reserve requirement applies to the amount by which the total of such deposits exceeds 2.5 times the amount of a bank’s regulatory capital. Interbank loans are deemed to have a maturity of more than 30 days, even if payable within the following 10 days.

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

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

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

We have set other liquidity limits and ratios that minimize liquidity risk. See “Item 9: Quantitative and Qualitative Disclosure About Market Risk.”

Cash Flow

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

Millions of Ch$	Nine-Month Period ended September 30, 2010	2009
Net cash provided by operating activities	(330,911)	174,048

Operating activities consumed cash of Ch$330,911 million in the nine-month period ended September 30, 2010 mainly as a result of an increase in loan growth and a decrease in investments sold under agreements to repurchase which was partially offset by a decrease in financial investments and bond issuances. The Ch$174,048 million in cash provided by operating activities in the nine-month period ended September 30, 2009 was mainly due to a decrease in the Bank's loan book and financial investments.

Millions of Ch$	Nine-Month Period ended September 30, 2010	2009
Net cash provided by investment activities	(5,214)	11,943

Net cash used in investing activities in the nine-month period ended September 30, 2010 totaled Ch$5,214 million. The largest consumption of cash involved the purchase of fixed and intangible assets offset in part by the sale of fixed assets. In the nine-month period ended September 30, 2009, the consumption of cash for investing totaled Ch$11,943 million due to the sale of fixed and intangible assets.

Millions of Ch$	Nine-Month Period ended September 30, 2010	2009
Net cash provided by financing activities	(258,752)	(212,869)

In the nine-month period ended September 30, 2010, the net cash used by financing activities totaled Ch$258,752 million and the main consumption being dividends paid. In the nine-month period ended September 30, 2009, the consumption of cash by financing activities was due to similar reasons.

Deposits and Other Borrowings

The following table sets forth our average daily balance of liabilities for the nine-month periods ended September 30, 2010 and 2009, in each case together with the related average nominal interest rates paid thereon.

(millions of Ch$, except percentages)	September 30, 2010					September 30, 2009				
	Average Balance	% of Total Average Liabilities		Average Nominal Rate		Average Balance	% of Total Average Liabilities		Average Nominal Rate	
Savings accounts	102,260	0.50	%	0.71	%	100,353	0.50	%	(1.11	%)
Time deposits	7,373,763	35.86	%	2.08	%	8,675,013	43.21	%	2.04	%
Central Bank borrowings	406,396	1.98	%	0.40	%	159,180	0.79	%	1.02	%
Repurchase agreements	199,077	0.97	%	0.73	%	686,864	3.42	%	2.15	%
Mortgage finance bonds	232,638	1.13	%	5.84	%	311,178	1.55	%	1.05	%
Other interest bearing liabilities	4,964,893	24.15	%	3.36	%	3,704,472	18.45	%	1.04	%
Subtotal interest bearing liabilities	13,279,027	64.59	%	2.54	%	13,637,060	67.92	%	1.72	%
Non-interest bearing liabilities										
Non-interest bearing deposits	3,112,688	15.14	%			2,437,072	12.14	%		
Derivatives	1,279,839	6.22	%			1,396,134	6.95	%		
Other non-interest bearing liabilities	1,160,985	5.65	%			1,029,391	5.13	%		
Shareholders’ equity	1,727,841	8.40	%			1,578,954	7.86	%		
Subtotal non-interest bearing liabilities	7,281,353	35.41	%			6,441,551	32.08	%		
Total liabilities	20,560,380	100.00	%			20,078,611	100.00	%		

Our current funding strategy is to continue to utilize all sources of funding in accordance with their costs, their availability and our general asset and liability management strategy. Our most important source of funding is our time deposits. Average time deposits represented 35.9% of our average total liabilities and shareholders’ equity in the nine-month period ended September 30, 2010. Average time deposits as a share of total funding has decreased from 43.2% as of September 30, 2009 to 35.9% as of September 30, 2010. This in response to our funding strategy of lengthening the maturities of liabilities with institutional clients in light of the rising interest rate environment as the majority of time deposits with institutional investors have a maturity of less than 1 year. In 2010, the Bank has shifted short-term time deposits with institutional investors to longer-term bonds. We have also focused on increasing and broadening our non-interest bearing and time deposits from retail customers. The ratio of non-interest bearing deposits to average liabilities increased form 12.1% as of September 30, 2009 to 15.1% as of September 30, 2010. We have also followed the strategy of increasing senior and subordinated bonds to increase the duration of liabilities and fund the growth of the mortgage portfolio. We believe that broadening our deposit base by increasing the number of account holders has created a more stable funding source.

Composition of Deposits

The following table sets forth the composition of our deposits and similar commitments at September 30, 2010 and December 31, 2009.

As of As of

	September 30, 2010	December 31, 2009
	(in millions of Ch$)	
Demand deposits and other demand obligations		
Current accounts	3,005,768	2,776,607
Other deposits and demand accounts	353,956	303,495
Other demand obligations	632,008	453,432
Subtotals	3,991,732	3,533,534
Time deposits and other time deposits		
Time deposits	7,049,013	4,219,392
Time saving accounts	105,205	98,985
Other time deposits	995	2,856,880
Subtotals	7,155,213	7,175,257
Total deposits and other commitments	11,146,945	10,708,791

Bonds

	As of September 30, 2010		
	Long-term	Short-term	Total
	(in millions of Ch$)		
Mortgage finance bonds (a)	174,410	34,940	209,350
Senior bonds (b)	2,748,752	311,374	3,060,126
Subordinated bonds (c)	704,981	4,991	709,972
Total bonds	3,628,143	351,305	3,979,448

(a) Mortgage finance bonds

These bonds are used to finance the granting of mortgage loans. The outstanding principal amounts of the bonds are amortized on a quarterly basis. The range of maturities of these bonds is between five and twenty years. The bonds are linked to the UF index and bear a real weighted-average annual interest rate of 5.34% as of September 30, 2010. The following table sets forth the remaining maturities of our mortgage finance bonds at the same date.

	As of September 30, 2010 (in millions of Ch$)
Due within 1 year	34,940
Due after 1 year but within 2 years	27,064
Due after 2 years but within 3 years	26,030
Due after 3 years but within 4 years	24,406
Due after 4 years but within 5 years	21,202
Due after 5 years	75,708
Total mortgage finance bonds	209,350

(b) Senior bonds

The following table sets forth, at the dates indicated, our issued bonds. The bonds are denominated principally in UFs or U.S. dollars, and are principally used to fund the Bank’s mortgage portfolio.

	As of	
	September 2010	December 2009
	(in millions of Ch$)	
Santander bonds denominated in UF	2,087,776	1,660,877
Santander bonds denominated in US$	972,350	407,909
Total bonds	3,060,126	2,068,786

The maturities of these bonds are as follows:

As of Sept. 30, 2010

	(in millions of Ch$)
Due within 1 year	311,374
Due after 1 year but within 2 years	246,951
Due after 2 years but within 3 years	628,710
Due after 3 years but within 4 years	475,979
Due after 4 years but within 5 years	255,252
Due after 5 years	1,141,860
Total bonds	3,060,126

During the nine-month period ended September 30, 2010, the Bank also issued senior bonds for UF 18,000,000 in local markets and US$1.7 billion in international markets.

Bonds Series	Amount	Term	Issue Rate	Issue Date	Maturity Date
F7	UF 3,000,000	4.5 years	3.30% per annum simple	11/1/2009	5/1/2014
F8	UF 3,000,000	4.5 years	3.60% per annum simple	1/1/2010	7/1/2014
F9	UF 3,000,000	5 years	3.70% per annum simple	1/1/2010	1/1/2015
FB	UF 3,000,000	5 years	3.70% per annum simple	4/1/2010	4/1/2015
FC	UF 4,000,000	5 years	3.70% per annum simple	8/1/2010	8/1/2015
Total	UF 16,000,000				
144 A	USD 500,000,000	2 years	Libor (3 months) + 125 bp	4/15/2010	4/12/2012
144 A	USD 500,000,000	5 years	3.75% per annum simple	9/15/2010	9/15/2015
144 A	USD 200,000,000	1 year	Libor (3 months) + 100 bp	9/15/2010	9/15/2015
144 A	USD 500,000,000	10 years	CLP 6.5%	9/15/2010	9/15/2015
Total	USD 1,700,000,000				

(c) Subordinated bonds

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

	As of	
	September 2010	December 2009
	(in millions of Ch$)	
Subordinated bonds denominated in US$	287,337	278,087
Subordinated bonds linked to the UF	422,635	313,939
Total subordinated bonds	709,972	592,026

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

	As of Sept. 30, 2010 (in millions of Ch$)
Due within 1 year	4,991
Due after 1 year but within 2 years	121,358
Due after 2 years but within 3 years	–
Due after 3 years but within 4 years	–
Due after 4 years but within 5 years	165,980

Due after 5 years	417,643
Total subordinated bonds	709,972

In the nine-month period ended September 30, 2010, the Bank issued subordinated bonds in the local market worth UF6,000,000.

Bonds Series	Amount	Term	Issue Rate	Issue Date	Maturity Date
G2	UF 3,000,000	30 years	4.80% per annum simple	09/01/2008	03/01/2038
G4	UF 3,000,000	30 years	3.90% per annum simple	07/01/2010	07/01/2040
Total	UF 6,000,000				

Other Off-Balance Sheet Arrangements and Commitments

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

The following table presents the Bank's outstanding contingent loans as of September 30, 2010 and December 31, 2009:

	As of	
	September 30, 2010	December 31, 2009
	(in millions of Ch$)	
Issued and documented letters of credit	194,454	155,956
Confirmed foreign letters of credit	15,309	35,818
Documented guarantees	824,942	655,780
Other guarantees	139,533	169,931
Other irrevocable obligation	91,343	–
Subtotals	1,265,581	1,017,485
Lines of credit with immediate availability	4,711,798	4,615,787
Totals	5,977,379	5,633,272

Asset and Liability Management

Please refer to "Item 9: Quantitative and Qualitative Disclosure about Market Risk–Market Risk Exposure Categories" regarding our policies with respect to asset and liability management.

D. Selected Statistical Information

The following information is included for analytical purposes and should be read in conjunction with our Interim Consolidated Financial Statements as well as the discussion in the section entitled “Operating and Financial Review and Prospects.” The UF is linked to, and is adjusted daily to, reflect changes in the previous month’s Chilean consumer price index. See “Operating and Financial Review and Prospects –Operating Results–Impact of Inflation. The following tables show, by currency of denomination, average balances and, where applicable, interest amounts and real rates for our assets and liabilities for the nine-month periods ended September 30, 2010 and 2009.

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

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

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

Where:

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

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

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

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

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

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

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

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

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

Foreign exchange gains or losses on foreign currency-denominated assets and liabilities are not included in interest income or expense. Similarly, interest on the available for sale investment portfolio does not include trading or mark-to-market gains or losses on these investments. Interest is not recognized on non-performing loans. Non-performing loans that are overdue for 90 days or less have been included in each of the various categories of loans, and therefore affect the various averages. Non-performing loans consist of loans as to which either principal or interest is overdue (i.e., non-accrual loans) and restructured loans earning no interest.

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

The following tables show, by currency of denomination, average balances and, where applicable, interest amounts and real rates for our assets and liabilities for the nine-month periods ended September 30, 2010 and 2009.

	Nine-Month Period ended September 30,							
	2010				2009			
	Average Balance	Interest Earned	Average Real Rate	Average Nominal Rate	Average Balance	Interest Earned	Average Real Rate	Average Nominal Rate
	(in millions of Ch$, except for rate data)							
ASSETS								
INTEREST-EARNING ASSETS								
Deposits in Central Bank								
Ch$	399,950	3,186	(1.8 %)	0.8 %	126,041	1,681	1.0 %	1.3 %
UF	–	–	– %	– %	–	–	– %	– %
Foreign currency	–	–	– %	– %	–	–	– %	– %
Subtotal	399,950	3,186	(1.8 %)	0.8 %	126,041	1,681	1.0 %	1.3 %
Financial investments								
Ch$	1,037,887	16,676	(1.0 %)	1.6 %	895,238	29,308	3.0 %	3.3 %
UF	580,310	27,226	2.0 %	4.7 %	458,611	(9,077)	(2.3 %)	(2.0 %)
Foreign currency	635,114	14,421	(4.7 %)	2.3 %	492,087	2,619	(14.0 %)	0.5 %
Subtotal	2,253,311	58,323	(1.3 %)	2.6 %	1,845,936	22,850	(2.8 %)	1.2 %
Commercial loans								
Ch$	4,106,786	276,186	3.9 %	6.7 %	3,803,835	361,640	9.2 %	9.5 %
UF	2,757,147	143,823	2.5 %	5.2 %	2,806,916	29,766	0.8 %	1.1 %
Foreign currency	895,681	22,825	(4.4 %)	2.5 %	1,140,858	44,931	(11.1 %)	3.9 %
Subtotal	7,759,614	442,834	(2.4 %)	5.7 %	7,751,609	436,337	3.2 %	5.6 %
Consumer loans								
Ch$	2,048,698	299,408	11.6 %	14.6 %	1,807,960	323,993	17.6 %	17.9 %
UF	99,444	6,298	3.6 %	6.3 %	116,027	3,953	3.1 %	3.4 %
Foreign currency	11,212	–	(6.8 %)	– %	8,927	–	(14.5 %)	– %
Subtotal	2,159,354	305,706	11.1 %	14.2 %	1,932,914	327,946	16.6 %	17.0 %
Mortgage loans								
Ch$	28,605	1,704	3.2 %	6.0 %	21,741	1,473	6.5 %	6.8 %
UF	4,212,954	227,838	2.7 %	5.4 %	3,943,673	33,697	0.6 %	0.9 %
Foreign currency	–	–	– %	– %	–	–	– %	– %
Subtotal	4,241,559	229,542	2.7 %	5.4 %	3,965,414	35,170	0.6 %	0.9 %
Interbank loans								
Ch$	37,906	340	(1.7 %)	0.9 %	5,097	171	3.0 %	3.4 %
UF	–	–	– %	– %	–	–	0.0 %	– %
Foreign currency	1,643	–	(6.8 %)	– %	1,359	–	(14.5 %)	– %
Subtotal	39,549	340	(1.9 %)	0.9 %	6,456	171	(0.7 %)	2.6 %
Investments under agreements to resell								
Ch$	33,795	5,117	12.1 %	15.1 %	237,845	32,326	13.3 %	13.6 %
UF	14,759	234	(1.1 %)	1.6 %	186,510	8,675	4.3 %	4.7 %
Foreign currency	1,877	22	(5.7 %)	1.2 %	139	–	(14.5 %)	– %
Subtotal	50,431	5,373	7.6 %	10.7 %	424,494	41,001	9.3 %	9.7 %
Threshold								
Ch$	–	–	– %	– %	–	–	– %	– %

UF	–	–	–	%	–	%	–	–	–	%	–	%
Foreign currency	231,284	298	(6.7	%)	0.1	%	197,929	259	(14.3	%)	0.1	%
Subtotal	231,284	298	(6.7	%)	0.1	%	197,929	259	(14.3	%)	0.1	%
Total interest earning assets												
Ch$	7,693,627	602,617	5.0	%	7.8	%	6,897,757	750,592	10.6	%	10.9	%
UF	7,664,614	405,419	2.5	%	5.3	%	7,511,737	67,014	0.6	%	0.9	%
Foreign currency	1,776,811	37,566	(4.8	%)	2.1	%	1,841,299	47,809	(12.2	%)	2.6	%
Subtotal	17,135,052	1,045,602	2.9	%	6.1	%	16,250,793	865,415	3.4	%	5.3	%

	Nine-Month Period ended September 30,							
	2010				2009			
	Average Balance	Interest Earned	Average Real Rate	Average Nominal Rate	Average Balance	Interest Earned	Average Real Rate	Average Nominal Rate
	(in millions of Ch$, except for rate data)							
NON-INTEREST-EARNING ASSETS								
Cash								
Ch$	415,441	–			389,887	–		
UF	–	–			–	–		
Foreign currencies	13,466	–			15,539	–		
Subtotal	428,907	–			405,426	–		
Allowance for loan losses								
Ch$	(432,827)	–			(308,158)	–		
UF	–	–			–	–		
Foreign currencies	–	–			–	–		
Subtotal	(432,827)	–			(308,158)	–		
Fixed Assets								
Ch$	181,461	–			216,851	–		
UF	–	–			–	–		
Foreign currencies	–	–			–	–		
Subtotal	181,461	–			216,851	–		
Derivatives								
Ch$	1,422,574	–			1,560,580	–		
UF	–	–			–	–		
Foreign currencies	–	–			–	–		
Subtotal	1,422,574	–			1,560,580	–		
Financial investments trading (1)								
Ch$	110,900	–			201,412	–		
UF	761,062	–			796,491	–		
Foreign currencies	22,388	–			45,554	–		
Subtotal	894,350	–			1,043,457	–		
Other assets								
Ch$	705,716	–			668,087	–		
UF	65,359	–			65,645	–		
Foreign currencies	159,786	–			175,930	–		
Subtotal	930,861	–			909,662	–		
Total non-interest earning assets								
Ch$	2,403,265	–			2,728,659	–		
UF	826,421	–			862,136	–		
Foreign currencies	195,640	–			237,023	–		
Total	3,425,326	–			3,827,818	–		
TOTAL ASSETS								
Ch$	10,096,892	602,617			9,626,416	750,592		

UF	8,491,035	405,419		8,373,873	67,014
Foreign currencies	1,972,451	37,566		2,078,322	47,809
Total	20,560,378	1,045,602		20,078,611	865,415

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	Nine-Month Period ended September 30,							
	2010				2009			
	Average Balance	Interest Paid	Average Real Rate	Average Nominal Rate	Average Balance	Interest Paid	Average Real Rate	Average Nominal Rate
	(in millions of Ch$, except for rate data)							
LIABILITIES AND SHAREHOLDERS' EQUITY								
INTEREST-BEARING LIABILITIES								
Savings accounts								
Ch$	1,067	3	(2.2 %)	0.3 %	745	10	2.3 %	1.3 %
UF	101,193	724	(1.7 %)	0.7 %	99,607	(1,122)	(0.1 %)	(1.1 %)
Foreign currencies	–	–	0.0 %	0.0 %	–	–	0.0 %	0.0 %
Subtotal	102,260	727	(1.7 %)	0.7 %	100,352	(1,112)	(0.1 %)	(1.1 %)
Time deposits								
Ch$	3,833,097	51,103	(1.1 %)	1.3 %	4,513,517	170,859	4.8 %	3.8 %
UF	2,163,557	92,819	1.7 %	4.3 %	2,515,111	(16,975)	0.3 %	(0.7 %)
Foreign currencies	1,377,108	9,382	(12.7 %)	0.7 %	1,646,385	23,355	1.3 %	1.4 %
Subtotal	7,373,762	153,304	(2.5 %)	2.1 %	8,675,013	177,239	2.8 %	2.0 %
Central Bank borrowings								
Ch$	404,852	1,633	(2.0 %)	0.4 %	157,073	1,638	2.1 %	1.0 %
UF	1,545	8	(1.9 %)	0.5 %	2,107	(14)	0.3 %	(0.7 %)
Foreign currencies	–	–	0.0 %	0.0 %	–	–	0.0 %	0.0 %
Subtotal	406,397	1,641	(2.0 %)	0.4 %	159,180	1,624	2.0 %	1.0 %
Repurchase agreements								
Ch$	141,055	486	(2.1 %)	0.3 %	532,714	10,613	3.0 %	2.0 %
UF	55,878	970	(0.7 %)	1.7 %	152,893	4,175	3.8 %	2.7 %
Foreign currencies	2,143	1	(13.3 %)	0.1 %	1,258	1	(0.1 %)	0.1 %
Subtotal	199,076	1,457	(1.8 %)	0.7 %	686,865	14,789	3.2 %	2.2 %
Mortgage finance bonds								
Ch$	–	–	0.0 %	0.0 %	–	–	0.0 %	0.0 %
UF	232,638	13,584	3.3 %	5.8 %	311,178	3,282	2.1 %	1.1 %
Foreign currencies	–	–	0.0 %	0.0 %	–	–	0.0 %	0.0 %
Subtotal	232,638	13,584	3.3 %	5.8 %	311,178	3,282	2.1 %	1.1 %
Other interest-bearing liabilities								
Ch$	105,485	18,677	14.8 %	17.7 %	157,774	5,936	4.8 %	3.8 %
UF	2,017,463	114,963	3.1 %	5.7 %	1,789,934	1,375	1.1 %	0.1 %
Foreign currencies	2,841,945	33,395	(12.3 %)	1.2 %	1,756,763	31,145	1.6 %	1.8 %
Subtotal	4,964,893	167,035	(5.5 %)	3.4 %	3,704,471	38,456	1.5 %	1.0 %
Total interest-bearing liabilities								
Ch$	4,485,556	71,902	(0.9 %)	1.6 %	5,361,823	189,056	4.6 %	3.5 %

UF	4,572,274	223,068	2.3 %	4.9 %	4,870,830	(9,279)	0.8 %	(0.2 %)
Foreign currencies	4,221,196	42,778	(12.4 %)	1.0 %	3,404,406	54,501	1.4 %	1.6 %
Total	13,279,026	337,748	(3.4 %)	2.5 %	13,637,059	234,278	2.4 %	1.7 %

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	Nine-Month Period ended September 30,							
	2010				2009			
	Average Balance	Interest Paid	Average Real Rate	Average Nominal Rate	Average Balance	Interest Paid	Average Real Rate	Average Nominal Rate
	(in millions of Ch$ except for rate data)							
NON-INTEREST-BEARING LIABILITIES								
Non-interest-bearing demand deposits								
Ch$	3,095,549	–			2,420,381	–		
UF	15,114	–			13,027	–		
Foreign currencies	2,025	–			3,664	–		
Subtotal	3,112,688	–			2,437,072	–		
Derivatives								
Ch$	1,279,839	–			1,396,134	–		
UF	–	–			–	–		
Foreign currencies	–	–			–	–		
Subtotal	1,279,839	–			1,396,134	–		
Other non-interest-bearing liabilities								
Ch$	514,729	–			482,860	–		
UF	348,744	–			262,657	–		
Foreign currencies	297,511	–			283,875	–		
Subtotal	1,160,984	–			1,029,392	–		
Shareholders` Equity								
Ch$	1,727,841	–			1,578,954	–		
UF	–	–			–	–		
Foreign currencies	–	–			–	–		
Subtotal	1,727,841	–			1,578,954	–		
Total non-interest-bearing liabilities and shareholders' equity								
Ch$	6,617,958	–			5,878,329	–		
UF	363,858	–			275,684	–		
Foreign currencies	299,536	–			287,539	–		
Total	7,281,352	–			6,441,552	–		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY								
Ch$	11,103,514	71,902			11,240,152	189,056		
UF	4,936,132	223,068			5,146,514	(9,279)		
Foreign currencies	4,520,732	42,778			3,691,945	54,501		
Total	20,560,378	337,748			20,078,611	234,278		

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Interest-Earning Assets: Net Interest Margin

The following table analyzes, by currency of denomination, the levels of average interest-earning assets and net interest earned by Santander-Chile, and illustrates the comparative margins obtained, for each of the nine-month periods ended September 30, 2010 and 2009.

	Nine-Month Period ended September 30,	
	2010	2009
	(in millions of Ch$)	
Total average interest-earning assets		
Ch$	7,693,627	6,897,757
UF	7,664,614	7,511,737
Foreign currencies	1,776,811	1,841,299
Total	17,135,052	16,250,793
Net interest earned (1)		
Ch$	530,715	561,536
UF	182,351	76,293
Foreign currencies	(5,212)	(6,692)
Total	707,854	631,137
Net interest margin (2)		
Ch$	9.2%	10.9%
UF	3.2%	1.4%
Foreign currencies	(0.4%)	(0.5%)
Total	5.5%	5.2%

(1) Net interest earned is defined as interest revenue earned less interest expense incurred.

(2) Net interest margin is defined as net interest earned annualized divided by total average interest-earning assets.

Return on Equity and Assets; Dividend Payout

The following table presents certain information and selected financial ratios for Santander-Chile for the nine-month periods ended September 30, 2010 and 2009.

	Nine-Month Period ended September 30,	
Ch$ million	2010	2009
Net income	367,171	299,538
Average total assets	20,560,378	20,078,611
Average equity	1,727,841	1,578,954
Net income(1) as a percentage of:		
Average total assets	2.4%	2.0%
Average equity	28.3%	25.3%

Average equity as a percentage of:				
Average total assets	8.4	%	7.9	%

(1) Net income annualized

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

Year	Dividend Ch$ mn (1)	Per share Ch$/share (2)	Per ADR Ch$/ADR (3)	% over earnings (4)	% over earnings (5)
2009	213,295	1.13	1,176.00	65	52
2010	258,751	1.37	1,426.63	60	60

(1) Millions of nominal pesos.

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

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

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(4) Calculated by dividing dividend paid in the year by net income attributable to shareholders for the previous year under Chilean GAAP (2008 net income has not been restated).

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

Loan Portfolio

The following table analyzes our loans by product type. Except where otherwise specified, all loan amounts stated below are before deduction for loan loss allowances. Total loans reflect our loan portfolio, including principal amounts of past due loan and substandard loans. Any collateral provided generally consists of a mortgage on real estate, a pledge of marketable securities, a letter of credit or cash. The existence and amount of collateral generally vary from loan to loan.

	As of	
	September 30, 2010	December 31, 2009
	(Ch$ million)	
Commercial Loans:		
Commercial loans	6,037,782	5,489,595
Foreign trade loans	768,541	636,328
Loans with mortgage guarantee	73,978	92,911
Factoring operations	223,343	130,272
Leasing contracts	1,061,538	964,698
Other loans and accounts receivables from customers	13,153	10,958
Subtotal	8,178,335	7,324,762
Mortgage loans:		
Mortgage mutual loans	190,245	175,592
Loans with mortgage finance bonds	146,885	199,139
Other mortgage mutual loans	4,161,669	3,784,322
Leasing contracts	-	-
Other loans and accounts receivables from customers	-	-
Subtotal	4,498,799	4,159,053
Consumer loans:		
Installment consumer loans	1,553,545	1,378,044
Credit card loans	707,146	586,937
Consumer leasing contracts	3,711	3,835
Other consumer loans	290,483	275,233
Subtotal	2,554,885	2,244,049
Subtotal Loans to customers	15,232,019	13,727,864
Interbank loans	72,232	23,412
Total	15,304,251	13,751,276

The loan categories are as follows:

Commercial loans

Commercial loans are long-term and short-term loans, including checking overdraft lines for companies granted in Chilean pesos, inflation linked, US$ linked or denominated in US$. The interest on these loans is fixed or variable and is used primarily to finance working capital or investments. General commercial loans also includes factoring operations.

Foreign trade loans are fixed rate, short-term loans made in foreign currencies (principally U.S.$) to finance imports and exports.

Mortgage loans financed with mortgage bonds mainly include mortgage loans (fixed and variable rate) that are inflation-indexed long-term loans with monthly payments of principal and interest secured by a real property mortgage. These are financed by issuing mortgage bonds.

Factoring operations mainly include short-term loans to companies with a fixed monthly nominal rate backed by a company invoice.

Leasing contracts are agreements for the financial leasing of capital equipment and other property.

Other outstanding loans include other loans and accounts payable.

Residential mortgage loans

Draft loans mainly include mortgage loans (fixed and variable rate) that are inflation-indexed long-term loans with monthly payments of principal and interest secured by a real property mortgage. These loans can be endorsed to a third party. These are financed by our general borrowings.

Residential mortgage loans backed by mortgage bonds are inflation-indexed, fixed or variable rate, long-term loans with monthly payments of principal and interest secured by a real property mortgage that are financed with mortgage finance bonds. At the time of approval, these types of mortgage loans cannot be more than 75% of the lower of the purchase price or the appraised value of the mortgaged property or such loan will be classified as a commercial loan. Mortgage bonds are our general obligations, and we are liable for all principal and accrued interest on such bonds. In addition, if the issuer of a mortgage finance bond becomes insolvent, the General Banking Law's liquidation procedures provide that these types of mortgage loans with their corresponding mortgage bonds shall be auctioned as a unit and the acquirer must continue paying the mortgage finance bonds under the same conditions as the original issuer.

Other mortgage mutual loans mainly include mortgage loans (fixed and variable rate) that are inflation-indexed long-term loans with monthly payments of principal and interest secured by a real property mortgage. These are financed by our general borrowings.

Consumer loans

Installment consumer loans are loans to individuals, granted in Chilean pesos, generally on a fixed rate nominal basis, to finance the purchase of consumer goods or to pay for services.

Consumer loans through lines of credit are checking overdraft lines to individuals, granted in Chilean pesos, generally on a fixed rate nominal basis and linked to an individual's checking account.

Credit card loans include credit card balances subject to nominal fixed rate interest charges.

Consumer leasing contracts are agreements for the financial leasing of automobiles and other property to individuals.

Non-client loans

Interbank loans are fixed rate, short-term loans to financial institutions that operate in Chile.

Loans by Economic Activity

The following table sets forth, at the dates indicated, an analysis of our client loan portfolio based on the borrower's principal economic activity and geographic distribution. Loans to individuals for business purposes are allocated to their economic activity.

	Domestic loans (*) as of,		Foreign loans as of,		Total loans as of,		% of total loans as of ,	
	(in millions of Ch$)							
	Sept. 30, 2010	Dec. 31, 2009	Sept. 30, 2010	Dec. 31, 2009	Sept. 30, 2010	Dec. 31, 2009	Sept. 30, 2010, %	Dec. 31, 2009, %
Commercial loans								
Manufacturing	792,275	640,395	–	–	792,275	640,395	5.18	4.66
Mining	61,854	67,057	–	–	61,854	67,057	0.40	0.49
Electricity, gas and water	150,219	144,386	–	–	150,219	144,386	0.98	1.05
Agriculture and livestock	678,300	610,909	–	–	678,300	610,909	4.43	4.44
Forestry	82,356	71,085	–	–	82,356	71,085	0.54	0.52
Fishing	139,458	127,025	–	–	139,458	127,025	0.91	0.92
Transport	429,386	362,508	–	–	429,386	362,508	2.81	2.64
Communications	152,619	164,077	–	–	152,619	164,077	1.00	1.19
Construction	929,670	817,293	–	–	929,670	817,293	6.07	5.94
Commerce	1,979,356	1,650,903	52,716	23,409	2,032,072	1,674,312	13.28	12.18
Services	297,490	288,256	–	–	297,490	288,256	1.94	2.10
Other	2,504,869	2,380,871	–	–	2,504,869	2,380,871	16.37	17.31
Subtotals	8,197,852	7,324,765	52,716	23,409	8,250,568	7,348,174	53.91	53.44
Mortgage loans	4,498,799	4,159,053	–	–	4,498,799	4,159,053	29.40	30.24
Consumer loans	2,554,884	2,244,049	–	–	2,554,884	2,244,049	16.69	16.32
Totals	15,251,535	13,727,867	52,716	23,409	15,304,251	13,751,276	100.00	100.00

(*) As of September 30, 2010, foreign country loans, including foreign interbank deposits classified as financial investments totaled Ch$52,716, representing 0.24% of our total assets.

Classification of Loan Portfolio

Credit Review Process

The Risk Division, our credit analysis and risk management group, is largely independent of our Commercial Division. Risk evaluation teams interact regularly with our clients. For larger transactions, risk teams in our headquarters work directly with clients when evaluating credit risks and preparing credit applications. Various credit approval committees, all of which include Risk Division and Commercial Division personnel, must verify that the appropriate qualitative and quantitative parameters are met by each applicant. Each committee's powers are defined by our Board of Directors.

In addition, Banco Santander Spain is involved in the credit approval process of our largest loans and borrowers. If a single borrower or an economic group owes us an aggregate amount in excess of US$60 million, any additional loan to such borrower or member of such group must be reported to Banco Santander Spain following the approval of our Executive Credit Committee.

Credit Approval

The Risk Division, our credit analysis and risk management group, is largely independent of our Commercial Division. Risk evaluation teams interact regularly with our clients. For larger transactions, risk teams in our headquarters work directly with clients when evaluating credit risks and preparing credit applications. Various credit approval committees, all of which include Risk Division and Commercial Division personnel, must verify that the appropriate qualitative and quantitative parameters are met by each applicant. Each committee's powers are defined by our Board of Directors.

In addition, Banco Santander Spain is involved in the credit approval process of our largest loans and borrowers. If a single borrower or an economic group owes us an aggregate amount in excess of US$40 million, any additional loan to such borrower or member of such group must be reported to Banco Santander Spain.

The following table lists our committees from which credit approval is required depending on total risk exposure for loans evaluated on an individual basis:

Approved By	Maximum approval in Thousands of US$
Executive Credit Committee	>20,000
Loan Credit Committee	20,000
Business Segment Committee	8,000-10,000
Large Companies	10,000
Real estate sector	10,000
Medium-sized companies	8,000
Regional Committee	5,000
Branch committee	300
Companies	300
Mortgage	120
Persons	30

The Executive Credit Committee is comprised of the Chairman of the Board, three additional Board members, the Corporate Legal Counsel, the CEO, the Manager of Global Banking, the Corporate Director of Risk and two senior members of the Credit Risk department who present the loans being reviewed. This committee reviews the loan positions reviewed by the Senior Credit Committee above US$10 million and approves those loan positions greater than US$20 million. In addition, any loan position above US$60 million must also be reviewed by Banco Santander Spain's credit committee.

The Loan Credit Committee is comprised of the CEO, the Manager of the Wholesale segment, the Manager of the Medium-sized companies segment, General Counsel, the Corporate Director of Credit Risk and the Manager of Credit Admissions. The Loan Credit Committee reviews and will either approve or deny transactions in the range of US$8 million to US$20 million that have been previously approved by one of the Business Segment Committees: (i) Large Companies, (ii) Medium-sized Companies and (iii) Real Estate. The Regional Committees have a maximum approval of up to US$5 million. The Regional Committees oversee the branch networks outside of Santiago. At the branch level, the maximum approval is US$300,000 for companies, US$30,000 for individuals and US$120,000 for mortgages. For the lower level committees, credit granting authority varies according to the seniority and experience of the committee members, and the values indicated represent upper limits. All committees include at least two bank officers from the commercial and credit areas.

We also have a department designated to monitor the quality of the loan portfolio on a continuous basis. The purpose of this special supervision is to maintain constant scrutiny of the portions of the portfolio that represent the greatest risk and to anticipate any deterioration. Based on this ongoing review of the loan portfolio, we believe that we are able to detect problem loans and make a decision on a client's status. This includes measures such as reducing or extinguishing a loan, or requiring better collateral from the client. The control systems require that these loans be reviewed at least three times per year for those clients in the lowest category of credit watch.

Credit Approval: Corporate

In preparing a credit proposal for a corporate client, Santander-Chile's personnel verify such parameters as debt servicing capacity (including, usually, projected cash flows), the company's financial history and projections for the economic sector in which it operates. The Risk Division is closely involved in this process, and prepares the credit application for the client. All proposals contain an analysis of the client's strengths and weaknesses, a rating and a recommendation. Credit limits are determined not on the basis of outstanding balances of individual clients, but on the direct and indirect credit risk of entire financial groups. For example, a corporation will be evaluated together with its subsidiaries and affiliates.

Credit Approval: Retail Banking

Retail loans are evaluated and approved by the Risk for Individuals, Micro businesses and Small Businesses Division. The majority of loans to individuals are approved by the Standardized Risk Area. The credit evaluation process is based on an evaluation system known as Garra for Banco Santander and Syseva for Santander Banefe, both processes are decentralized, automated and are based on a scoring system which incorporates our Credit Risk Policies.

The credit evaluation process is based on the gathering of information to determine a client's financial stability, payment capacity and commercial nature. The following parameters are used to evaluate an applicant's credit risk: (i) income, (ii) length of current employment, (iii) indebtedness, (iv) credit reports and (v) background information, which is accessed by means of internal and external databases. Operations which cannot be approved by Garra or Syseva are sent to the Approval Center, a centralized area that carries out yearly analyses and renewals of credit lines and credit cards and evaluates higher risk credits.

The following table lists our approval limits for loans evaluated using standardized statistical models:

Bank excluding Banefe

Non-mortgage loans

Approved By	Non-Mortgage Loans Up to Ch$ million
Corporate Manager of Standardized Risk	300
Manager Approval Center	150
Segment Risk Manager	100
Risk Manager	80
Senior Analyst	40
Junior Analyst	10

Mortgage loans

Approved by:	Mortgage Loans Up to UF
Corporate Manager of Standardized Risk	20,000
Admissions Manager	14,000
Segment Risk Manager	9,000
Risk Manager	9,000
Senior Analyst	5,000
Junior Analyst	3,000

Santander Banefe

Non-mortgage loans

Approved By

	Non-Mortgage Loans Up to Ch$ million
Corporate Manager of Standardized Risk	300
Manager Approval Center	150
Segment Risk Manager	20
Risk Manager	15
Risk Analyst	6

Mortgage loans

Approved By	Mortgage Loans Up to UF
Corporate Manager of Standardized Risk	20,000
Admissions Manager	14,000

Approved By	Mortgage Loans Up to UF
Segment Risk Manager	4,000
Risk Manager	2,500
Risk Analyst	1,500

Classification of Loan Portfolio

Loans are divided into: (i) consumer loans (including loans granted to individuals for the purpose of financing the acquisition of consumer goods or payment of services); (ii) residential mortgage loans (including loans granted to individuals for the acquisition, construction or repair of residential real estate, in which the value of the property covers at least 100% of the amount of the loan); and (iii) commercial loans (includes all loans other than consumer loans and residential mortgage loans). The models and methods used to classify our loan portfolio and establish credit loss allowances must follow the following guiding principles, which have been established by the Superintendency of Banks and approved by our Board of Directors.

Allowances for large commercial loans

For large commercial loans, leasing and factoring, the Bank assigns a risk category level to each borrower and its respective loans. The Bank considers the following risk factors: industry or sector of the borrower, owners or managers of the borrower, borrower's financial situation, its payment capacity and payment behavior. The Bank assigns one of the following risk categories to each loan and borrower:

i. Classifications A1, A2 and A3 correspond to borrowers with no apparent credit risk.

ii. Classification B corresponds to borrowers with some credit risk but no apparent deterioration of payment capacity.

iii. Classifications C1, C2, C3, C4, D1 and D2 correspond to borrowers whose loans have deteriorated.

For loans classified as A1, A2, A3 and B, the Bank assigns a specific provision level on an individual basis to each borrower and, therefore, the amount of loan loss allowance is determined on a case-by-case basis. The amount of allowances for the remaining classifications is set by the Superintendency of Banks as described below. All commercial loans for companies, including leasing and factoring, have been individually rated. In determining provisions, we make a distinction between normal debtors and deteriorated debtors.

Debtor Classes

Two debtor classes have been determined based on debtors' credit behavior in order to calculate loan loss allowance:

- Normal Debtors, which are classified as A1, A2, A3 or B, are current on their payment obligations and show no sign of deterioration in their credit quality.

- Deteriorated Debtors, which are classified as C1, C2, C3, C3, C4, D1 or D2, include debtors whose loan balances with us of 5% or more have been non-performing for more than three months, whose loans with us have been charged off or administered by our Recovery Unit, or classified as Precontenciosos (PRECO or Deteriorated).

Expected Loan Loss = Loan Loss Allowance

The expected loss is obtained by multiplying all risk factors defined in the following equation:

EL = PNP x
EXP x SEV

EL = Expected
Loss
PNP = Probability
of Non-Performing
EXP = Exposure

SEV = Severity

EL = Expected Loss. The expected loss is how much could be lost in the event a debtor does not perform the obligations under the loan.

PNP = Probability of Non-Performing. This variable, expressed as a percentage, indicates the probability that a debtor will default next year. This percentage is associated with the internal rating that we give to each debtor, which is determined by analyzing such parameters as debt servicing capacity (including, usually, projected cash flows), the company's financial history, the solvency and capacity of shareholders and management, and projections for the economic sector in which it operates. The internal rating can be different from ratings obtained from external third parties.

EXP = Exposure. This corresponds to the value of commercial loans without discounting the value of guarantees or collateral.

SEV = Severity. This is the effective loss rate for debtors in the same segment, which is determined statistically based on the historical effective losses for the Bank for each segment.

Determination of loan loss allowance according to Borrower Class

Normal Debtors

- The loan loss allowance for each debtor is calculated based on the Expected Loss equation (EL = PNP * EXP * SEV).
    - A risk category is assigned to each debtor based on the PNP summarized in the following table:

PNP result	Classification	Loan loss allowance
External Classification> AA-	A1	Determined by a
PNP ≤ 1%	A2	model
1% < PNP ≤ 4%	A3	on an
PNP > 4%	B	individual basis

Deteriorated Debtors

For loans classified in Categories C1, C2, C3, C4, D1 and D2, the Bank must have the following levels of allowance, which are required by the Superintendency of Banks:

Classification	Estimated loss	Allowance(1)	
C1	Up to 3%	2	%
C2	More than 3% up to 19%	10	%
C3	More than 19% up to 29%	25	%
C4		40	%

	More than 29% up to 49%		
D1	More than 49% up to 79%	65	%
D2	More than 79%	90	%

(1) Represents percentages of the aggregate amount of principal and accrued but unpaid interest of the loan.

New Guidelines for Provision Levels for Commercial Loans in 2011 (non-IFRS)

On August 12, 2010, the SBIF published new guidelines for classifying and provisioning of the loan portfolio that will be mandatory as of January 1, 2011. Under the new guidelines, loans are divided into: (i) consumer loans (including loans granted to individuals for the purpose of financing the acquisition of consumer goods or payment of services); (ii) residential mortgage loans (including loans granted to individuals for the acquisition, construction or repair of residential real estate, in which the value of the property covers at least 100% of the amount of the loan); and (iii) commercial loans (includes all loans other than consumer loans and residential mortgage loans). The models and methods used to classify our loan portfolio and establish credit loss allowances must follow the guiding principles set forth below, which have been established by the SBIF and approved by our Board of Directors. This will not have an impact on our allowance for loan losses under IFRS.

Loans analyzed on an individual basis

For large commercial loans, leasing and factoring, the Bank assigns a risk category level to each borrower and its loans. The Bank considers the following risk factors: industry or sector of the borrower, owners or managers of the borrower, borrower's financial situation, its payment capacity and payment behavior. Based on those risk factors the Bank will assign one of the following risk categories to each loan or borrower:

iv. "Normal Loans" or loans classified in categories A1 through A6 correspond to borrowers who are current on their payment obligations and show no sign of deterioration in their credit quality

v. "Substandard Loans" or loans classified in categories B1 through B4 correspond to borrowers with some credit financial difficulties or an important deterioration of payment capacity. Substandard loans also include all loans that have been nonperforming for more than 30 days.

vi. "Non-complying Loans" including nonperforming loans and other loans classified in categories C1 through C6 correspond to borrowers whose payment capacity is seriously at risk and who have a high likelihood of filing for bankruptcy or are renegotiating credit terms to avoid bankruptcy. These loans also include all loans, including contingent operations, with at least one installment overdue more than 90 days.

Allowances for Normal and Substandard Loans

For Normal and Substandard Loans, expected loss has been set in accordance with SBIF standards, as set forth in the following table:

Classification	Probability of default (PD) (%)	Loss given default (LGD) (%)	Expected loss (EL) (%)
	Normal loans		
A1	0.04	90.0	0.036
A2	0.1	82.5	0.0825
A3	0.25	87.5	0.21875
A4	2	87.5	1.75
A5	4.75	90.0	4.275
A6	10	90.0	9.0
	Substandard loans		
B1	15	92.5	13.875
B2	22	92.5	20.35
B3	33	97.5	32.175
B4	45	97.5	43.875

Banks individually assign a specific classification and therefore provision level to each borrower. Accordingly, the amount of loan loss allowance is determined on a case-by-case basis. In determining provisions on an individual basis for Normal and Substandard Loans, banks must use the following equation established by the SBIF:

Provision = (ESA-GE) * (PDdebtor/100) * (LGDdebtor/100) + GE * (PDguarantor/100) * (LGDguarantor/100)

ESA = Exposure subject to allowances
PD = Probability of default
GE = Guaranteed exposure
LGD = Loss Given Default

However, independent of the results obtained from the equation above, as of July 2010 Normal Loans (including contingent loans) must be assigned a minimum provision level of 0.5%.

Allowances for Non-complying Loans

For loans classified in Categories C1 through C6, the Bank must have the following levels of allowance, which are required by the SBIF:

Classification	Expected loss	Allowance % (1)
C1	Up to 3%	2
C2	More than 3% up to 20%	10
C3	More than 20% up to 30%	25
C4	More than 30% up to 50%	40
C5	More than 50% up to 80%	65
C6	More than 80%	90

(1) Represents percentages of the aggregate amount of principal and accrued but unpaid interest of the loan.

For these loans the expected loss must be calculated in the following manner:

Expected loss = (TE – Rec) / TE
Allowance (Ch$) = TE * Allowance %

TE = Total exposure
REC = Recoverable amount based on estimates of collateral value and collection efforts

These regulations will have an estimated initial cost of implementation of Ch$39,800 million in additional loan loss allowances recognized in local GAAP and thereafter will require a higher ongoing level of loan loss allowances under local GAAP than had previously been required. In local GAAP, these will be recognized in 2010 earnings as additional provisions. Such provisions are not expected to be reflected in the Bank's financial statements prepared in accordance with IFRS and filed with the U.S. Securities and Exchange Commission because such provisions are not expected to relate to incurred losses.

Allowances for consumer loans — Loans analyzed on a Group basis

Consumers are assigned an allowance level on and based on credit risk profiles, utilizing a more automated statistical model and considering such borrower's credit history, including any defaults on obligations to other creditors, as well as the overdue periods on loans from us. We differentiate between old and new clients when determining a client's risk profile for consumer loans and those that have gone through some type of renegotiation in the past in the financial system. All loans are assigned a provision at the moment a loan is granted depending on the risk profile of the client. We are continuously improving and recalibrating our credit scoring and provisioning models and this may change the minimum provision standards for the various client profiles as depicted in this document.

The following table sets forth the required allowances for consumer loans in 2009 and until August 2010:

		Allowance Level(1)			
		Not renegotiated		Renegotiated	
Loan type	Risk Profile	New Clients	Old Clients	New Clients	Old Clients
Consumer	Profile 1	30.5 %	21.0 %	31.4 %	38.4 %
	Profile 2	21.7 %	17.7 %	21.2 %	26.4 %
	Profile 3	14.9 %	9.7 %	6.1 %	22.1 %
	Profile 4	12.3 %	6.2 %		8.90 %
	Profile 5	8.9 %	2.9 %		2.10 %
	Profile 6	5.7 %	1.4 %	-	-
	Profile 7	2.7 %	0.6 %	-	-

(1) Percentage of total outstanding.

In the quarter ended September 30, 2010, the Bank continued its policy of continuing to upgrade its models to determine allowances for consumer loans. The Bank also expects, as the Chilean economy strengthens, to see a rise in consumer lending, especially among middle and low income clients who are entering the banking market. Therefore, this will be accompanied by investments and continuous improvements in our credit scoring models, especially for performing loans. The most important improvements implemented in the third quarter of 2010 were a separation of risk profiles between Santander Banefe, our banking division for middle to low income clients, which is expected to lead consumer loan growth in the coming periods, and the rest of the Bank, as well as, the elimination of the distinction in allowance levels for old and new clients that have been renegotiated. As a result of these improvements, the Bank recognized Ch$30,466 million in provisions mainly for consumer loans in the nine-month period ended September 30, 2010.

The following table sets forth the required allowances for consumer loans as of September 2010:

Bank:

		Allowance Level(1)		
		Not renegotiated		
Loan type	Risk Profile	New Clients	Old Clients	Renegotiated
Consumer	Profile 1	33,78 %	10,39 %	41,95 %
	Profile 2	10,82 %	2,01 %	26,29 %
	Profile 3	6,05 %	0,82 %	15,63 %
	Profile 4	5,70 %	0,38 %	7,01 %
	Profile 5	4,12 %	0,22 %	3,00 %
	Profile 6	2,51 %	-	1,25 %
	Profile 7	1,40 %	-	0,50 %

		Allowance Level		
		Not renegotiated		
Loan type	Overdue Days	New Clients	Old Clients	Renegotiated
Consumer	90-120	44,58 %	56,39 %	52,82 %
	120-150	44,58 %	67,33 %	62,96 %
	150-180	44,58 %	75,49 %	70,08 %

Banefe:

		Allowance Level(1)		
		Not renegotiated		
Loan type	Risk Profile	New Clients	Old Clients	Renegotiated
Consumer	Profile 1	57,60 %	33,24 %	51,13 %
	Profile 2	22,97 %	14,23 %	32,79 %
	Profile 3	19,40 %	7,16 %	28,85 %
	Profile 4	14,62 %	4,10 %	19,23 %
	Profile 5	10,77 %	2,52 %	13,31 %

Profile 6	5,88 %	1,34 %	8,57 %
Profile 7	3,09 %	0,94 %	4,37 %
Profile 8	-	-	2,69 %

		Allowance Level		
		Not renegotiated		
Loan type	Overdue Days	New Clients	Old Clients	Renegotiated
Consumer	90-120	82,95 %	56,36 %	53,55 %
	120-150	82,95 %	68,00 %	64,05 %
	150-180	82,95 %	78,54 %	74,72 %

(1) Percentage of total outstanding.

Allowances for residential mortgage loans

Residential mortgage loans are assigned an allowance level based on credit risk profiles, utilizing a more automated and sophisticated statistical model and considering such borrower's credit history, including any defaults on obligations to other creditors, as well as the overdue periods on the loans borrowed from us. Once the rating of the client is determined, the allowance for mortgage loans is calculated using a risk category and related allowance to loan ratio, which is directly related to the overdue periods. The following table sets forth the allowance to loan ratios on loans based on overdue time. The ratios represent the percentage of required allowance amount to the aggregate amount of the principal and accrued but unpaid interest on the loan.

Loan type		Overdue days						
		1-30	31-60	61-120	121-180	181-360	361-720	>720
Mortgage	Profile 1	0.3 %	0.5 %	1.2 %	2.4 %	6.8 %	14.1 %	28.3 %
	Profile 2	1.5 %	1.6 %	2.5 %	4.4 %	6.8 %	14.1 %	28.3 %

Allowances for group evaluations on small and mid-sized commercial loans

- Allowances based on group evaluations are permitted for a large number of borrowers whose individual loan amounts are relatively insignificant. These models are intended to be used primarily to analyze commercial loans to individuals and small companies.

- Levels of required reserves are to be determined by the Bank, according to the estimated loss that may result from the loans, by classifying the loan portfolio using one or both of the following models:

i. A model based on the characteristics of the borrowers and their outstanding loans–borrowers and their loans with similar characteristics will be placed into groups and each group will be assigned a risk level.

ii. A model based on the behavior of a group of loans–loans with analogous past payment histories and similar characteristics will be placed into groups and each group will be assigned a risk level.

Additional reserves

Banks are permitted to establish allowances above the limits described above only to cover specific risks that have been authorized by their Board of Directors. These reserves can only be revised after 12 months and with the approval of the Board of the Directors.

Analysis of Santander Chile's Loan Classification

The following tables provide statistical data regarding the classification of our loans at September 30, 2010 and December 31, 2009.

	As of September 30, 2010					
Category	Commercial Loans	Consumer Loans	Residential Mortgage Loan	Total Loans	Percentage Evaluated Loans	
	(in millions of Ch$)					
A	–	2,190,094	–	2,190,094	14.3	%
A1	27,312	–	–	27,312	0.2	%
A2	3,137,276	–	4,149,732	7,287,008	47.6	%
A3	2,965,862	–	202,520	3,168,382	20.7	%
B	1,513,452	182,948	34,954	1,731,354	11.3	%
B-	–	64,958	–	64,958	0.4	%
C	–	74,296	–	74,296	0.5	%
C1	246,294	–	17,664	263,958	1.7	%
C2	84,074	–	13,849	97,923	0.6	%
C3	68,230	–	1,824	70,054	0.5	%
C4	60,521	–	20,858	81,379	0.5	%
D	–	42,589	–	42,589	0.3	%
D1	101,737	–	33,324	135,061	0.9	%
D2	45,809	–	24,074	69,883	0.5	%
Totals	8,250,567	2,554,885	4,498,799	15,304,251	100.0	%

	As of December 31, 2009					
Category	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	Percentage Evaluated Loans	
A	–	1,895,241	–	1,895,241	13.8	%
A1	–	–	–	–	–	
A2	3,187,959	–	3,808,195	6,996,154	50.9	%
A3	2,998,956	–	223,928	3,222,884	23.5	%
B	601,080	165,181	10,481	776,742	5.5	%
B-	–	69,150	–	69,150	0.5	%
C	–	74,735	3,636	78,371	0.6	%
C1	224,732	–	18,101	242,833	1.8	%
C2	97,885	–	8,640	106,525	0.8	%
C3	60,679	–	2,012	62,691	0.4	%
C4	56,985	–	27,294	84,279	0.6	%
D	–	39,742	–	39,742	0.3	%
D1	80,574	–	42,438	123,012	0.9	%
D2	39,324	–	14,328	53,652	0.4	%
Totals	7,348,174	2,244,049	4,159,053	13,751,276	100.0	%

Classification of Loan Portfolio Based on the Borrower's Payment Performance

Accrued interest and UF indexation adjustments from overdue loans are recognized only when, and to the extent, received.

Past due loans include, with respect to any loan, only the portion of principal or interest that is overdue for 90 or more days, and do not include the installments of such loan that are not overdue or that are overdue for less than 90 days, unless legal proceedings have been commenced for the entire outstanding balance according to the terms of the loan, in which case the entire loan is considered past due within 90 days of the beginning of such proceedings.

Non-performing loans include the principal and interest of any loan with one installment that is 90 days overdue, and do not accrue interest.

As of December 31, 2009, impaired loans include: (A) for loans whose allowance is determined on an individual basis, impaired loans include: (1) all loans to a debtor that are rated C1 through D2 and (2) total loans to single debtors with a loan that is non-performing, excluding residential mortgage loans if the non-performance of the mortgage loans is less than 90 days. (B) for loans whose loan loss allowance is determined on a group basis, impaired loans include: (1) total loans to a debtor, when a loan to that debtor is non-performing or has been renegotiated, excluding performing residential mortgage loans and (2) if the loan that is non-performing or renegotiated is a residential mortgage loan all loans to that debtor are considered impaired. See Note 10(a) of the Consolidated Financial Statements. Renegotiated loans, on which payments are not overdue, are not ordinarily classified as non-performing loans, but do not accrue interest. Prior to 2009, only restructured commercial loans did not accrue interest.

The term for charging-off loans must now be calculated from the beginning of arrears (one installment is 90 days overdue) and once this term is reached, the entire loan is charged-off . The following is a table showing the principal types of loans and their respective terms for charge-offs as stipulated by the new accounting standards:

Type of contract	Term
Leasing Operations	
Consumer leasing	6 months
Other leasing operations	12 months
Property leasing (commercial or residential)	36 months
Other Operations	
Consumer credits with or without real guarantees	6 months
Other operations without real guarantees	24 months
Commercial credits with real guarantees	36 months
Mortgage loans for housing	48 months

We may write off any loan (commercial or consumer) before the first installment becomes overdue only in accordance with special procedures established by the Superintendency of Banks. In certain circumstances, we must write off an overdue loan (commercial or consumer) sooner than the terms set forth above. Loans are written off against the loan loss reserve to the extent of any required allowances for such loans; the remainder of such loans is written off against income.

In general, legal collection proceedings are commenced with respect to consumer loans once they are overdue for 90 days and, with respect to mortgage loans, once they are past due for 120 days. Legal collection proceedings are always commenced within one year of such loans becoming past due, unless we determine that the size of the past due amount does not warrant such proceedings. In addition, the majority of our commercial loans are short–term, with single payments at maturity. Past due loans are required to be covered by individual loan loss reserves equivalent to 100.0% of any unsecured portion thereof.

The following table sets forth all of our past due loans, non-performing loans, and impaired loans as of September 30, 2010 and December 31, 2009. Amounts shown as past due include only installments that are past due and not the aggregate principal amount of such loans. Amounts shown as non-performing include the portion of the loan that is overdue for more than 90 days and includes the aggregate principal amount of such loans.

	As of September 30, 2010		As of December 31, 2009	
	(in millions of Ch$, except percentages)			
Past due loans(1)	207,530		193,250	
Non-performing loans(2)	407,831		409,067	
Impaired loans (3)	1,488,116		1,485,737	
Allowance for loan losses(4)	428,881		349,527	
Total loans(5)	15,304,251		13,751,276	
Past due loans expressed as a percentage of total loans	1.36	%	1.41	%
Risk index(6)	2.80	%	2.54	%
Non-performing loans as a percentage of total loans	2.66	%	2.97	%
Allowance for loan losses as a percentage of past due loans	206.66	%	180.87	%

	As of September 30, 2010	As of December 31, 2009
	(in millions of Ch$, except percentages)	
Allowance for loan losses as a percentage of risk index	100.00 %	100.00 %
Allowance for loan losses as a percentage of non-performing loans	105.16 %	85.44 %

(1) All installments and lines of credit more than 90 days overdue. Does not include the aggregate principal amount of such loans.

(2) Non-performing loans include the principal and interest of any loan with one installment that is 90 days overdue, and do not accrue interest.

(3) Impaired loans include: (A) for loans whose allowance is determined on an individual basis, impaired loans include: (1) all loans to a debtor that are rated C1 through D2 and (2) total loans to single debtors with a loan that is non-performing, excluding residential mortgage loans if the non-performance of the mortgage loans is less than 90 days. (B) for loans whose loan loss allowance is determined on a group basis, impaired loans include: (1) total loans to a debtor, when a loan to that debtor is non-performing or has been renegotiated, excluding performing residential mortgage loans and (2) if the loan that is non-performing or renegotiated is a residential mortgage loan all loans to that debtor are considered impaired.

(4) Includes allowance for interbank loans.

(5) Includes interbank loans.

(6) Allowance for loan losses / Total loans. The allowance for loan losses is calculated according to internal models and guidelines of the SBIF.

We suspend the accrual of interest and readjustments on all overdue loans. The amount of interest that would have been recorded on overdue loans if they had been accruing interest was Ch$20,320 million and Ch$21,899 million for the years ended December 31, 2008 and 2009, respectively. Accrued interest and UF indexation adjustments from overdue loans are recognized only when, and to the extent, received.

Analysis of Impaired and Non-Performing Loans

The following table analyzes our impaired loans. Impaired loans include: (i) all loans to a single client that are evaluated on a group basis, including performing loans, that have a loan classified as non-performing, (ii) all renegotiated consumer loans and (iii) all commercial loans at risk of default. See Note 10(a) of the Interim Financial Statements.

	As of September 30, 2010	As of December 31, 2009
	(Ch$ million)	

Total loans	15,304,251		13,751,276	
Impaired loans(1)	1,488,116		1,485,737	
Impaired loans as a percentage of total loans	9.7	%	10.8	%
Amounts non-performing	407,831		409,067	
To the extent secured	214,691		206,272	
To the extent unsecured	193,140		202,795	
Amounts non-performing as a percentage of total loans	2.66	%	2.97	%
To the extent secured(2)	1.40	%	1.50	%
To the extent unsecured	1.26	%	1.47	%
Loans loss allowances as a percentage of:				
Total loans	2.80	%	2.54	%
Total amounts non-performing	105.2	%	85.4	%
Total amounts non-performing-unsecured	222.1	%	172.4	%

(1) Impaired loans are constructed under the guidelines established in IAS 39 Sections 58 and 59. Impaired loans include: (A) for loans whose allowance is determined on an individual basis, impaired loans include: (1) all loans to a debtor that are rated C1 through D2 and (2) total loans to single debtors with a loan that is non-performing, excluding residential mortgage loans if the non-performance of the mortgage loans is less than 90 days. (B) for loans whose loan loss allowance is determined on a group basis, impaired loans include: (1) total loans to a debtor, when a loan to that debtor is non-performing

or has been renegotiated, excluding performing residential mortgage loans and (2) if the loan that is non-performing or renegotiated is a residential mortgage loan all loans to that debtor are considered impaired.

(2) Security generally consists of mortgages on real estate, pledges of marketable securities, letters of credit or cash.

A breakdown of the loans included in the previous table which have been classified as impaired are as follows:

Impaired loans As of December 31, 2009	Commercial	Residential mortgage	Consumer	Total
Non-performing loans (1)	195,163	130,119	83,785	409,067
Commercial loans at risk of default (2)	405,513	718	3	406,234
Re-negotiated loans (3)	273,666	1,311	395,462	670,439
Total	874,342	132,148	479,250	1,485,740

Impaired loans As of September 30, 2010	Commercial	Residential mortgage	Consumer	Total
Non-performing loans (1)	211,840	122,621	73,370	407,831
Commercial loans at risk of default (2)	446,414	753	686	447,853
Re-negotiated loans (3)	229,770	20,990	381,670	632,430
Total	888,024	144,364	455,726	1,488,114

(1) Includes all loans to a debtor rated on a group basis that has a loan non-performing.

(2) All commercial loans at risk of default, defined as all commercial loans rated individually that are rated C1 through D2.

(3) The renegotiated loans included in the table above are not included as non-performing.

The Bank in certain instances renegotiates loans that have one or more installment that is non-performing. The type of concession we most often give when renegotiating a loan is a reduction in interest payment or a forgiveness of principal. The following table shows the success rate for renegotiated consumer and mortgage loans. The success rate is defined for each reported period as: (i) (the total amount of loans renegotiated in that period minus the amount of such renegotiated loans that are classified as non-performing loans as of September 30, 2010, minus the amount of such renegotiated loans that have been charged off as of September 30, 2010) divided by (ii) (the total amount of such renegotiated loans).

As of September 30, 2010 Period of renegotiation	Success rate Consumer Loans	Success rate Residential mortgage loans
1Q 2009	89.7 %	96.9 %
2Q 2009	92.2 %	95.4 %
3Q 2009	90.2 %	96.1 %

4Q 2009	84.6 %	96.6 %
1Q 2010	73.5 %	93.3 %
2Q 2010	87.8 %	100.0 %
3Q 2010	100.0 %	100.0 %

Analysis of Loan Loss Allowances

The following table analyzes our loan loss allowances and changes in the allowances attributable to write-offs, provisions, allowances released, allowances on loans acquired. Loan loss allowances must be debited the full amount of all charge-offs (irrespective of whether the charged-off loan was fully provisioned) and simultaneously credited the same amount through the taking of a new provision. The net effect of these two entries, which are included in the table below under "charge-offs" and "allowances established," respectively, is to leave the loan loss allowance unchanged following the charge-off of a loan. Subsequently, at the end of each calendar month, loan loss allowances are released to the extent not needed. Such releases, which are included in the table below under "allowances released," therefore include any amounts relating to provisions originally made in respect of loans that have been charged off.

	As of September 30, 2010	As of December 31, 2009
	(in millions of Ch$, except percentages)	
Loan loss allowances at beginning of the period	349,527	274,240
Release of allowances upon charge-offs (1)	(151,232)	(295,831)
Allowances established (2)	247,496	398,416
Allowances released (3)	(16,910)	(27,298)
Loan loss allowances at end of period	428,881	349,527
Ratio of charge-offs to total average loans (4)	1.3 %	2.0 %
Loan loss allowances at end of period as a percentage of total loans	2.8 %	2.5 %

(1) Reflects release of loan loss allowance equal to the entire amount of loans charged off, including any portion of such loans with respect to which no allowance had been established prior to the charge-off.

(2) Includes, in addition to provisions made in respect of increased risk of loss during the period, provisions made to replace allowances released upon charge-off of loans. See Note (1) to this table.

(3) Represents the amount of loan loss allowances released during the year as a consequence of reduction in the level of risk existing in the loan portfolio, including as a result of improvement in the credit risk classification of borrowers and the charge-off of loans.

(4) For the September 30, 2010 period, the charge-offs have been annualized.

Based on information available regarding our borrowers, we believe that our loan loss allowances are sufficient to cover known potential losses and losses inherent in a loan portfolio of the size and nature of our loan portfolio.

Allocation of the Loan Loss Allowances

The following tables sets forth, as of September 30, 2010 and December 31, 2009, the proportions of our required minimum loan loss allowances that were attributable to our commercial, consumer and residential mortgage loans, and the amount of voluntary allowances (which are not allocated to any particular category) at each such date.

	As of September 30, 2010				As of December 31, 2009			
	Allowance amount (1)	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Allowance amount as a percentage of total allocated allowances (2)	Allowance amount (1)	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Allowance amount as a percentage of total allocated allowances (2)

Commercial loans	181,678	2.55	%	1.19	%	43.72	%	158,600	2.49	%	1.15	%	46.42	%
Consumer loans	216,219	8.48	%	1.41	%	52.03	%	166,503	4.00	%	1.21	%	48.74	%
Residential mortgage loans	17,632	0.39	%	0.12	%	4.25	%	16,534	0.74	%	0.12	%	4.84	%
Total allocated allowances	415,529	2.72	%	2.72	%	100.00	%	341,637	2.68	%	2.48	%	100.00	%
Leasing	13,304	1.25	%	0.09	%			7,848	0.81	%	0.06	%		
Interbank loans	48	0.07	%	0.00	%			42	0.18	%	0.00	%		
Total allowances	428,881	2.80	%	2.80	%			349,527	2.54	%	2.54	%		

(1) In millions of Chilean pesos.

(2) Based on our loan classification, as required by the Superintendency of Banks for the purpose of determining the loan loss allowance.

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ITEM 4. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Directors

We are managed by our Board of Directors, which, in accordance with our by-laws, consists of 11 directors and two alternates who are elected at annual ordinary shareholders' meetings. Except as noted below, the current members of the Board of Directors were elected by the shareholders in the ordinary shareholders' meeting held on April 27, 2010. Members of the Board of Directors are elected for three-year terms. Except as noted below, the term of each of the current board members expires in April of 2011. Cumulative voting is permitted for the election of directors. The Board of Directors may appoint replacements to fill any vacancies that occur during periods between elections. If any member of the Board of Directors resigns before his or her term has ended, and no other alternate director is available to take the position at the next annual ordinary shareholders' meeting a new replacing member will be elected. Our executive officers are appointed by the Board of Directors and hold office at its discretion. Scheduled meetings of the Board of Directors are held monthly. Extraordinary meetings can be held when called in one of three ways: by the Chairman of the Board of Directors, by three directors with the consent of the Chairman of the Board of Directors or by the majority of directors. None of the members of our Board of Directors has a service contract which entitles any Director to any benefits upon termination of employment with Santander-Chile.

Our current directors are as follows:

Directors	Position	Committees	Term Expires
Mauricio Larraín Garcés	Chairman and Director	Asset and Liability Committee Executive Credit Committee Market Committee Marketing and Communications Committee University Committee Strategy Committee	April 2011
Jesús Zabalza Lotina	First Vice Chairman and Director	Strategy Committee	April 2011
Oscar Von Chrismar Carvajal	Second Vice Chairman and Director	Asset and Liability Committee Executive Credit Committee Market Committee Strategy Committee Technology Committee Marketing and Communications Committee	April 2011
Carlos Olivos Marchant	Director	Audit Committee Executive Credit Committee	April 2011
Víctor Arbulú Crousillat	Director	Audit Committee	April 2011
Marco Colodro Hadjes	Director	Asset and Liability Committee Executive Credit Committee	April 2011

		Audit Committee Market Committee	
Lucía Santa Cruz Sutil	Director	University Committee Marketing and Communications Committee	April 2011
Roberto Méndez Torres	Director	Executive Credit Committee Marketing and Communications Committee University Committee Strategy Committee	April 2011

Directors	Position	Committees	Term Expires
Vittorio Corbo Lioi	Director	Asset and Liability Committee Market Committee	April 2011
Roberto Zahler Mayanz	Director	Asset and Liability Committee Market Committee	April 2011
Claudia Bobadilla Ferrer*	Director	Technology Committee Analysis and Resolution Committee	April 2011
Juan Manuel Hoyos Martínez de Irujo	Alternate Director	Strategy Committee	April 2011
Raimundo Monge Zegers	Alternate Director	Asset and Liability Committee Strategy Committee Market Committee	April 2011

* Resigned as of January 1, 2011

Mauricio Larraín Garcés is our Chairman. He is a member of the Asset and Liability Committee, the Executive Credit Committee, the Market Committee, the Marketing and Communications Committee, Strategy Committee and the University Committee. He is also President of Santander Chile Holding S.A. and Universia Chile S.A. He is a Director of the Asociación de Bancos e Instituciones Financieras de Chile and the Santiago Stock Exchange. He is also a member of the Council of Paz Ciudadana and was a former President of ICARE. Mr. Larraín began working at Santander-Chile in 1989. Previously, he was Intendente (Director) of the Superintendency of Banks, Manager of External Debt at the Banco Central de Chile and a Senior Finance Specialist at the World Bank in Washington. He holds degrees in Law from Universidad Católica de Chile and from Harvard University.

Jesús María Zabalza Lotina became a Director and Vice-Chairman of the Board on October 28, 2008. He currently is a Director of Grupo Santander's Latin America Division and a Board member of Banco Santander Puerto Rico and President of the Board of Banco Santander Colombia. He is a member of the Strategy Committee. Mr. Jesús Zabalza is a patron of the Fundación Padre Garralda. Previously, Mr. Zabalza was Director of Retail Banking in Madrid of Banco BBVA. He was also on the Board of e-La Caixa, Telefónica Factoring S.A, Adeslas y Terra. Mr. Zabalza holds a degree in Industrial Engineering from the University of Bilbao.

Oscar von Chrismar Carvajal became Executive Vice-Chairman of the Board on January 1, 2010 after having served as the chief executive officer of Santander-Chile since August 2003. Mr. Von Chrismar is a member of the Asset and Liability Committee, Executive Credit Committee, Market Committee, Strategy Committee, Technology Committee and the Marketing and Communications Committee. Prior to assuming the chief executive officer post, he was the Manager of Global Banking. Prior to the merger, he was the former chief executive officer of Old Santander-Chile since September 1997, after being General Manager of Banco Santander-Peru since September 1995. Mr. von Chrismar is also Alternate Director of Universia Chile S.A. Prior to that, Mr. von Chrismar was the manager of the Finance Division of Santander-Chile, a position that he had held since joining Santander-Chile in 1990. Mr. von Chrismar holds an Engineering degree from the Universidad de Santiago de Chile.

Carlos Olivos Marchant is Director since 2007 and has been a Board member since the merger was consummated in 2002. He is Chairman of the Audit Committee and a member of the Executive Credit Committee. He was Chairman of the Board of Santiago since 1987 until the date of the merger, and he was Chairman of that board between May 1999 until the merger. He is a partner in the law firm Guerrero, Olivos, Novoa y Errazuriz. From 1981 to 1983, Mr. Olivos served as General Counsel of the Central Bank of Chile, and from 1984 to 1986, he served as Chairman of the Board of Directors of Banco Osorno. Mr. Olivos holds a law degree from the Universidad de Chile and a Masters of Jurisprudence from New York University School of Law.

Vittorio Corbo Lioi is one of Chile’s leading economists. In 2003, Mr. Corbo was named President of Chile’s Central Bank. Following the end of his tenure there, Mr. Corbo has been named to various boards and is currently a Senior Investigator at the Centro de Estudio Públicos (CEP), a local think tank. Previously, Mr. Corbo between 1991 and 1995 was an economic advisor to the Bank and a member of the Board of Santander Chile between 1995 and

2003. Mr. Corbo is a member of the Asset and Liability Committee and the Market Committee. Mr. Corbo has a Business Administration Degree from the Universidad de Chile and a Ph.D. in Economics from MIT.

Víctor Arbulú Crousillat became a Director on May 6, 1999. He is a member of the Audit Committee and has been designated as a Financial Expert. He was a Managing Director of JPMorgan, member of its European management committee and Chief Executive Officer for Spain and Portugal from 1988 until 1998. He has worked for JPMorgan for over 25 years in various positions in Europe, North America and Latin America. Mr. Arbulú also worked for the Inter-American Development Bank. He is also Director of Aurum S.A. Mr. Arbulú holds a degree in Engineering and a Masters of Business Administration.

Marco Colodro Hadjes became a Director on April 19, 2005. Mr. Colodro is a member of the Asset and Liability Committee, Executive Credit Committee, Market Committee and since September 2010 is a member of Audit Committee. Mr. Colodro was President of the Board of Telefónica Chile and a Director of Codelco. He is a former chairman of TVN (national television network) and former vice chairman of Banco del Estado (state bank). He was also owner of Agencia de Valores Alfa S.A. Prior to that, he was Foreign Trade Director at the Central Bank of Chile. Mr. Colodro holds a degree in Economics from the Universidad de Chile, and has done post-graduate studies at the University of Paris.

Lucía Santa Cruz Sutil became a Director on August 19, 2003. Ms. Santa Cruz was a member of the Bank's Audit Committee until May 2010 and the University Committee. She is a member of the University Committee and the Marketing and Communications Committee. Ms. Santa Cruz holds a degree in History and a Masters Degree in Philosophy from Oxford University. She is the Dean of the College of Liberal Arts of the Universidad Adolfo Ibañez. Ms. Santa Cruz is also a Director of Universia Chile S.A. She is also on the Board of Compañía de Seguros Generales y de Vida La Chilena Consolidada and Fundación Minera Escondida. She is also on the Advisory Board of Nestle Chile and the Fundación Educacional Santa Teresa de Avila. She is also a member of the Self-Regulation Committee for Insurance Companies in Chile.

Roberto Méndez Torres is a former member of the Board of Old Santander-Chile, to which he was appointed in 1996. He is a member of the Executive Credit Committee, the Marketing and Communication Committee, the Strategy Committee and the University Committee. He is a professor of Economics at Universidad Católica de Chile. He has been Advisor to Grupo Santander-Chile since 1989. Mr. Méndez is President and Director of Adimark Chile Gfk and on the Board of the Chilean and German Chamber of Commerce. He is also Vice-Chairman of Universia S.A. He graduated with a degree in Business from Universidad Católica de Chile, and holds an MBA and a Ph.D. from the Graduate School of Business at Stanford University.

Roberto Zahler Mayanz became a Director on August 31, 1999. He is a member of the Asset and Liability Committee and the Market Committee. Currently, he is President of Zahler & Co, a consulting firm. He is also Director of Air Liquide-Chile and member of the CLAAF or the Latin American Committee for Financial Affairs. He was formerly President of the Board of Siemens Chile. He was also a visiting professor at the IMF's Research Department. Between 1991 and 1996, he was President of the Central Bank of Chile and Vice-President from 1989 to 1991. He also serves as a consultant for the World Bank, the IDB, the IMF and the International Bank of Settlements. Mr. Zahler has also provided technical assistance to various Central Banks and Finance Ministries in most countries of Latin America, Indonesia and Kosovo. Mr. Zahler holds a degree in Business Administration from the Universidad de Chile and a Masters in Economics from the University of Chicago.

Claudia Bobadilla Ferrer was elected to the Board in April 2006. She is a member of the Technology Committee and the Analysis and Resolution Committee. She is CEO of Fundación País Digital, a member of the Executive Committee of Innovation and Technology of ICARE, council member of Endeavor Chile and Executive Director of the Chile-Japón Siglo XXI Committee. She was also founder and President of Comunidad Mujer, an organization dedicated to increasing women's participation in the workforce. She is a member of the council of Fundación Chilena del Pacífico, Proyecto Astronómico ALMA and Movimiento Educación 2020. She was previously Director of Legal Affairs at Terra Networks Chile S.A. She is a lawyer from the Universidad Diego Portales.

Juan Manuel Hoyos Martínez de Irujo was the Managing Director of McKinsey & Company in Spain from 1997 to 2003 where he was also President of the Client Committee of McKinsey's Board. He began his career at McKinsey where he was named partner in 1984 and Director in 1991. Currently, he is in charge of partner development worldwide and continues to serve on the Board. His consulting career has been focused in the areas of strategy and organization of corporations, especially in the telecommunications, banking and metallurgy sectors. He has worked with companies in Spain, the United States, Latin America, the United Kingdom, Portugal and Africa. He is currently a member of the Strategy Committee of the Bank. He received an economics degree from the Universidad Complutense de Madrid and holds an MBA in Finance and Accounting from Columbia University.

Raimundo Monge Zegers became an Alternate Director on April 29, 2003. He is currently a member of the Strategy Committee, the Asset and Liability Committee and the Market Committee. He is Corporate Director of Strategic and Financial Planning for Grupo Santander-Chile and is CEO of Santander-Chile Holding S.A. and Santander Inversiones Ltda. He is also President of Santander S.A. Sociedad Securitizadora and Santander Factoring S.A. He is a Director of Aurum S.A., Santander Asset Management Chile S.A. and Bansa Santander S.A. Mr. Monge has a degree in business from the Universidad Católica de Chile and an MBA from the University of California, Los Angeles.

Senior Management

Our senior managers are as follows:

Senior Manager	Position	Date Appointed
Claudio Melandri	Chief Executive Officer	January 1, 2010
Gabriel Montoya	Corporate Financial Controller	April 1, 2009
José Manuel Manzano	Corporate Director of Risk	July 1, 2007
Javier Montero	Corporate Director of Internal Audit	May 1, 2010
Alejandra Mehech	Corporate Director Human Resources	May 1, 2010
Fred Meller*	Global Banking and Markets	January 1, 2011
Francisco Murillo	Manager Retail Banking	May 1, 2010
Juan Carlos Chómali	Manager Santander Banefe	May 1, 2010
Felipe Contreras	Chief Accounting Officer	October 1, 2008
Juan Fernández	Administration and Operations	July 18, 2002
Emiliano Muratore	Manager Financial Management	April 8, 2008
Juan Pedro Santa María	General Counsel	July 30, 2009

*Replaced Joaquin Quirante

Claudio Melandri became the Chief Executive Officer of Santander-Chile in January 2010 after being our Retail Banking Manager since February 21, 2008. He started his career at Santander-Chile in 1990 becoming a regional branch manager and manager of Santander-Chile's branch network. He was also a Vice-President at Banco Santander Venezuela from 2005 to 2007. In 2007, he was appointed Corporate Director of Human Resources of Banco Santander-Chile. He is also on the Board of Santander Seguros de Vida S.A., Santander Asset Management S.A. Administradora General de Fondos and Santander Seguros Generales S.A. Mr. Melandrí has a Business Degree from the Universidad Tecnológica Metropolitana in Chile.

Gabriel Montoya B. was appointed Financial Controller of Santander Chile in April 2009 and has been working for Santander Spain and its affiliates since 1997. Between 2005-2009, Mr. Montoya was Director of the MIS America Project and was responsible for implementing management information systems in Chile, Mexico, Puerto Rico, Argentina and Brazil. Previous to that Mr. Montoya was Financial Controller of Santander Puerto Rico, Head of Financial Control for the Americas Division of Santander and various other management positions in Santander Colombia. He is a Director of Santander Consumer Chile S.A. Mr. Montoya has a Business Administration Degree from Universidad del Rosario and an Executive Administration Diploma from the Universidad de los Andes, both in Colombia.

José Manuel Manzano became Corporate Director of Risk in July 2007. Prior to that he was Corporate Director of Human Resources for Santander-Chile since October 31, 2002. Previously, he served as Manager of Human Resources for Old Santander-Chile since 1999. He was also General Manager of Santander Fund Management and Managing Director of Bancassurance. He is also a Director of Santander Chile Holding and Santander S.A. Sociedad Securitizadora. Mr. Manzano holds an MBA and a degree in Business from Universidad Católica de Chile.

Javier Montero is the Corporate Director of Internal Auditing, a position he has held since May 1, 2010. Prior to that he was Manager of Internal Auditing in the Financial Risk Department at Banco Santander Chile since 2006.

Mr. Montero has worked for Grupo Santander since 2000 in the Internal Auditing Division of Grupo Santander. Mr. Montero has a Business Degree and an Auditing degree from Universidad San Pablo in Madrid.

Francisco Murillo was appointed Manager of Retail Banking of Santander-Chile on May 1, 2010. Prior to that, he held the position of Corporate Director of Human Resources for Santander-Chile since February 21, 2008. Mr. Murillo has worked in Grupo Santander Chile since 1993. Previously he served as Corporate Director of Santander Asset Management and President of Bansander AFP. He was also the former CEO and Chief Investment Officer of Bansander AFP. Mr. Murillo is President of Santander Asset Management S.A. Administradora de General de Fondos, President of Santander Seguros de Vida S.A., President of Santander Seguros Generales S.A., Director of Santander Chile Holding, Director of Aurum S.A., Director of Santander Asset Management Chile S.A., Director of Santander Consumer Chile S.A., Director of Santander Factoring, CEO of Teatinos Siglo XXI Inversiones Ltda and CEO of Aurum S.A. Mr. Murillo has a Business Degree from the Universidad Adolfo Ibañez.

Alejandra Mehech was appointed Corporate Director of Human Resources for Santander-Chile on May 1, 2010. Prior to that, Mrs. Mehech served as manager of Human Resources for the Global Businesses area and for top executives, position she held since December 2007. She has also served as manager of Human Resources of the Asset Management Division of Grupo Santander in Chile. Mrs. Mehech has worked in Grupo Santander since 1994 and holds a Business Degree and a degree in Sociology, both from Universidad Católica de Chile.

Fred Meller S. became Manager of Global Banking & Markets in January 2011. Prior to that he was Manager of Market Making for Europe and the United Kingdom for Santander-Spain. Previously, he served as Treasurer for Santander-Chile since 2008. He was also General Manager of Santander Agente de Valores and Director of Deposito Central de Valores Chile. Mr. Meller holds a degree in Business Administration from Universidad Central de Chile.

Joaquin Quirante was appointed the Manager of Global Banking and Markets, that includes wholesale banking and treasury services, on March 11, 2008. Mr. Quirante began working for Santander in 2004 and was the Global Manager of Debt Capital Markets. Previous to working at Santander, Mr. Quirante worked for 9 years at Bank of America where he also led the Debt Capital Markets Group for Southern Europe. He also was a vice-president of Risk for the Bank of America in the UK and worked in the International Division of Argentaria. He is on the Board of Santander S.A. Corredores de Bolsa. Mr. Quirante is an economist from the Universidad Complutense de Madrid and has a MBA from IESE.

Juan Carlos Chómali became Manager of the Santander Banefe Division of Santander-Chile in May 2010. Prior to that he was Manager of Retail Banking of Santander-Chile, position he held since January 2010 and after being our Corporate Director of Customers and Quality. Prior to that he was Commercial Manager of Bansander AFP, Manager of E-Business of Grupo Santander, General Manager of Santander Multimedios, Manager of Remote Banking at Banco Santander. Mr. Chómali is also Director of Universia Chile S.A., Director of Aquanima Chile S.A., Santander Asset Management S.A. Administradora General de Fondos, Santander Seguros de Vida S.A. and Director of Santander Seguros Generales S.A.. Mr. Chómali has a degree in business from the Universidad Católica de Chile and a certificate in Marketing from the University of California, Los Angeles.

Felipe Contreras F. was named Chief Accounting Officer of Santander Chile in October 2008. He has worked for 14 years in the Bank's Accounting Department, most recently as Manager of the Consolidation and Reporting Departments, overseeing the Bank's Chilean, U.S. and Spanish GAAP reporting requirements. He recently was in charge of the Bank's recent transition to International Financial Reporting Standards. Mr. Contreras is a Public Accountant from the University of Santiago and is currently a candidate to a Masters in Advanced Finance from the Universidad Adolfo Ibáñez.

Juan Fernández is our manager of Administration and Operations. He is the former Manager of Administration and Cost Control of Old Santander-Chile, a position he held from April 1999 until August 2002, when the merger with Santiago was consummated. Mr. Fernández is also Director of Santander Chile Holding S.A., Aquanima Chile S.A., Santander Factoring S.A., Isban Chile S.A., Bansa Santander S.A., Santander Consumer Chile S.A., Multinegocios S.A. and Santander S.A. Corredores de Bolsa. Previously Mr. Fernández served as Manager for Accounting and Administration of Old Santander-Chile since January 1993. Prior to that, Mr. Fernández held positions at Banchile Agencia de Valores y Subsidiarias, and at JPMorgan in Santiago and Madrid.

Emiliano Muratore was appointed Manager of Financial Management in April 2008. Mr. Muratore entered Santander Group in 1999 in Santander Argentina. From 2002 to 2006 he worked in Financial Management in Santander Spain. He is on the Board of Santander S.A. Agente de Valores. Mr. Muratore has a Business Degree from the Universidad Católica Argentina and a Masters in Finance from the Universidad de San Andrés in Buenos Aires.

Juan Pedro Santa María is our General Counsel, a position he has held since July 30, 2009 after being General Counsel of Grupo Santander Chile. He is also a Director of Santander Chile Holding S.A., Santander Factoring S.A., Bansa Santander S.A., Director of Aurum S.A. and Director of Santander Asset Management Chile S.A. Mr. Santa María, a lawyer, previously worked at Banco O'Higgins and Banco Santiago. He has been Chairman of the Law Committee at the Asociación de Bancos e Instituciones Financieras de Chile for the last twenty years. He has a degree in Law from the Pontificia Universidad Católica de Chile.

B. Compensation

For the nine-month period ended September 30, 2010, the aggregate amount of compensation paid by us to all of our directors was Ch$644 million, including attendance fees and monthly stipends. For the nine-month period ended September 30, 2010, the aggregate amount of compensation paid by us to all of our executive officers and our management members was Ch$20,818 million (US$43.0 million). At our annual shareholder meeting held on April 27, 2010, shareholders approved a monthly stipend per director of UF 230 (US$10,148), UF 460 (US$20,296) for the Chairman of the Board and UF 345 (US$15,222) for the Vice-Chairman of the Board. This amount will be increased by UF 30 per month (US$1,324) if a Board member is named to one or more committees of the Board. For the President of a committee the additional amount will be UF 60 (US$2,647) and UF 45 (US$1,986) for the Vice-President of a committee. Shareholders also approved the Audit Committee 2010 budget and the remuneration for its members. The remuneration is a 33% additional compensation over the monthly stipend received by a regular board member, or UF 77 (US$3,397), totaling a monthly stipend of UF 307 (US$13,546). This remuneration is in line with the new Chilean corporate governance law. In addition, we pay certain directors professional service fees for the consulting services that they rendered to us in their fields of expertise. For the nine-month period ended September 30, 2010, payments to our directors for consulting fees totaled Ch$611 million (US$1.3 million).

C. Board Practices

Audit Committee

Board member	Position in Committee
Carlos Olivos	Chairman
Víctor Arbulú Crousillat	First Vice Chairman and Financial Expert
Marco Colodro	Second Vice Chairman

The Audit Committee (Comité de Directores y Auditoría) is comprised of three members of the Board of Directors. The General Counsel is the Committee Secretary. The Chief Executive Officer, General Auditor and other persons from the Bank can be invited to the meetings if necessary and are present on specific matters. This Committee's primary responsibility is to support the Board of Directors in the continuous improvement of our system of internal controls, which includes reviewing the work of both the external auditors and the Internal Audit Department. The committee is also responsible for analyzing observations made by regulatory entities of the Chilean financial system about us and for recommending measures to be taken by our management in response. This committee also performs functions of a remuneration committee as established in Chilean Law, and reviews annually the salary and bonus programs for the executive officers of the Bank. The external auditors are recommended by this committee to our Board of Directors and appointed by our shareholders at the annual shareholders' meeting.

This committee is also responsible for:

- Presenting to the Board of Directors a list of candidates for the selection of an external auditor.
- Presenting to the board or directors a list of candidates for the selection of rating agencies.

- Overseeing and analyzing the results of the external audit and the internal reviews.
- Coordinating the activities of internal auditing with the external auditors’ review.
- Analyzing the interim and year-end financial statements and reporting the results to the Board of Directors.
- Analyzing the external auditors’ reports and their content, procedures and scope.
- Analyzing the rating agencies’ reports and their content, procedures and scope.
- Obtaining information regarding the effectiveness and reliability of the internal control systems and procedures.

- Analyzing the information systems performance, and its sufficiency, reliability and use in connection with decision-making processes.
- Obtaining information regarding compliance with the company's policies regarding the due observance of laws, regulations and internal rules to which the company is subject.
- Investigating suspicious and fraudulent activities.
- Analyzing the reports of the inspection visits, instructions and presentations of the Superintendency of Banks.
- Obtaining information, analyzing and verifying the company's compliance with the annual audit program prepared by the internal audit department.
- Informing the Board of Directors of accounting changes and their effects.
- Examining on an annual basis the compensation plans of high level executives and managers.

Asset and Liability Committee

Board member	Position in Committee
Mauricio Larraín	Chairman
Oscar von Chrismar	Member
Marco Colodro	Member
Vittorio Corbo	Member
Roberto Zahler	Member
Raimundo Monge	Member

The Comité de Activos y Pasivos or the Asset and Liability Committee (the "ALCO"), following guidelines set by the Board of Directors and Santander Spains's Global Risk Department, is responsible for establishing Santander-Chile's policies, procedures and limits with respect to market risks and monitoring the overall performance in light of the risks assumed. The ALCO constantly monitors whether these policies are adhered to. Santander-Chile's Market Risk and Control Department and the Financial Management Division perform the day-to-day risk management functions required for the trading and non-trading activities of Santander-Chile.

The Asset and Liabilities Management Committee includes the Chairman of the Board and five additional members of the Board, the Chief Executive Officer, the Manager of the Financial Management Division, the Manager of Market Risk, the Manager of the Treasury Division, the Financial Controller and other senior members of management. Senior members of Santander-Chile's Finance Division have a formal meeting each month with the Asset and Liabilities Management Committee and outside consultants.

Market Committee

Board member	Position in Committee
Mauricio Larraín	Chairman
Oscar von Chrismar	Member
Roberto Zahler	Member
Marco Colodro	Member
Vittorio Corbo	Member
Raimundo Monge	Member

The Comité de Mercados or the Market Committee is responsible for establishing Santander-Chile's policies, procedures and limits with respect to its trading portfolio, market risks and monitoring the overall performance in light of the risks assumed. The ALCO constantly monitors whether these policies are fulfilled. Santander-Chile's Market Risk and Control Department carry out the day-to-day risk management functions required for the trading and non-trading activities of Santander-Chile.

The Market Committee includes the Chairman of the Board, five additional members of the Board, the Chief Executive Officer, the Manager of Global Banking and Markets, the Manager of the Treasury Division, the Manager of Proprietary Trading, the Manager of the Financial Management Division, the Manager of Market Risk, the Financial Controller and other senior members of management.

Executive Credit Committee

Board member	Position in Committee
Mauricio Larraín	Chairman
Oscar von Chrismar	Member
Carlos Olivos	Member
Roberto Méndez	Member
Marco Colodro	Member

The Executive Credit Committee is comprised of the Chairman of the Board, four additional Board members, the General Counsel, the CEO, the Manager of Global Banking, the Corporate Director of Risk, the Manager of Corporate Banking, the Manager of Middle Market and two senior members of the Credit Risk department that present the loans being reviewed for approval. This committee confirms the loan positions reviewed by the Senior Loan Committee, with approval rights up to the maximum exposure permitted by the General Banking Law.

Marketing and Communications Committee

Board member	Position in Committee
Mauricio Larraín	Chairman
Roberto Méndez	Member
Lucía Santa Cruz	Member
Oscar von Chrismar	Member

The Marketing and Communications Committee is comprised of the Chairman of the Board and three additional Board members, the CEO, the Manager of Retail Banking, the Manager of Santander Banefe, the Manager of Human Resources, the Manager of Corporate Communications, the Manager of Marketing and other senior managers of the Bank. This committee reviews and confirms all matters related to products, corporate image and communications.

Technology Committee

Board member	Position in Committee
Claudia Bobadilla	Member
Oscar von Chrismar	Member

The Technology Committee reviews all matters related to analyzing technological developments that improve efficiency and client service. This committee oversees the Annual Technology Plan, which includes the automation of key processes, telecommunication innovations, information security, market intelligence and new technological trends.

University Committee

Board member	Position in Committee
Mauricio Larraín	Member
Lucía Santa Cruz	Member
Roberto Méndez	Member

The University Committee reviews the Bank's support for higher education and integrates this with the growth of the Institutional business segment and retail banking for college graduates.

Strategy Committee

Board member	Position in Committee
Mauricio Larraín	Chairman
Oscar von Chrismar	Vice Chairman
Raimundo Monge	Member
Juan Manuel Hoyos	Member
Roberto Méndez	Member
Jesús Zabalza	Member

The Strategy Committee is in charge of the Bank's strategic planning process and follow-up.

D. Employees

As of September 30, 2010, on a consolidated basis we had 11,049 employees, 8,382 of whom were bank employees, 356 of whom were employees of our subsidiaries and 2,311 were employees of Special Purpose Entities. We have traditionally enjoyed good relations with our employees and their unions. Of the total headcount of the Bank and his subsidiaries, 9,070 or 67.4% were unionized. In May 2010, a new collective bargaining agreement was signed, which will become effective on January 1, 2011 and that will expire on December 31, 2014, but this may be negotiated ahead of schedule with the consent of management and the union. We generally apply the terms of our collective bargaining agreement to unionized and non-unionized employees. The following chart summarizes the number of employees employed by the bank.

Employees	As of September 30, 2010
Executives	647
Professionals	4,514
Administrative	5,861
Total	11,049

E. Share Ownership

No director or executive officer owns more than 1% of the shares of Santander-Chile. As of September 30, 2010, the following directors and executives held shares in Santander-Chile:

Directors	Shares
Mauricio Larraín Garcés	568
Carlos Olivos Marchant	1,970,822
Senior Managers	

Juan Fernández	35,536

Santander-Chile currently does not have any arrangements for involving employees in its capital and there is no systematic arrangement for grant of options or shares or securities of Banco Santander-Chile to them.

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ITEM 5. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

As of September 30, 2010, Santander-Chile's largest shareholders were the following:

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

* Formerly known as Teatinos Siglo XXI S.A.

Banco Santander Spain controls Santander-Chile through its holdings in Teatinos Siglo XXI Inversiones Ltda. and Santander-Chile Holding, which are controlled subsidiaries of Banco Santander Spain. As of September 30, 2010, Banco Santander Spain directly or indirectly owned or controlled 99.1% of Santander-Chile Holding and directly or indirectly owned or controlled 100% of Teatinos Siglo XXI Inversiones Ltda. This gives Banco Santander Spain control over 76.91% of the shares of the Bank, and actual participation, when excluding minority shareholders, of 76.59% at September 30, 2010.

Teatinos Siglo XXI Inversiones Ltda. has informed us that it expects to sell 1.9% of Santander Chile.

Banco Santander Spain is in a position to cause the election of a majority of the members of Santander-Chile's Board of Directors, to determine its dividend and other policies and to determine substantially all matters to be decided by a vote of shareholders. Banco Santander Spain holds ordinary shares to which no special voting rights are attached. Each share represents one vote and there are no shareholders with different voting rights.

The number of outstanding shares of Santander-Chile (of which there is only one class, being ordinary shares) at September 30, 2010, was 188,446,126,794 shares, without par value. Santander-Chile's shares are listed for trading on the Chilean Stock Exchanges and on the NYSE in connection with the registration of ADRs. The market capitalization of Santander-Chile at the same date was Ch$8,498,318 million (US$17,514 million), representing 188,446,126,794 shares of common stock. At September 30, 2010 Santander-Chile had 12,622 holders registered in Chile, including JP Morgan as Depositary (the "Depositary") of Santander-Chile's American Depositary Share Program. As of September 30, 2010, there were a total of 31 ADR holders on record. Since some of these ADRs are held by nominees, the number of record holders may not be representative of the number of beneficial holders.

Other than the information disclosed in this section, there are no arrangements to the knowledge of Santander-Chile, which can result in a change of control of Santander-Chile.

B. Related Party Transactions

The Chilean Companies Law requires that our transactions with related parties be on a market basis, that is, on similar terms to those customarily prevailing in the market. We are required to compare the terms of any such transaction to those prevailing in the market at the date the transaction is to be entered into. Directors of companies that violate this provision are liable for losses resulting from such violations.

In addition, under the Chilean Companies Law, a company may not enter into a transaction with related parties unless (i) such transaction has received the prior approval of the company's Board of Directors and (ii) the terms of such transaction are consistent with the terms of transactions of a similar type prevailing in the market. If it is not possible to make this determination, the board may appoint two independent evaluators. The evaluators' final conclusions must be made available to shareholders and directors for a period of 20 business days, during which shareholders representing 5% or more of the issued voting shares may request the board to call a shareholders' meeting to resolve the matter, with the agreement of two thirds of the issued voting shares required for approval. For purposes of this regulation, the law considers the amount of a proposed transaction to be material if (1) it exceeds 1% of the company's net worth (provided that it also exceeds 20,000UF) or (2) it exceeds 20,000 UF.

All resolutions approving such transactions must be reported to the company's shareholders at the next annual shareholders' meeting. Violations of this provision may result in administrative or civil liability to the corporation, the shareholders and/or third parties who suffer losses as a result of such violation.

Loans granted to related parties

In addition to subsidiaries and associated entities, the Bank's "related parties" include the "key personnel" of the Bank's executive staff (members of the Bank's Board and the Managers of Banco Santander Chile and its subsidiaries, together with their close relatives), as well as the entities over which the key personnel could exert significant influence or control.

The Bank also considers the companies that are part of the Santander Group worldwide as related parties, given that all of them have a common parent, i.e., Banco Santander S.A. (located in Spain).

The table below shows loans and receivables and contingent loans with related parties. For more information, see "Note 31–Transactions with Related Parties" in our Interim Consolidated Financial Statements appearing elsewhere in this report:

	As of September 30, 2010				As of December 31, 2009			
	Companies of the Group (in millions of Ch$)	Associated companies	Key personnel	Other	Companies of the Group (in millions of Ch$)	Associated companies	Key personnel	Other
LOANS AND RECEIVABLES								
Commercial loans	35,352	676	2,375	11,554	11,331	914	2,840	108,372
Mortgage loans	–	–	14,269	–	–	–	12,754	–
Consumer loans	–	–	1,795	–	–	–	1,744	–
Loans and receivables	35,352	676	18,439	11,554	11,331	914	17,338	108,372
Provision for loan losses	(267)	(1)	(22)	(7)	(13)	(1)	(11)	(298)
Net loans	35,085	675	18,417	11,547	11,318	913	17,327	108,074
Guarantees	591	–	17,247	1,151	4,552	–	45,550	596
Contingent loans								
Personal guarantees	–	–	–	–	–	–	15,900	–
Letters of credit	758	–	–	–	1,868	–	–	–
Performance bonds	22,988	–	–	123	134,644	–	–	259
Contingent loans	23,746	–	–	123	136,512	–	15,900	259
Provision for contingent loans	(2)	–	–	–	(21)	–		–
Net contingent loans	23,744	–	–	123	136,491	–	15,900	259

The largest related party loan as of September 30, 2010 was rendered by the Bank to Santander Asset Management S.A. Administradora General de Fondos for Ch$25,890 million (US$53 million). The loan is in Chilean nominal pesos at a rate of 0.15% per month and will be due in May 2011.

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

- a bank may not extend to any person or legal entity (or group of related entities), directly or indirectly, unsecured loans in an amount that exceeds 5.0% of the bank’s regulatory capital, or secured loans in an amount that exceeds 25.0% of its regulatory capital. In the case of foreign export trade finance, this 5.0% ceiling is raised to: 10.0% for unsecured financing, 30.0% for secured financing. This ceiling is raised to 15.0% for loans granted to finance public works under the concessions system contemplated in the Decree with Force of Law 164 of 1991, of the Ministry of Public Works, provided that either the loan is secured on the concession, or the loan is granted as part of a loan syndication;

- a bank may not grant loans bearing more favorable terms than those generally offered by banks in the same community to any entity (or group of related entities) that is directly or indirectly related to its owners or management;

- a bank may not extend loans to another bank in an aggregate amount exceeding 30.0% of its regulatory capital;
- a bank may not directly or indirectly grant a loan, the purpose of which is to allow the borrower to acquire shares in the lending bank;
- a bank may not lend, directly or indirectly, to a Director or any other person who has the power to act on behalf of the bank, or to certain related parties; and
- a bank may not grant loans to individuals or legal entities involved in the ownership or management of the bank, whether directly or indirectly (including holders of 1.0% or more of its shares), on more favorable terms than those generally offered to non-related parties. Loans may not be extended to senior executives and to companies in which such individuals have a participation of 5.0% or more of the equity or net earnings in such companies. The aggregate amount of loans to related parties may not exceed a bank's regulatory capital.

We are not aware of any loans to any related parties exceeding the above lending limits.

The table below shows assets and liabilities with related parties:

	As of September 30, 2010				As of December 31, 2009			
	Companies of the Group	Associated companies	Key personnel	Other	Companies of the Group	Associated companies	Key personnel	Other
	(in millions of Ch$)				(in millions of Ch$)			
Assets								
Trading investments	–	–	–	–	–	–	–	–
Investments under resale agreements	–	–	–	–	–	–	–	–
Financial derivatives contracts	523,384	–	–	–	405,411	–	–	–
Available for sale investments	–	–	–	–	–	–	–	–
Other assets	114,928	–	–	–	117,060	–	–	–
Liabilities								
Demand deposits and other demand obligations	4,605	624	1,616	8,847	1,503	6,238	502	925
Investments under repurchase agreements	38,329	–	–	–	–	–	–	–
Deposits and other time liabilities	848,047	–	1,208	49,131	411,295	–	1,126	21,652
Financial derivatives contracts	336,892	–	–	–	245,574	–	–	–
Issued debt instruments	10,087	–	–	–	89,258	–	–	–
Other financial liabilities	119,002	–	–	–	55,156	–	–	–

Other liabilities	394	–	–	–	310	–	–	–

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Other transactions with related parties

During the nine-month periods ended September 30, 2010 and 2009, the Bank had the following significant income (expenses) from services provided to (by) related parties:

	As of September 30, 2010 (in millions of Ch$)				As of September 30, 2009 (in millions of Ch$)			
	Companies of the Group	Associated companies	Key personnel	Other	Companies of the Group	Associated companies	Key personnel	Other
Income (expense) recorded								
Income and expenses from interest and adjustments	(2,387)	9	287	(86)	(4,624)	6	5	(32)
Income and expenses from fees and services	18,556	(26)	11	66	16,021	26	8	32
Net income from financial and foreign exchange transactions (*)	151,954	–	(7)	6,477	(85,380)	–	(2)	(1,163)
Other operating revenues and expenses	(1,286)	–	–	–	(997)	–	–	–
Key personnel compensation and expenses	–	–	(7,733)	–	–	–	(7,521)	–
Administrative and other expenses	(3,839)	(4,341)	–	–	(3,437)	(8,405)	–	–
Totals	162,998	(4,358)	(7,442)	6,457	(78,417)	(8,373)	(7,510)	(1,163)

* Reflects derivative contracts that hedge Group positions in Chile.

Only transactions with related parties equal to or greater than UF 5,000 are included individually in the table above. Transactions with related parties between UF 1,000 and up to UF 5,000 are included in other transactions with related parties. All transactions were conducted at arms length.

ITEM 6. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Financial Information

See Item 11.

Legal Proceedings

We are subject to certain claims and are party to certain legal and arbitration proceedings in the normal course of our business including claims for alleged operational errors. We do not believe that the liabilities related to such claims and proceedings are likely to have, in the aggregate, a material adverse effect on our consolidated financial condition or results of operations. The Disclosure Committee of Santander Chile has defined a significant legal proceeding, as one implying an expected loss greater than Ch$3,000 million (US$ 6.0 million). At September 30, 2010, there were no legal proceedings exceeding that amount. There are no material proceedings in which any of our directors, any members of our senior management, or any of our affiliates is either a party adverse to us or our subsidiaries or has a material interest adverse to us or our subsidiaries.

(ii) We estimate that our aggregate liability, if all legal proceedings were determined adversely to us, could result in significant losses not estimated by us. As of September 30, 2010, we have set aside Ch$ 480 million (US$ 0.99 million) as provisions for these legal actions. These provisions are presented under the Other provisions item in our financial statements.

Dividends and dividend policy

See “Item 1: A. Selected Financial Data–Dividends.”

ITEM 7. THE OFFER AND LISTING

A. Historical Trading Information

The table below shows, for the periods indicated, the annual, quarterly and monthly high and low closing prices (in nominal Chilean pesos) of the shares of our common stock on the Santiago Stock Exchange and the annual, quarterly and monthly high and low closing prices (in U.S. dollars) as reported by the NYSE.

	Santiago Stock Exchange Common Stock		NYSE ADS(2)	
	High	Low	High	Low
	(Ch$ per share(1))		(US$ per ADS)	
Annual Price History				
2005	22.75	17.11	22.75	30.40
2006	26.20	19.60	51.46	37.40
2007	27.10	21.25	55.30	41.76
2008	24.86	16.51	54.60	28.16
2009	31.00	18.23	64.78	31.22
Quarterly Price History				
2009				
1st Quarter	23.00	18.23	38.84	31.22
2nd Quarter	23.90	19.44	46.69	34.01
3rd Quarter	30.41	23.34	57.94	44.97
4th Quarter	31.00	26.96	64.78	52.64
2010				
1st Quarter	34.99	30.74	70.63	60.59
2nd Quarter	36.36	31.03	71.88	59.40
3rd Quarter	47.37	34.73	99.44	66.73
Monthly Price History				
December 2009	31.00	28.35	64.78	58.40
January 2010	34.56	30.74	70.63	61.83
February 2010	33.60	31.43	65.82	60.59
March 2010	34.99	32.12	70.05	64.16
April 2010	35.55	32.68	71.88	64.80
May 2010	33.10	31.03	66.20	59.40
June 2010	36.36	31.86	70.58	61.47
July 2010	42.34	34.73	83.71	66.73
August 2010	43.50	40.17	87.44	82.35
September 2010	47.37	42.26	99.44	88.21

B. Nature of Trading Market

Nature of Trading Market

Shares of our common stock are traded on the Chilean Stock Exchanges. Each ADS represents 1,039 shares of common stock. ADRs have been issued pursuant to the Deposit Agreement, dated as of August 4, 2008, among

Santander-Chile, the Depositary and all holders from time to time of ADRs. As of September 30, 2010, 29,649,453 ADSs were outstanding (equivalent to 30,805,781,667 shares of common stock or 16.35% of the total number of issued shares of common stock).

ITEM 8. ADDITIONAL INFORMATION

In April 2010, Banco Santander Chile sold 5 Branches. At the time of the sale the carrying value of these assets was Ch$4,927 million (US$10.2 million) and their sale price totaled Ch$11,546 million (US$23.8 million), generating a profit of Ch$6,620 million (US$13.7), which is included in the other operating income.

In June 2010, Banco Santander Chile sold an additional 11 Branches. At the time of the sale the carrying value of all these assets was Ch$8,138 million (US$16.8 million) and their sale price totaled Ch$14,494 million (US$30.0

million), generating a profit of Ch$6,355 million (US$13.2 million), which is included in the other operating income.

On September 30, 2010, Banco Santander Chile auctioned the sale of 15 branches, which was won by Compañía de Seguros "CorpSeguros S.A." for Ch$18,366 million (US$38.0 million). At the time of the sale the carrying value of all these assets was Ch$8,254 million (US$17.1 million), generating a profit of Ch$10,148 million (US$21.0 million), which will be included in the other operating income in October when the deal is signed and due diligence is finished.

ITEM 9. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Introduction

This section describes the market risks that we are exposed to, the tools and methodology used to control these risks, the portfolios over which these market risk methods were applied and quantitative disclosure that demonstrate the level of exposure to market risk that we are assuming. This section also discloses the derivative instruments that we use to hedge exposures and offer to our clients.

The principal types of risk inherent in Santander-Chile's business are market, liquidity, operational and credit risks. The effectiveness with which we are able to manage the balance between risk and reward is a significant factor in our ability to generate long term, stable earnings growth. Toward that end, our senior management places great emphasis on risk management.

Market Risk

Market risk is the risk of losses due to unexpected changes in interest rates, foreign exchange rates, inflation rates and other rates or prices. We are exposed to market risk mainly as a result of the following activities:

- trading in financial instruments, which exposes us to interest rate and foreign exchange rate risk;
- engaging in banking activities, which subjects us to interest rate risk, since a change in interest rates affected gross interest income, gross interest expense and customer behavior;
- engaging in banking activities, which exposes us to inflation rate risk, since a change in expected inflation affects gross interest income, gross interest expense and customer behavior;
- trading in the local equity market, which subjects us to potential losses caused by fluctuations of the stock market; and
- investing in assets whose returns or accounts are denominated in currencies other than the Chilean peso, which subjects us to foreign exchange risk between the Chilean peso and such other currencies.

Market Risk Exposure Categories

Our policy with respect to asset and liability management is to capitalize on our competitive advantages in treasury operations, maximizing our net interest income and return on assets and equity with a view to interest rate, liquidity and foreign exchange risks, while remaining within the limits provided by Chilean banking regulations. Subject to these constraints, we constantly have mismatched positions with respect to interest rates, inflation-linked assets and liabilities and foreign currencies.

Our asset and liability management policies are developed by the Asset and Liability Committee (the “ALCO”) following guidelines and limits established by our Board of Directors, Banco Santander Spain’s Global Risk Department and our Market Risk and Control Department. The ALCO is composed of the Chairman of the Board, four additional members of the Board, the Chief Executive Officer, the Manager of the Financial Management Division, the Manager of Market Risk, the Manager of the Treasury Division, the Financial Controller and other senior members of management. Senior members of Santander Chile’s Finance Division meet monthly on a formal basis with the ALCO and outside consultants. Following guidelines set by Santander Spain, the ALCO is responsible for developing financial strategies and policies regarding our asset and liability structure together with our Financial Management Division. The aim of the Financial Management Division is to inject stability and recurrence into the net interest income of commercial activities and to ensure that we comply with internal and regulatory limits regarding liquidity, regulatory capital, reserve requirements and market risk. Our Market Risk and Control Department carries out the day-to-day measurements of the risks taken by the ALCO.

The Market Committee is responsible for establishing our policies, strategies, procedures and limits with respect to our trading portfolio in line with the policies of Santander Spain. The composition of the Market Committee includes the Chairman of the Board, three additional members of the Board, the Chief Executive Officer, the Manager of Global Banking and Markets, the Manager of the Treasury Division, the Manager of Proprietary Trading, the Manager of the Financial Management Division, the Manager of Market Risk, the Financial Controller and other senior members of management.

Impact of Inflation

Our assets and liabilities are denominated in Chilean pesos, Unidades de Fomento (UF) and foreign currencies. The Bank no longer performs inflation accounting and has eliminated price level restatement in line with IFRS, but inflation impacts our results of operations as some loan and deposit products are contracted in UF. The UF is revalued in monthly cycles. Each day in the period beginning on the tenth day of the current month through the ninth day of the succeeding month, the nominal peso value of the UF is indexed up (or down in the event of deflation) in order to reflect a proportionate amount of the change in the Chilean Consumer Price Index during the prior calendar month. One UF equaled Ch$21,452.57 as of December 31, 2008, Ch$20,942.88 as of December 31, 2009, Ch$20,834.45 as of September 30, 2009 and Ch$21,339.99 as of September 30, 2010. High levels of inflation in Chile could adversely affect the Chilean economy and have an adverse effect on our business, financial condition and results of operations. Negative inflation rates also negatively impact our results. In 2009, CPI deflation reached 1.4% compared to a rise of 7.1% and 7.8% in 2008 and 2007, respectively. CPI inflation year-to-date in the nine-month period ended September 30, 2010 increased 2.7% compared to a 0.6% decrease year-to-date in the nine-month period ended September 30, 2009. There can be no assurance that Chilean inflation will not change significantly from the current level. Although we currently benefit from moderate levels of inflation, due to the current structure of our assets and liabilities (i.e., a significant portion of our loans are indexed to the inflation rate, but there are no corresponding features in deposits or other funding sources that would increase the size of our funding base), there can be no assurance that our business, financial condition and result of operations in the future will not be adversely affected by changing levels of inflation. In summary:

- UF-denominated assets and liabilities. In 2009, UF inflation was -2.4% compared to 9.3% in 2008. For the nine-month period ended September 30, 2010, UF inflation was 1.9% and -2.9% for the same period in 2009. The effect of any changes in the nominal peso value of our UF-denominated interest earning assets and interest bearing liabilities is reflected in our results of operations as an increase (or decrease, in the event of deflation) in interest income and expense, respectively. Our net interest income will be positively affected by an inflationary environment to the extent that our average UF-denominated interest earning assets exceed our average UF-denominated interest bearing liabilities. Our net interest income will be negatively affected in a deflationary environment if our average UF-denominated interest earning assets exceed our average UF-denominated interest bearing liabilities. Our net interest income will be negatively affected by inflation in any period in which our average UF-denominated interest bearing liabilities exceed our average UF-denominated interest earning assets. Our average UF-denominated interest earning assets exceeded our average UF-denominated interest bearing liabilities by Ch$3,092,340 million in the nine-month period ended September 30, 2010 compared to Ch$2,640,907 million in the same period in 2009. See "Selected Statistical Information Average Balance Sheets, Income Earned from Interest-Earning Assets And Interest Paid on Interest Bearing Liabilities." In general, the Bank has more UF-denominated financial assets than UF-denominated financial liabilities. In the nine-month period ended September 30, 2010, the interest gained on interest earning assets denominated in UF increased 505% compared to the same period in 2009 as a result of the higher inflation rates. The interest paid on these liabilities reached Ch$223,068 during the nine-month period ended September 30, 2009, compared to negative results during the same period in 2009.

- Inflation and interest rate hedge. A key component of our asset and liability policy is the management of interest rate risk. The Bank's assets generally have a longer maturity than our liabilities. As the Bank's mortgage portfolio grows, the maturity gap tends to rise as these loans, which are contracted in UF, have a longer maturity than the average maturity of our funding base. As most of our long term financial instruments and mortgage loans are contracted in UF and most of our deposits are in nominal pesos, the rise in mortgage lending increases the Bank's exposure to inflation and to interest rate risk. The size of this gap is limited by internal and regulatory guidelines in order to avoid excessive potential losses due to strong shifts in interest rates. In order to keep this duration gap below regulatory limits the Bank issues long term bonds denominated in UF or interest rate swaps. The financial cost of the bonds and the efficient part of these hedges is recorded as net interest income. In the nine-month period ended September 30, 2010, the gain from the swaps taken in order to hedge mainly for inflation and interest rate risk totaled Ch$2,965 million compared to Ch$28,212 million in the same period in 2009.

	As of September 30,		% Change	
Inflation sensitive income	2010	2009	2010/2009	
	(In million of Chilean pesos)			
Interest gained on UF assets(1)	405,419	67,014	505.0	%
Interest paid on UF liabilities(1)	(223,068)	9,279	–	%
Hedging results	2,965	28,212	(89.5	%)
Net gain	185,316	104,505	77.3	%

(1) Excludes results from hedging

- Peso-denominated assets and liabilities. Interest rates prevailing in Chile during any period primarily reflect the inflation rate during the period and the expectations of future inflation. The sensitivity of our peso-denominated interest earning assets and interest bearing liabilities to changes to such prevailing rates varies. (See "Item 3: B. Operating Results–Interest Rates"). We maintain a substantial amount of non interest bearing peso-denominated demand deposits. Because such deposits are not sensitive to inflation, any decline in the rate of inflation would adversely affect our net interest margin on inflation indexed assets funded with such deposits, and any increase in the rate of inflation would increase the net interest margin on such assets. The ratio of the average of such demand deposits to average interest-earning assets was 28.2% as of September 30, 2010 and 24.7% as of September 30, 2009.

Interest Rate Sensitivity

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

As of September 30, 2010, the breakdown of maturities of assets and liabilities is as follows:

	As of September 30, 2010 (in millions of Ch$)							
	Up to 30 days	31-60 days	61-90 days	91-180 days	181-365 days	1-3 years	Over 3 years	Total
Interest-earning assets:								
Cash and deposits in banks	1,522,587	–	–	–	–	–	–	1,522,587
Unsettled transactions	485,262	–	–	–	–	–	–	485,262
Trading investments	5,952	3,130	8,988	10,534	124,739	103,913	140,086	397,342
Investment, under resale agreements	64,995	–	–	–	–	–	–	64,995
Financial derivative contracts	110,507	54,444	39,433	119,057	184,779	323,417	824,733	1,656,370
Interbank loans	59,442	11,892	236	417	197	–	–	72,184
Commercial loans	1,300,383	619,709	446,790	706,311	851,687	1,733,603	2,519,852	8,178,335
Mortgage loans	83,339	17,113						