BANCO SANTANDER CHILE
Form 6-K
September 13, 2010

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Report of Foreign Issuer

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

For the month of September 2010

Commission File Number: 001-14554

Banco Santander Chile

Santander Chile Bank
(Translation of Registrant's Name into English)

Bandera 140
Santiago, Chile
(Address of principal executive office)

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

Form 20-F	X	Form 40-F	

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

Yes		No	X

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

Yes		No	X

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

Yes		No	X

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

Banco Santander Chile

TABLE OF CONTENTS

Contents

Consolidated Financial Statements

2

BANCO SANTANDER CHILE AND SUBSIDIARIES
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
For the periods ending as of

	NOTE	June 30, 2010 MCh$	December 31, 2009 MCh$
ASSETS			
Cash and deposits in banks	5	1,398,881	2,043,458
Unsettled transactions	5	486,914	468,134
Trading investments	6	812,454	798,539
Investments under resale agreements		5,000	14,020
Financial derivative contracts	7	1,531,224	1,393,878
Interbank loans, net	8	41,437	23,370
Loans and accounts receivable from customers, net	9	14,194,842	13,378,379
Available for sale investments	10	1,341,296	1,830,090
Held to maturity investments		-	-
Investments in other companies		6,502	7,417
Intangible assets	11	71,074	77,260
Property, plant and equipment	12	163,184	184,122
Current taxes	13	5,464	4,541
Deferred taxes	13	111,938	95,229
Other assets	14	595,246	452,559
TOTAL ASSETS		20,765,456	20,770,996
LIABILITIES			
Demand deposits and other demand liabilities	15	4,168,884	3,533,534
Unsettled transactions	5	303,207	275,474
Investments under repurchase agreements		146,098	1,114,605
Time deposits and other time liabilities	15	7,193,376	7,175,257
Financial derivative contracts	7	1,250,547	1,348,906
Interbank borrowings		2,100,234	2,046,790
			2,924,676
Issued debt instruments	16	3,245,162	,676
Other financial obligations	16	158,089	146,911
Current taxes	13	21,656	63,831
Deferred taxes	13	2,672	3,380
Provisions		191,001	186,121
Other liabilities	18	290,744	263,396
TOTAL LIABILITIES		19,071,670	19,082,881
EQUITY			
Attributable to Bank shareholders:		1,665,326	1,658,316
Capital		891,303	891,303
Reserves		51,539	51,539
Valuation adjustments		(18,193)	(26,804)

Retained earnings		740,677	742,278
Retained earnings from prior years		560,128	440,401
Income for the period		257,927	431,253
Minus: Provision for mandatory dividends		(77,378)	(129,376)
Non controlling interest	21	28,460	29,799
TOTAL EQUITY		1,693,786	1,688,115
TOTAL LIABILITIES AND EQUITY		20,765,456	20,770,996

BANCO SANTANDER CHILE AND SUBSIDIARIES
CONSOLIDATED INTERIM STATEMENTS OF INCOME

	NOTE	For the quarter ending on June 30, 2010 MCh$	For the quarter ending on June 30, 2009 MCh$	For the 6-month period ending on June 30, 2010 MCh$	For the 6-month period ending on June 30, 2009 MCh$
OPERATING INCOME					
Interest income	22	368,919	338,744	690,157	585,535
Interest expense	22	(126,137)	(112,133)	(217,977)	(171,651)
Net interest income		242,782	226,611	472,180	413,884
Fee and commission income	23	82,808	78,677	161,967	155,840
Fee and commission expenses	23	(17,650)	(15,532)	(34,458)	(31,064)
Net fee income		65,158	63,145	127,509	124,776
Net income from financial operations	24	44,922	(18,863)	97,014	566
Foreign exchange profit (loss), net	25	(19,881)	48,519	(42,400)	97,905
Other operating income	30	19,951	2,928	26,016	5,426
Total operating income		352,932	322,340	680,319	642,557
Provisions for loan losses	26	(55,952)	(96,037)	(126,139)	(186,971)
NET OPERATING INCOME		296,980	226,303	554,180	455,586
Personnel salaries and expenses	27	(66,002)	(57,701)	(121,591)	(112,095)
Administrative expenses	28	(35,707)	(34,258)	(71,760)	(67,706)
Depreciation and amortization	29	(12,592)	(12,140)	(24,933)	(22,586)
Impairment	12	(3,686)	-	(3,702)	-
Other operating expenses	30	(17,648)	7,821	(30,204)	(27,710)
Total operating expenses		(135,635)	(96,278)	(252,190)	(230,097)
OPERATING INCOME		161,345	130,025	301,990	225,489
Income from investments in other companies		223	440	343	766
Income before tax		161,568	130,465	302,333	226,255
Income tax expense	13	(24,163)	(21,816)	(45,923)	(38,075)
CONSOLIDATED INCOME FOR THE PERIOD		137,405	108,649	256,410	188,180

Attributable to:					
Bank shareholders		138,823	107,391	257,927	184,043
Non controlling interest	21	(1,418)	1,258	(1,517)	4,137
Earnings per share attributable to Bank shareholders:					
(expressed in Chilean pesos)					
Basic earning		0.737	0.570	1.369	0.977
Diluted earning		0.737	0.570	1.369	0.977

4

BANCO SANTANDER CHILE AND SUBSIDIARIES
CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

	NOTE	For the quarter ending on June 30, 2010 MCh$	For the quarter ending on June 30, 2009 MCh$	For the 6-month period ending on June 30, 2010 MCh$	For the 6-month period ending on June 30, 2009 MCh$
CONSOLIDATED INCOME FOR THE PERIOD		137,405	108,649	256,410	188,180
OTHER COMPREHENSIVE INCOME					
Available for sale investments	12	142	(10,619)	7,720	10,238
Cash flow hedge		17,518	3,171	2,873	(17,417)
Other comprehensive income before income tax		17,660	(7,448)	10,593	(7,179)
Income tax related to other comprehensive income	16	(3,002)	1,267	(1,801)	1,220
Total other comprehensive income		14,658	(6,181)	8,792	(5,959)
CONSOLIDATED COMPREHENSIVE INCOME FOR THE PERIOD		152,063	102,468	265,202	182,221
Attributable to:					
Bank shareholders		153,250	101,048	266,538	177,396
Non controlling interest		(1,187)	1,420	(1,336)	4,825

BANCO SANTANDER CHILE AND SUBSIDIARIES
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
For the periods ending as of June 30, 2010 and 2009 (in millions of Chilean pesos)

		RESERVES		VALUATION ADJUSTMENTS			RETAINED EARNINGS			
	Capital	Reserves and other retained earnings	Merger of companies under common control	Available for sale investments	Cash flow hedge	Income tax	Retained earnings from prior periods	Income for the period	Provision for mandatory dividend	Total attributable to shareholders:
Equity as of December 31, 2008	891,303	53,763	(2,224)	(19,972)	10,873	1,547	237,788	415,055	(98,444)	1,489,689
Distribution of income from previous period	-	-	-	-	-	-	415,055	(415,055)	-	-
Equity as of January 1, 2009	891,303	53,763	(2,224)	(19,972)	10,873	1,547	652,843	-	(98,444)	1,489,689
Dividends distributions / Withdrawals made	-	-	-	-	-	-	(213,295)	-	98,444	(114,851)
Other changes in equity	-	-	-	-	-	-	(2)	-	-	(2)
Provision for mandatory dividends	-	-	-	-	-	-	-	-	(55,213)	(55,213)
Subtotal	-	-	-	-	-	-	(213,297)	-	43,231	(170,066)
Other comprehensive income	-	-	-	9,409	(17,417)	1,361	-	-	-	(6,647)
Income for the period	-	-	-	-	-	-	-	184,043	-	184,043
Subtotal	-	-	-	9,409	(17,417)	1,361	-	184,043	-	177,396
Equity as of June 30, 2009	891,303	53,763	(2,224)	(10,563)	(6,544)	2,908	439,546	184,043	(55,213)	1,497,019
Equity as of December 31, 2009	891,303	53,763	(2,224)	(29,132)	(3,162)	5,490	440,401	431,253	(129,376)	1,658,316
Distribution of income from previous period	-	-	-	-	-	-	431,253	(431,253)	-	-
Subtotal	891,303	53,763	(2,224)	(29,132)	(3,162)	5,490	871,654	-	(129,376)	1,658,316
Rule changes	-	-	-	-	-	-	(52,662)	-	-	(52,662)
	891,303	53,763	(2,224)	(29,132)	(3,162)	5,490	818,992	-	(129,376)	1,605,654

Equity as of January 1, 2010										
Increase or decrease of capital and reserves	-	-	-	-	-	-	-	-	-	-
Dividends distributions / Withdrawals made	-	-	-	-	-	-	(258,752)	-	129,376	(129,376)
Other changes in equity	-	-	-	-	-	-	(112)	-	-	(112)
Provision for mandatory dividends	-	-	-	-	-	-	-	-	(77,378)	(77,378)
Subtotal	-	-	-	-	-	-	(258,864)	-	51,998	(206,866)
Other comprehensive income	-	-	-	7,502	2,873	(1,764)	-	-	-	8,611
Income for the period	-	-	-	-	-	-	-	257,927	-	257,927
Subtotal	-	-	-	7,502	2,873	(1,764)	-	257,927	-	266,538
Equity as of June 30, 2010	891,303	53,763	(2,224)	(21,630)	(289)	3,726	560,128	257,927	(77,378)	1,665,326

Period	Total attributable to shareholders	Allocated to reserves or retained earnings	Allocated to Dividends	Percentage Distributed	Dividend per share (in pesos)
- Year 2008 (Shareholders Meeting April 2009)	328,146	114,851	213,295	65 %	1,132
- Year 2009 (Shareholders Meeting April 2010)	431,253	172,501	258,752	60 %	1,373

BANCO SANTANDER CHILE AND SUBSIDIARIES
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
For the periods ending

CASH FLOW STATEMENT	June 30, 2010 MCh$	June 30, 2009 MCh$
A - CASH FLOWS FROM OPERATING ACTIVITIES:		
CONSOLIDATED INCOME BEFORE TAX	302,333	226,255
Debits (credits) to income that do not represent cash flows	(490,062)	(355,132)
Depreciation and amortization	24,933	22,586
Impairment of property, plant and equipment	3,702	-
Provisions for loan losses	141,678	206,625
Mark to market of trading investments	(27,912)	(41,227)
Net gain on investments in other companies	(343)	(766)
Net gain on sale of assets received in lieu of payment	1,698	2,242
Provision for assets received in lieu of payment	2,300	1,822
Net gain on sale of investments in other companies	(1,847)	(1,852)
Net gain on sale of property, plant and equipment	(13,195)	(208)
Write-off of assets received in lieu of payment	1,548	3,033
Net interest income	(472,180)	(413,884)
Net fee and commission income	(127,509)	(124,776)
Changes in assets and liabilities due to deferred taxes	(22,935)	(8,727)
Increase/decrease in operating assets and liabilities	(175,268)	418,707
Decrease (increase) of loans and accounts receivable from customers	(871,161)	1,203,551
Decrease (increase) of financial investments	536,934	251,319
Decrease (increase) due to resale agreements	(9,020)	13,212
Decrease (increase) of interbank loans	(18,067)	36,693
Decrease of assets received or awarded in lieu of payment	10,348	15,252
Increase of debits in checking accounts	512,518	110,027
Increase (decrease) in deposits and other time liabilities	49,681	(1,471,377)
Increase of obligations with domestic banks	-	-
Increase (decrease) of other demand or time obligations	66,371	42,505
Increase of obligations with foreign banks	78,088	(282.280)
Decrease of obligations to the Chilean Central Bank	(342)	(928)
Increase of repurchase agreements	(991,494)	(50,955)
Decrease of other short-term liabilities	(2,583)	13,810
Net increase of other assets and liabilities	(116,208)	188,959
Issuance of letters of credit	-	4,506
Redemption of letters of credit	(71,721)	(69,073)
Senior bond issuances	426,794	194,966
Redemption of senior bonds and interest payments	(156,273)	(11,562)
Subordinated bond issues	12,682	6,380
Redemption of subordinated bonds and interest payments	(17,140)	(24,697)
Interest received	481,545	305,661
Interest paid	(178,760)	(144,753)
Dividends received from investments in other companies	954	790
Fees and commissions received	161,967	155,840
Fees and commissions paid	(34,458)	(31,064)

Income tax paid	(45,923)	(38,075)
Net cash from (used in) operating activities	(362,997)	289,830

7

BANCO SANTANDER CHILE AND SUBSIDIARIES

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

For the periods ending

CASH FLOW STATEMENT	June 30, 2010 MCh$	June 30, 2009 MCh$
B - CASH FLOWS FROM INVESTMENT ACTIVITIES:		
Purchases of property, plant and equipment	(4,122)	(8,807)
Sales of property, plant and equipment	14,197	11,252
Purchases of investments in other companies	133	184
Sales of investments in other companies	-	(79)
Purchases of intangible assets	(8,033)	(1,962)
Net cash from investment activities	2,175	588
C - CASH FLOW FROM FINANCING ACTIVITIES:		
From shareholders' financing activities	(258,752)	(213,306)
Increase in other obligations	-	(11)
Dividends paid	(258,752)	(213,295)
From non controlling shareholder financing activities	-	479
Increases of capital	-	5,600
Dividends and/or withdrawals paid	-	(5,121)
Net cash used in financing activities	(258,752)	(212,827)
D - EFFECT OF FLUCTUATIONS IN EXCHANGE RATES	(33,957)	47,608
E - VARIATION OF CASH AND CASH EQUIVALENTS DURING THE PERIOD	(653,531)	125,199
F - INITIAL BALANCE OF CASH AND CASH EQUIVALENTS	2,236,119	1,048,264
FINAL BALANCE OF CASH AND CASH EQUIVALENTS	1,582,588	1,173,463

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES:

Corporate Information

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

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

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

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

a) Basis of preparation

These Consolidated Financial Statements have been prepared in accordance with the Compendium of Accounting Standards issued by the Superintendency of Banks and Financial Institutions (SBIF), a regulatory agency. Article 15 of the General Banking Law states that, in accordance with the laws, banks must use the accounting criteria issued by the Superintendence and that, in any situation not provided for therein, provided it is not contrary to its instructions, must abide by the generally accepted accounting principles, which correspond with the technical standards issued by the Colegio de Contadores de Chile AG (Association of Chilean Accountants) (approved by the National Council at its session held on December 21, 2009, issuing updates for Technical Bulletins #79 and #80), which coincide with the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB). In the event of discrepancies between the accounting principles and the accounting criteria issued by the SBIF (Compendium of Accounting Standards), the latter will prevail.

The financial statements for the period ending December 31, 2009 were the first prepared according to the Compendium of Accounting Standards. This legislation incorporates the following important aspects:

- Significant changes in accounting policies, valuation criteria, and forms of presentation of financial statements.
- A significant increase in the information included in the notes to the financial statements.

The notes to the financial statements contain information in addition to that presented in the Consolidated Statement of Financial Position, Statement of Income, Statement of Comprehensive Income, Statement of Changes in Shareholders' Equity, and Statement of Cash Flow. They provide narrative descriptions or details of these statements in a clear, relevant, reliable, and comparable format.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:

b) Basis of consolidation for the Consolidated Interim Financial Statements

The Consolidated Financial Statements include the preparation of separate (individual) financial statements of the Bank and the companies that participate in the consolidation of June 30, 2010, December 31, 2009, and June 30, 2009, and include the adjustments and reclassifications required to make the accounting policies and valuation criteria applied by the Bank uniform, in accordance with the Compendium of Accounting Standards issued the SBIF.

These Interim Financial Statements have been prepared in accordance with the instructions provided in Chapter C-2 of the Compendium of Accounting Standards, which explicitly authorize the preparation of interim financial statements in accordance with IAS 34. Pursuant to IAS 34, explanatory notes are presented, having been selected to emphasize new activities, events, and circumstances, and accordingly, there is no duplication of previously published information.

Subsidiaries

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

The financial statements of the Subsidiaries are consolidated with those of the Bank through the global integration method (line by line). Accordingly, all the balances and transactions between the consolidated companies are eliminated through the consolidation process.

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

The following exercise companies are considered "Affiliates associate entities" in which the Bank holds equity and accounts for it through the equity method:

	Percentage Share								
	As of June 30, 2010			As of December 31, 2009			As of June 30, 2009		
	Direct %	Indirect %	Total %	Direct %	Indirect %	Total %	Direct %	Indirect %	Total %
Santander Corredora de Seguros Limitada	99.75	0.01	99.76	99.75	0.01	99.76	99.75	0.01	99.76

Santander S.A. Corredores de Bolsa	50.59	0.41	51.00	50.59	0.41	51.00	50.59	0.41	51.00
Santander Asset Management S.A. Administradora General de Fondos	99.96	0.02	99.98	99.96	0.02	99.98	99.96	0.02	99.98
Santander Agente de Valores Ltda.	99.03	-	99.03	99.03	-	99.03	99.03	-	99.03
Santander S.A. Sociedad Securitizadora	99.64	-	99.64	99.64	-	99.64	99.64	-	99.64
Santander Servicios de Recaudación y Pagos Limitada	99.90	0.10	100.00	99.90	0.10	100.00	99.90	0.10	100.00

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:

Affiliate entities

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

The following companies are considered "Affiliate entities" in which the Bank accounts for its participation pursuant to the equity method:

	Percentage Share		
	As of June 30, 2010	As of December 31, 2009	As of June 30, 2009
Redbank S.A.	33.42 %	33.42 %	33.42 %
Transbank S.A.	32.71 %	32.71 %	32.71 %
Centro de Compensación Automatizado	33.33 %	33.33 %	33.33 %
Sociedad Interbancaria de Depósito de Valores S.A.	29.28 %	29.28 %	29.28 %
Cámara Compensación de Alto Valor S.A.	11.52 %	11.52 %	11.52 %
Administrador Financiero Transantiago S.A.	20.00 %	20.00 %	20.00 %
Sociedad Nexus S.A.	12.90 %	12.90 %	12.90 %

Special-Purpose Entities

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

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

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

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

- Santander Gestión de Recaudación y Cobranza Limitada.
- Multinegocios S.A.
- Servicios Administrativos y Financieros Limitada.
- Fiscalex Limitada.
- Multiservicios de Negocios Limitada.
- Bansa Santander S.A.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:

When the initial assessment was performed, Multimedios S.A. was considered into the perimeter of consolidation of the Bank because of its mainly source of revenues came from transactions with the Bank and, as a result, the Bank exercised control over it. At the beginning of 2009, this company changed its line of business and as a result its income no longer depended mainly on transactions with the Bank. Consequently, it was determined that the Bank no longer exercised control over it and therefore should be excluded from the perimeter of consolidation since March 2009.

Investments in other companies

Entities in which the Bank has no control or significant influence are presented in this category. These holdings are shown at purchase value (historical cost).

c) Non controlling interest

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

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

d) Operating segments

The Bank discloses separate information for each operating segment that:

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

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

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

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

i. Its reported income, from both external customers and intersegment sales or transfers, is 10% or more of the combined internal and external income of all the operating segments.

ii. The absolute value of its reported profit or loss is 10% or more, in absolute terms, of the greater of: (i) the combined reported profit of all the operating segments that did not report a loss; (ii) the combined reported loss of all the operating segments that reported a loss.

iii. Its assets represent 10% or more of the combined assets of all the operating segments.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:

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

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

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

Operating segments: An operating segment is a component of an entity:

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

e) Functional and presentation currency

According to International Accounting Standard No. 21 (IAS 21), the Chilean peso, which is the currency of the primary economic environment in which the Bank operates and is the currency which influences its structure of costs and revenues, has been defined as the functional and presentation currency.

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

f) Foreign currency transactions

According to IAS 29 "Financial Reporting in Hyperinflationary Economies," a price-level restatement is applicable only when the entity's functional currency is a currency corresponding to a hyperinflationary economy (an economy with 100% inflation during a 3-year period). Since the Chilean economy does not fulfill this requirement, it is not necessary for the Bank to use price-level restatement.

Furthermore, the Bank grants loans and accepts deposits in amounts denominated in foreign currencies, mainly the U.S. dollar. Assets and liabilities denominated in foreign currencies and only held by the Bank are translated to Chilean pesos based on the interbank market rate published by Reuters at 1:30 p.m. on the last business day of the month, being Ch$ 546.05 per US$ 1 as of June 30, 2010 (Ch$ 507.25 per US$ 1 as of December 31, 2009 and Ch$ 533.65 per US$ 1 as of June 30, 2009). The subsidiaries record their foreign currency positions at the observed exchange rate reported by the Chilean Central Bank, defined at the close of business on the last business day of the month, being Ch$ 547.19 per US$ 1 as of June 30, 2010 (Ch$ 507.10 per US$ 1 as of December 31, 2009 and Ch$ 531.76 per US$ 1 as of June 30, 2009).

Since the use of these exchange rates does not create material differences, these criteria have been kept in the Consolidated Interim Financial Statements.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:

g) Definitions and classification of financial instruments

i. Definitions

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

A “capital instrument” or “net equity instrument” is a legal transaction that evidences a residual interest in the assets of the entity which issues it after deduction of all its liabilities.

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

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

ii. Classification of financial assets for measurement purposes

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

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

- Portfolio of trading investments (at fair value with the changes recorded in the Consolidated Statement of Income): this category includes the financial assets acquired for the purpose of generating a profit in the short term from fluctuations in their prices. This category includes the portfolio of trading investments and financial derivative contracts not designated as hedging instruments.

- Available-for-sale investment instrument portfolio: debt instruments not classified as “held-to-maturity investments,” “Credit investments (loans and accounts receivable from customers or interbank loans)” or “Financial assets at fair value through profit or loss.” Available for sale investments are initially recorded at cost, which includes transactional costs. Available-for-sale instruments are subsequently valued at their fair value, or based on appraisals made with the use of internal models when appropriate. Unrealized profits or losses stemming from changes of fair value are recorded as a debit or credit to equity accounts (“Valuation accounts”). When these investments are divested or become impaired, the adjustments to accumulated fair value in equity are transferred to the Consolidated Statement of Income under “Net income from financial operations.”

- Held-to-maturity instrument portfolio: this category includes debt securities traded on an active market, with a fixed maturity, and with fixed or determinable payments, for which the Bank has both the intent and a proven ability to hold to maturity. Held to maturity investments are recorded at their cost plus interest earned, minus provisions for impairment established when their recorded value exceeds the estimated recoverable value.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:

- Credit investments (loans and accounts receivable from customers or interbank loans): this category includes financing granted to third parties, based on their nature, regardless of the type of borrower and the form of financing. Includes loans and accounts receivable from customers, interbank loans, and financial lease transactions in which the consolidated entities act as lessors.

iii. Classification of financial assets for presentation purposes

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

- Cash and deposits in banks: Cash balances, checking accounts and on-demand deposits with the Chilean Central Bank and other domestic and foreign financial institutions. Amounts placed in overnight transactions will continue to be reported in this line item and in the lines or items to which they correspond. If there is no special item for these transactions, they will be included with the related account as indicated above.

- Unsettled transactions: This item includes the values of swap instruments and balances of executed transactions which contractually defer the payment of purchase-sale transactions or the delivery of the foreign currency acquired.

- Trading investments: This item includes financial instruments intended to be traded and investments in mutual funds which must be adjusted to their fair value in the same way as instruments acquired for trading.

- Financial derivative contracts: Financial derivative contracts with positive fair values are presented in this item. It includes both independent contracts as well as derivatives that should and can be separated from a host contract, whether they are for trading or hedging, as shown in Note 6 to the Consolidated Interim Financial Statements.

- Trading derivatives: Includes the fair value of derivatives which do not qualify for hedge accounting, including embedded derivatives separated from hybrid financial instruments.

- Hedging derivatives: Includes the fair value of derivatives designated as hedging instruments in hedge accounting, including the embedded derivatives separated from the hybrid financial instruments designated as hedging instruments in hedge accounting.

- Interbank loans: This item includes the balances of transactions with domestic and foreign banks, including the Chilean Central Bank, other than those reflected in the preceding items.

- Loans and accounts receivable from customers: These loans are non-derivative financial assets for which fixed or determined amounts are charged, that are not listed on an active market and which the Bank does not intend to sell immediately or in the short term. When the Bank is the lessor in a lease, and it substantially transfers the risks and benefits incidental to the leased asset, the transaction is presented in loans..

- Investment instruments: These are classified into two categories: held-to-maturity investments and available-for-sale instruments. The held-to-maturity investment category includes only those instruments for which the Bank has the ability and intent to hold them until their maturity. Other investment instruments are treated as available for sale.

15

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:

iv. Classification of financial liabilities for measurement purposes

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

Financial liabilities are classified for measurement purposes into one of the following categories:

- Financial liabilities held for trading (at fair value through profit or loss): Financial liabilities issued to generate a short-term profit from fluctuations in their prices, financial derivatives not deemed to qualify for hedge accounting and financial liabilities arising from definitive sales of financial assets purchased under resale agreements or borrowed ("short positions").

- Financial liabilities at amortized cost: Financial liabilities, regardless of their type and maturity, not included in any of the aforementioned categories which arise from the borrowing activities of financial institutions, whatever their form of implementation and maturity.

v. Classification of financial liabilities for presentation purposes

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

- Demand deposits and other demand obligations. This item includes all on-demand obligations except for term savings accounts, which are not considered on-demand instruments in view of their special characteristics. Obligations whose payment may be required during the period are deemed to be on-demand obligations; i.e., operations which become callable the day after the closing date are not treated as on-demand obligations.

- Unsettled transactions: This item includes the balances of asset purchases that are not settled on the same day and for sales of foreign currencies not delivered.

- Investments under repurchase agreements: This item includes the balances of sales of financial instruments under securities repurchase and loan agreements.

- Time deposits and other liabilities: This item shows the balances of deposit transactions in which a term at the end of which they become callable has been stipulated.

- Financial derivative contracts: This item includes financial derivative contracts with negative fair values, whether they are for trading or for account hedging purposes, as set forth in Note 7.

  - Trading derivatives: Includes the fair value of the financial derivatives which do not qualify for hedge accounting, including embedded derivatives separated from hybrid financial instruments.

  - Hedging derivatives: Includes the fair value of the derivatives designated as hedge accounting instruments, including embedded derivatives separated from hybrid financial instruments and designated as hedge accounting instruments.

- Interbank borrowings: This item includes obligations due to other domestic banks, foreign banks, or the Chilean Central Bank, which were not classified in any of the previous categories.

- Debt instruments issued: This encompasses three items. They are obligations under letters of credit, subordinated bonds, and senior bonds.

- Other financial obligations: This item includes credit obligations to persons distinct from other domestic banks, foreign banks, or the Chilean Central Bank, for financing purposes or operations in the regular course of business.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:

h) Valuation and recording of financial asset and liability results

In general, financial assets and liabilities are initially recorded at fair value which, in the absence of evidence to the contrary, is deemed to be the transaction price. Financial instruments not measured at fair value through profit or loss are adjusted by actual transaction costs. They are subsequently measured at each period-end as follows:

i. Valuation of financial assets

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:

Specifically, the fair value of financial derivatives included in the portfolios of financial assets or liabilities held for trading is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price cannot be determined on a given date, these financial derivatives are measured using methods similar to those used to measure over the counter (OTC) derivatives.

The fair value of OTC derivatives is the sum of the future cash flows resulting from the instrument, discounted to present value at the date of valuation ("present value" or "theoretical close") using valuation techniques commonly used by the financial markets: "net present value" (NPV), option pricing models among other methods.

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

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

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

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

ii. Valuation of financial liabilities

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

iii. Valuation techniques

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:

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

The main techniques used as of June 30, 2010 and December 31, 2009 by the Bank's internal models to determine the fair value of the financial instruments are as follows:

i. In the valuation of financial instruments permitting static hedging (mainly "forwards" and "swaps"), the "present value" method is used. Estimated future cash flows are discounted using the interest rate curves of the related currencies. The interest rate curves are generally observable market data.

ii. In the valuation of financial instruments requiring dynamic hedging (mainly structured options and other structured instruments), the Black-Scholes model is normally used. Where appropriate, observable market inputs are used to obtain factors such as the bid-offer spread, exchange rates, volatility, correlation indexes and market liquidity.

iii. In the valuation of certain financial instruments exposed to interest rate risk, such as interest rate futures, caps and floors, the present value method (futures) and the Black-Scholes model (plain vanilla options) are used. The main inputs used in these models are observable market data, including the related interest rate curves, volatilities, correlations and exchange rates.

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

iv. Recording results

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

In the case of trading investments, the fair value adjustments, interest income, indexation adjustments, such as realized profits/losses from trading, are included in the Consolidated Interim Statement of Income under "Net income from financial operations."

Adjustments due to changes in fair value from:

- “Available-for-sale instruments” are recorded as part of the Bank’s consolidated net equity (Other comprehensive income) until they are removed from the Consolidated Interim Statements of Financial Position in which they originated, at which time they are recorded in the Consolidated Interim Statement of Income.

- Items debited or credited to “Valuation adjustments” remain in the Bank’s consolidated net equity until the related assets are removed, whereupon they are charged to the Consolidated Interim Statement of Income.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:

v. Hedging transactions

The consolidated entities use financial derivatives for the following purposes:

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

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

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

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

2. It is effective in offsetting exposure inherent in the hedged item or position throughout the expected term of the hedge, which means that:
   a. At the date of arrangement the hedge is expected, under normal conditions, to be highly effective ("prospective effectiveness").
   b. There is sufficient evidence that the hedge was actually effective during the life of the hedged item or position ("retrospective effectiveness").

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

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

a. In fair value hedges, the profits or losses arising on both the hedging instruments and the hedged items (attributable to the type of risk being hedged) are recorded directly in the Consolidated Interim Statement of Income.

In fair value hedges of interest rate risk on a portfolio of financial instruments, the profits or losses that arise in measuring the hedging instruments are recorded directly in the Consolidated Interim Statement of Income, whereas the profits or losses due to changes in the fair value of the hedged amount (attributable to the hedged risk) are recorded in the Consolidated Interim Statement of Income with an offset to "Adjustments to financial assets for macro-hedges" or "Adjustments to financial liabilities for macro-hedges," as the case may be.

20

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:

b. In cash flow hedges, the effective portion of the change in value of the hedging instrument is recorded temporarily in Other comprehensive income under “Valuation adjustments - Cash flow hedges” until the forecasted transaction occurs, when it is then recorded in the Consolidated Interim Statement of Income, unless the forecasted transaction results in the recognition of non-financial assets or liabilities, it is included in the cost of the non-financial asset or liability. The ineffective portion of the change in value of hedging derivatives is recorded directly in the Consolidated Interim Statement of Income.

c. The ineffective portion of the profits and losses on the hedging instruments of cash flow hedges is recorded directly under “Net income from financial operations” in the Consolidated Interim Statement of Income.

If a derivative designated as a hedge no longer meets the requirements described above due to expiration, ineffectiveness or for any other reason, the derivative is classified as a “trading derivative”. When “fair value hedge accounting” is discontinued, the adjustments previously recorded on the hedged item are transferred to profit or loss at the effective interest rate recalculated at the date of hedge discontinuation. The adjustments are fully amortized at maturity.

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

vi. Derivatives embedded in hybrid financial instruments

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

vii. Offsetting of financial instruments

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

viii. Removal of financial assets and liabilities from accounts

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

i. If the Bank transfers substantially all the risks and rewards to third parties, as in the cases of unconditional sales of financial assets, sales under repurchase agreements at fair value at the date of repurchase, sale of financial assets with a purchase call option or written put option deeply out of the money, utilization of assets in which the assignor does not retain subordinated debt or grant any credit enhancement to the new holders, and other similar cases, the transferred financial asset is removed from the Consolidated Interim Statements of Financial Position and any rights or obligations retained or created in the transfer are simultaneously recorded.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:

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

1. An associated financial liability, for an amount equal to the consideration received; this liability is subsequently measured at amortized cost.

2. Both the income from the transferred financial asset not removed and any expenses incurred on the new financial liability.

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

1. If the transferor does not retain control of the transferred financial asset, the asset is removed from the Consolidated Interim Statement of Financial Position and any rights or obligations retained or created in the transfer are recorded.

2. If the transferor retains control of the financial asset transferred, it continues to be recorded in the Consolidated Interim Statement of Financial Position for an amount equal to its exposure to changes in value and a financial liability associated with the transferred financial asset is recorded. The net carrying amount of the transferred asset and the associated liability is the amortized cost of the rights and obligations retained, if the transferred asset is measured at amortized cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

Accordingly, financial assets are only removed from the Consolidated Interim Statement of Financial Position when the rights over the cash flows they generate have been extinguished or when all the inherent risks and rewards have been substantially transferred to third parties. Similarly, financial liabilities are only removed from the Consolidated Interim Statement of Financial Position when the obligations they generate have been extinguished or when they are acquired, with the intent to either cancel or resell them.

i) Recognizing revenue and expenses

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

i. Interest revenue, interest expenses, and similar items

Interest revenue and expense are recorded on an accrual basis using the effective interest method. Dividends received from other companies are recorded as revenue when the consolidated entities' right to receive them arises.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:

As interest are generally referred to as "suspended" and are recorded in memorandum accounts which are not part of the Consolidated Interim Statement of Financial Position but are reported as part of the information complementary thereto (Note 22). The dividends received from companies, classified as "Investments in other companies," are recorded in income when the right to receive them arises.

ii. Commissions, fees, and similar items

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

- Fees and commission income and expeses relating to financial assets and financial liabilities measured at fair value through profit or loss are recognized when paid.
- Those arising from transactions or services that are performed over a period of time are recorded over the life of these transactions or services.
- Those relating to services provided in a single act are recorded when the single act is completed.

iii. Non-finance income and expenses

These are recorded for accounting purposes on an accrual basis.

iv. Loan arrangement fees

Loan arrangement fees, mainly loan origination and application fees, are accrued and recorded in the Consolidated Interim Statement of Income over the term of the loan. For loan origination fees, the portion relating to the associated direct costs incurred in the loan arrangement is recorded immediately in the Consolidated Interim Statement of Income.

j) Impairment

i. Financial assets:

A financial asset is evaluated on each financial statement filing date to determine whether objective evidence of impairment exists.

A financial asset or group of financial assets will be impaired if, and only if, objective evidence of impairment exists as a result of one or more events that occurred after initial recognition of the asset (“event causing the loss”), and this event or events causing the loss have an impact on the estimated future cash flows of a financial asset or group of financial assets that can be reliably estimated. It might not be possible to identify a single event that was the individual cause of the impairment.

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:

The reversal of an impairment loss occurs only if it can be objectively related to an event occurring after the initial impairment loss was recorded. In the case of financial assets recorded at amortized cost and for the financial assets available for sale that are securities for sale, the reversal is recorded in income. In the case of financial assets that are variable-rate securities, the reversal is directly recorded in equity.

ii. Non-financial assets:

The Bank's non-financial assets, excluding investment properties, are reviewed at each closing date to determine whether they show signs of impairment. If this evidence exists, the asset recovery amount is then estimated.

In relation to other assets, impairment losses recorded in prior periods are assessed at each filing date in search of any indication that the loss has decreased or disappeared and should be reversed. An impairment loss is reversed to the extent that it is not in excess of the cumulative impairment loss that has been recorded.

k) Property, plant and equipment

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

i. Property, plant and equipment for own use

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

For these purposes, the acquisition cost of awarded assets is equivalent to the net amount of financial assets surrendered in exchange for its award.

Depreciation is calculated using the straight line method over the acquisition cost of assets minus their residual value, meaning that the land on which buildings and other structures sit have an indefinite life and, therefore, are not subject to amortization.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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

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

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

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

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

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

ii. Assets leased out under an operating lease

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:

l) Leasing

i. Finance leases

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

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

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

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

ii. Operating leases

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

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

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

iii. Sale and leaseback transactions

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

m) Factored receivables

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued:

n) Intangible assets

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

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

Internally developed computer software

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

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

The estimate of useful life for software is 3 years.

o) Cash and cash equivalents

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

For the preparation of the cash flow statement, the following is considered:

i. Cash flows: Inflows and outflows of cash and cash equivalents, such as deposits with the Chilean Central Bank, deposits in domestic banks, and deposits in foreign banks.
ii. Operational activities: Normal activities performed by banks and other activities that cannot be classified as investing or financing activities.
iii. Investing activities: The acquisition, sale, or disposal by other means of long-term assets and other investments not included in cash and cash equivalents.
iv. Financing activities: Activities that result in changes in the size and composition of net assets and liabilities that are not part of operational activities or investments.

p) Allowances for loan losses

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

According to the methodology developed by the Bank, loans are divided into three categories:

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

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

The internal risk models used to calculate the allowances are described as follows:

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:

Allowances for individual evaluations on commercial loans

For large commercial loans, leasing and factoring, the Bank assigns a risk category level to each borrower and his respective loans. The Bank considers the following risk factors within the analysis: industry or sector of the borrower, owners or managers of the borrower, their financial situation, their 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. Classifications B, correspond 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 level of risk to each borrower and, therefore, amount of loan loss allowance is determined on a case by case basis . All commercial loans for Companies, including leasing and factoring, have since been rated using a model for evaluating and calculating provisions on an individual basis . Since a debtor's behavior varies over time, in order to determine the provisions, it is necessary to make a distinction between normal debtors and deteriorated debtors.

For loans classified in Categories C1, C2, C3, C4, D1, and D2, the Bank must maintain the following levels of reserves:

Classification	Estimated range of loss	Allowance
C1	Up to 3%	2%
C2	More than 3% and up to 19%	10%
C3	More than 19% and up to 29%	25%
C4	More than 29% and up to 49%	40%
D1	More than 49% and up to 79%	65%
D2	More than 79%	90%

Borrowers with insufficient payment capacity in foreseeable circumstances are classified under these categories. The categories listed above relate to a classification based on the level of expected loss of commercial loans and leasing transactions of the customer's business as a whole, quantified according to the methodology used by the Bank.

For purposes of determining provisions amount, the percentage associated with the estimated loss rate is applied to the total credit.

Allowances for group evaluations

Banco Santander Chile uses group analysis for determining the provisioning levels for certain types of loans. These models are intended to be used primarily to analyze loans to individuals (including consumer loans, lines of credit, mortgage loans and commercial loans to individuals) and commercial loans, primarily to small and some mid-sized companies. Provisions are determined using these models to determine a historical loss rate by segment and risk profile of each group of clients.
The provisioning models for consumer loans segments these loans in four groups, each with its own model:

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

Each consumer model is segmented by risk profile which is based on a scorecard statistical model that establishes a relation through regressions between various variables, such as payment behavior in the Bank, payment behavior outside the Bank,

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:

various socio-demographic data, among others, and a response variable that determines a client's risk level, which in this case is 90 days non-performance. Once the scorecards have been determined, risk profiles are established that are statistically significant with similar expected loss levels or charge-off vintage.

The expected loss rates for consumer loans are defined by the "Vintage of Net Charge-Offs" (charge-offs net of recoveries). This methodology establishes the period in which the expected loss is maximized. Once this period is obtained its is applied to each risk profile of each model to obtain the net charge-off level associated with this period.

For group evaluation of commercial loans the industry or sector of the borrower, owners or managers of the borrower, the borrower's financial situation, its payment capacity and payment behavior are used as the main variables for determining the risk profile. For group evaluation of mortgage loans we consider the borrower's credit history, including any defaults on obligations to other creditors, as well as the overdue periods on the loans borrowed from us. The expected loss rates are then determined using historical averages and other statistical estimates depending on the segment and loan product.

Additional provisions

Under the SBIF banking regulations, banks are permitted to establish provisions in excess of the limits described above, but only to cover specific risks that have been authorized by their Boards of Directors.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:

Charge-offs

As a general rule, charge-offs must be made when the contractual rights over cash flows expire. For loans, even when the foregoing has not occurred, charge-offs must be made against the respective asset balances in accordance with Title II, Chapter B-2, of the SBIF's Compendium of Accounting Standards.

The charge-offs in question take the form of the elimination of the asset at issue in the respective operation from the general Statements of Financial Position, accordingly including the portion that may not have become due in the case of an installment loan or a leasing operation (there are no partial charge-offs).

Charge-offs must always be recorded through a charge against the loan loss provisions created as prescribed in Chapter B-1 of the Compendium of Accounting Standards, whatever the cause of the charge-off may be.

Charge-offs of loans and accounts receivable are based on due, past-due and current installments, and the term must run from the commencement of the arrears, i.e., the charge-off must be recorded when the arrears on an installment or portion of a loan in a given operation reaches the time limit for charge-off stipulated below:

Type of loan	Term
Consumer credits, with or without real securities	6 months
Other transactions without real securities	24 months
Commercial credits with real securities	36 months
Housing mortgage credits	48 months
Leasing of consumer assets	6 months
Other non-real estate leasing transactions	12 months
Real estate leasing (commercial or housing)	36 months

The term is the time elapsed from the date on which the payment of all or a part of the obligation in arrears becomes enforceable.

Subsequent payments obtained in charged-off operations must be recorded in the Consolidated Interim Statement of Income as Recoveries of charged-off loans.

Any renegotiation of a previously charged-off loan will not give rise to income as long as the operation continues to be deemed impaired; the payments actually received must be treated as recoveries of charged-off loans.

A renegotiated loan can be returned to assets only if it ceases to be deemed deteriorated or impaired; the income from its reclassification as an asset must likewise be recorded as a recovery of charged-off loans.

Recoveries of previously charged-off loans and accounts receivable

Recoveries of previously charged-off loans and accounts receivable from customers are recorded directly to income and presented as a reduction of the provision for loan losses in the Consolidated Interim Statement of Income.

q) Provisions, contingent assets and contingent liabilities

Provisions are liabilities that have uncertainty in terms of their amount or maturity. These provisions are recorded in the Consolidated Interim Statement of Financial Position when the following requirements are simultaneously met:

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued:

i. It is a present obligation as a result of past events, and
ii. As of the date of the financial statements it is likely that the Bank will have to expend resources to settle these obligations and the amount of these resources can be reliably measured.

Contingent assets or contingent liabilities are any possible rights or possible obligations arising from past events whose existence will be confirmed only if one or more uncertain future events that are not under the Bank's control occur.

The following are classified as contingent in the complementary information:

i. Guarantees and bonds: Guarantees, bonds, and standby letters of credit. In addition, guarantees of payment from buyers in factored receivables.

ii. Confirmed foreign letters of credits: Letters of credit confirmed by the Bank.

iii. Documentary letters of credit: Includes documentary letters of credit issued by the Bank, which have not yet been negotiated.

iv. Documented guarantees: Guarantees with promissory notes.

v. Interbank guarantees: Guarantees issued.

vi. Unrestricted credit lines: The unused amount of credit lines that allow customers to draw without prior approval by the Bank (for example, using credit cards or overdrafts in checking accounts).

vii. Other credit commitments: Amounts not yet lent under committed loans, which must be disbursed at an agreed future date when events contractually agreed upon with the customer occur, such as in the case of lines of credit linked to the progress of a construction or similar projects.

viii. Other contingent credits: Includes any other kind of commitment by the Bank which may exist and give rise to lending when certain future events occur. In general, this includes unusual transactions such as pledges made to secure the payment of loans among third parties or derivative contracts made by third parties that may result in a payment obligation and are not covered by deposits.

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

Provisions (which are quantified using the best available information on the consequences of the event and are re-estimated at each accounting close) are used to address the specific obl