

## **Program Information**

**Banco Santander-Chile**

## PROGRAM INFORMATION

Type of Information:	Program Information
Date of Announcement:	April 5, 2019
Issuer Name:	Banco Santander-Chile (the " <b>Issuer</b> ")
Name and Title of Representative:	Danilo Castañeda Managing Director – Head of ALM
Address of Head Office:	Bandera 140, Santiago, Chile
Telephone:	+562-320-2000
Contact Person:	Attorneys-in-Fact: Eiichi Kanda, Attorney-at-law Chihiro Ashizawa, Attorney-at-law  Clifford Chance (Gaikokuho Kyodo Jigyo) Address: Palace Building, 3 <sup>rd</sup> floor 1-1, Marunouchi 1-chome Chiyoda-ku, Tokyo 100-0005  Telephone: +81-3-6632-6600
Type of Securities:	Notes (the " <b>Notes</b> ")
Scheduled Issuance Period:	April 6, 2019 to April 5, 2020
Maximum Outstanding Issuance Amount:	U.S.\$5,500,000,000
Address of Website for Announcement:	<a href="https://www.jpjx.co.jp/english/equities/products/tpbm/announcement/index.html">https://www.jpjx.co.jp/english/equities/products/tpbm/announcement/index.html</a>
Name of the Main Dealer that is Expected to Subscribe for the Notes to be Drawn-Down from this Program:	Mizuho International plc
Status of Submission of Annual Securities Reports or Issuer Filing Information:	Yes

### Notes to Investors:

1. The TOKYO PRO-BOND Market is a market for professional investors, etc. (*Tokutei Toushika tou*) as defined in Article 2, Paragraph 3, Item 2(b)(2) of the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**FIEA**") (the "**Professional Investors, Etc.**"). Notes listed on the market ("**Listed Notes**") may involve high investment risk. Investors should be aware of the listing eligibility and timely disclosure requirements that apply to issuers of Listed Notes on the TOKYO PRO-BOND Market and associated risks such as the fluctuation of market prices and shall bear responsibility for their investments. Prospective investors should make investment decisions after having carefully considered the contents of this Program Information.
2. The regulatory framework for the TOKYO PRO-BOND Market is different in fundamental aspects from the regulatory framework applicable to other exchange markets in Japan. Investors should be aware of the rules and regulations of the TOKYO PRO-BOND Market, which are available on the website of Japan Exchange Group, Inc.

3. Tokyo Stock Exchange, Inc. ("**Tokyo Stock Exchange**") does not express opinions or issue guarantees, etc. regarding the content of this Program Information (including but not limited to, whether this Program Information (a) contains a false statement or (b) lacks information on: (i) important matters that should be announced or (ii) a material fact that is necessary to avoid misleading content) and shall not be liable for any damage or loss.
4. This Program Information is prepared pursuant to Rule 206, Paragraph 2 of the Special Regulations of Securities Listing Regulations Concerning Specified Listed Securities (hereinafter referred to as the "**Special Regulations**") as information prescribed in Article 2, Paragraph 1, Item 1 of the Cabinet Office Ordinance on Provision and Publication of Information on Securities, etc. Accordingly, this Program Information shall constitute Specified Securities Information stipulated in Article 27-31, Paragraph 1 of the FIEA.
5. All prospective investors who purchase the Notes listed or to be listed on the TOKYO PRO-BOND Market should be aware that when they offer to purchase the Notes, they shall be required to (i) enter into and agree the terms of a transfer restriction agreement with the Issuer and/or the person making a solicitation, or (ii) (in the case of a solicitation of an offer to acquire the Notes to be newly issued) agree to comply with the terms of a transfer restriction. The terms of such transfer restriction agreement or transfer restriction provide that prospective investors agree not to sell, transfer or otherwise dispose of the Notes to be held by them to any person other than the Professional Investors, Etc., except for the transfer of the Notes to the following:
  - (a) the Issuer or the Officer (meaning directors, company auditors, executive officers or persons equivalent thereto) thereof who holds shares or equity pertaining to voting rights exceeding 50% of all the voting rights in the Issuer which is calculated by excluding treasury shares or any non-voting rights shares (the "**Voting Rights Held by All the Shareholders, Etc.**" (*Sou Kabunushi Tou no Giketsuken*)) (as prescribed in Article 29-4, Paragraph 2 of the FIEA) of the Issuer under his/her own name or another person's name (the "**Specified Officer**" (*Tokutei Yakuin*)), or a juridical person (excluding the Issuer) whose shares or equity pertaining to voting rights exceeding 50% of the Voting Rights Held by All the Shareholders, Etc., are held by the Specified Officer (the "**Controlled Juridical Person, Etc.**" (*Hi-Shihai Houjin Tou*)) including a juridical person (excluding the Issuer) whose shares or equity pertaining to voting rights exceeding 50% in total of the Voting Rights Held by All the Shareholders, Etc. are held by the Specified Officer and/or the Controlled Juridical Person, Etc. under its own name or another person's name (as prescribed in Article 11-2, Paragraph 1, Item 2 (c) of the Cabinet Office Ordinance on Definitions under Article 2 of the Financial Instruments and Exchange Act (MOF Ordinance No. 14 of 1993, as amended)); or
  - (b) a company that holds shares or equity pertaining to voting rights exceeding 50% of the Voting Rights Held by All the Shareholders, Etc. of the Issuer in its own name or another person's name.
6. When (i) a solicitation of an offer to acquire the Notes or (ii) an offer to sell or a solicitation of an offer to purchase the Notes (collectively, "**Solicitation of the Note Trade**") is made, the following matters shall be notified from the person who makes such Solicitation of the Note Trade to the person to whom such Solicitation of the Note Trade is made:
  - (a) no securities registration statement (pursuant to Article 4, Paragraphs 1 through 3 of the FIEA) has been filed with respect to the Solicitation of the Note Trade;
  - (b) the Notes fall, or will fall, under the Securities for Professional Investors (*Tokutei Tousehika Muke Yukashoken*) (as defined in Article 4, Paragraph 3 of the FIEA);
  - (c) any acquisition or purchase of the Notes by such person pursuant to any Solicitation of the Note Trade is conditional upon such person (i) entering into an agreement providing for the restriction on transfer of the Notes as set forth in note 6 above, (x) with each of an Issuer and the person making such Solicitation of the Note Trade (in the case of a solicitation of an offer to acquire the Notes to be newly issued), or (y) with the person making such Solicitation of the Note Trade (in the case of an offer to sell or a solicitation of an offer to purchase the Notes already issued), or (ii) agreeing to comply with the restriction on transfer of the Notes as set forth in note 6 above (in the case of a solicitation of an offer to acquire the Notes to be newly issued);
  - (d) Article 4, paragraphs 3, 5 and 6 of the FIEL will be applicable to such certain solicitation, offers and other activities with respect to the Notes as provided in Article 4, paragraph 2 of the FIEL;

- (e) the Specified Securities Information, Etc. (*Tokutei Shouken Tou Jouhou*) (as defined in Article 27-33 of the FIEL) with respect to the Notes and the Issuer Information, Etc. (*Hakkosha Tou Jouhou*) (as defined in Article 27-34 of the FIEL) with respect to the Issuer have been or will be made public by way of such information being posted on the web-site maintained by the TOKYO PRO-BOND Market (<https://www.jpx.co.jp/equities/products/tpbm/index.html> or any successor website) in accordance with Articles 210 and 217 of the Special Regulations of Securities Listing Regulations Concerning Specified Listed Securities of the Tokyo Stock Exchange; and
  - (f) the Issuer Information, Etc. will be provided directly to the Noteholders or made public pursuant to Article 27-32 of the FIEL.
7. In respect of the U.S.\$5,500,000,000 Medium-Term Notes Program dated June 27, 2018, a rating of (P)A1 was assigned from Moody's Investors Service, Inc. ("**Moody's**") on March 28, 2019. The credit rating firm has not been registered under Article 66-27 of the FIEA.

Unregistered credit rating firms are not subject to any supervision of the Financial Services Agency of Japan or regulations applicable to credit rating firms, including obligations to disclose information, nor obligated to publicise information regarding such matters as listed in Article 313, Paragraph 3, Item 3 of the Ordinance of the Cabinet Office Concerning Financial Instruments Business, Etc. (the "**Cabinet Office Ordinance**").

Moody's has Moody's Japan K.K. (registration number: Commissioner of Financial Services Agency (*kakuzuke*) No. 2) within its group as a registered credit rating firm under Article 66-27 of the FIEA, and Moody's is a specified affiliated corporation (as defined in Article 116-3, Paragraph 2 of the Cabinet Office Ordinance) of the registered credit rating firm above. The basis, meaning and limitations of the credit ratings given by Moody's are made available in the Japanese language on the website of Moody's Japan K.K., at "Basis, Meaning and Limits of Credit Ratings" posted under "Related to Explanations of Unregistered Credit Ratings" in the column titled "Use of Ratings by Unregistered Firm" on the page titled "Credit Rating Business" on its website ([https://www.moody.com/pages/default\\_ja.aspx](https://www.moody.com/pages/default_ja.aspx)), which is made available for the public on the Internet.

8. The selling restrictions set forth in notes 5 and 6 above shall prevail over those set forth in the section entitled "TRANSFER AND SELLING RESTRICTIONS – JAPAN" in this Program Information.
9. The Issuer's 2018 Annual Report in 20-F filed with United States Securities and Exchange Commission is incorporated in this Program by reference. The 2018 Annual Report in 20-F is available at [https://www.sec.gov/Archives/edgar/data/1027552/000161577419004410/s116771\\_20f.htm](https://www.sec.gov/Archives/edgar/data/1027552/000161577419004410/s116771_20f.htm).



## Banco Santander-Chile

(Santiago, Chile)

U.S.\$5,500,000,000  
Medium Term Notes Program

Under this U.S.\$5,500,000,000 Medium-Term Notes Program (the “**Program**”), Banco Santander-Chile (the “**Issuer**,” the “**Bank**” or “**Santander-Chile**”) may from time to time issue medium term notes (“**Notes**”) which may be issued on a subordinated or unsubordinated basis. The Notes will be denominated in any currency agreed upon between the Issuer and the relevant Dealer (as defined below).

This document (the “**Base Prospectus**”) constitutes a base prospectus for the purposes of Article 5.4 of the Prospectus Directive. When used in this Base Prospectus, “Prospectus Directive” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in a relevant Member State of the European Economic Area.

Factors which may affect the Issuer’s ability to fulfil its obligations under Notes issued under the Program and factors which are material for the purpose of assessing the market risks associated with Notes issued under the Program are set out in “Risk Factors.”

The Base Prospectus has been approved by the Central Bank of Ireland, as Irish competent authority under the Prospectus Directive. The Central Bank of Ireland only approves this Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on the Main Securities Market, the regulated market of the Irish Stock Exchange plc trading as Euronext Dublin (“**Euronext Dublin**”), or other regulated markets for the purposes of Directive 2014/65/EU as amended (the “**Markets in Financial Instruments Directive II**”) or which are to be offered to the public in a Member State of the European Economic Area.

Application has been made to Euronext Dublin for Notes issued under the Program to be admitted to the official list (the “**Official List**”) and to trading on the Main Securities Market. The Main Securities Market of Euronext Dublin is a regulated market for the purposes of the Markets in Financial Instruments Directive.

### Arrangers

**Deutsche Bank**

**Santander**

### Dealers

**BNP PARIBAS**  
**Crédit Agricole CIB**  
**Deutsche Bank**  
**HSBC**  
**Santander**  
**UBS Investment Bank**

**BofA Merrill Lynch**  
**Credit Suisse**  
**Deutsche Bank Securities**  
**J.P. Morgan**  
**Scotiabank**  
**UniCredit Bank**

**Citigroup**  
**Daiwa Capital Markets**  
**Goldman Sachs & Co. LLC**  
**Mizuho Securities**  
**Standard Chartered Bank**  
**Wells Fargo Securities**

## RESPONSIBILITY STATEMENT

The Issuer with its registered office in Santiago, Chile is solely responsible for the information given in this Base Prospectus. The Issuer hereby declares that to the best of its knowledge and belief, having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is in accordance with the facts and contains no omission likely to affect its import.

## IMPORTANT NOTICES

Copies of Final Terms (as defined below) will be available from the registered office of the Issuer and the specified office set out below of each of the Paying Agents (as defined below). Final Terms will be published on the Central Bank of Ireland's website at [www.centralbank.ie](http://www.centralbank.ie).

This Base Prospectus should be read and understood in conjunction with any supplement hereto and with any other documents incorporated herein by reference (see "Documents Incorporated by Reference"). Full information on the Issuer and any Notes issued under the Program is only available on the basis of the combination of this Base Prospectus (including any supplement and any document incorporated by reference herein) and the relevant Final Terms.

No person is or has been authorized to give any information or to make any representations, other than those contained in this Base Prospectus, in connection with the Program or the issue and sale of the Notes and, if given or made, such information or representations must not be relied upon as having been authorized by Santander-Chile. Neither the delivery of this Base Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that the information herein is correct as of any time subsequent to the date hereof.

Neither this Base Prospectus nor any other information supplied in connection with the Program or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Base Prospectus or any recipient of any other information supplied in connection with the Program or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Program or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to subscribe for or to purchase any Notes.

Any information sourced from third parties contained in this Base Prospectus has been accurately reproduced (and is clearly sourced where it appears in this Base Prospectus) and, as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

This Base Prospectus is valid for twelve months upon its date of publication and it and any supplement thereto as well as any Final Terms reflect the status as of their respective dates of issue. Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained in the related documents is accurate and complete subsequent to the date hereof or that there has been no adverse change in the financial condition of the Issuer since such date or that any other information supplied in connection with the Program is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

For so long as any Notes remain outstanding, the Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Base Prospectus or publish a new Prospectus for use in connection with any subsequent issue of Notes.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States of America (the "**United States**") or its possessions or to United States persons, except in certain transactions permitted by United States Treasury Regulations and other guidance. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and the regulations promulgated thereunder.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the European Economic Area (the “EEA”) (and, in particular, without limitation, in the United Kingdom, Luxembourg, France, Italy and the Netherlands), Australia, Brazil, Chile, Dubai, Hong Kong, Japan, Peru, Singapore and Switzerland (see “Transfer and Selling Restrictions” on pages 108 to 118). In making an investment decision, investors must rely on their own examination of the Issuer and the terms of the Notes being offered, including the merits and risks involved. The Notes have not been approved or disapproved by the United States Securities and Exchange Commission (the “SEC”) or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Base Prospectus or confirmed the accuracy or the adequacy of the information contained in this Base Prospectus. Any representation to the contrary is unlawful.

In particular, Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. See “Description of the Notes – Forms of Notes” for a description of the manner in which Notes will be issued. Registered Notes are subject to certain restrictions on transfer (see “Transfer and Selling Restrictions”). Registered Notes may be offered or sold within the United States only to QIBs (as defined under “Description of the Notes – Forms of Notes”) in transactions exempt from registration under the Securities Act (see “U.S. Information” below).

**Neither this Base Prospectus nor any Final Terms may be used for the purpose of an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation.**

Neither this Base Prospectus nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation or a statement of an opinion (or a report of either of those things) by Santander-Chile, the Dealers or any of them that any recipient of this Base Prospectus or any Final Terms should subscribe for or purchase any Notes. Each recipient of this Base Prospectus or any Final Terms shall be taken to have made its own appraisal of the condition (financial or otherwise) of the Issuer.

None of the Dealers or the Issuer makes any representation to any purchaser of the Notes regarding the legality of its investment under any applicable laws. Any purchaser of the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

## **Ratings**

As of the date of this Base Prospectus, the Issuer has been rated “Aa3” by Moody’s Investors Service, Inc., “A” by Standard & Poor’s International LLC and “A” by Fitch Ratings Ltd. Moody’s, Standard & Poor’s International LLC and Fitch Ratings Ltd. are not incorporated in the European Union or currently registered in accordance with the Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, amended by Regulation (EC) No. 513/2011, Directive 2011/61/EU and Regulation (EU) No. 462/2013 (the “CRA Regulation”), nor have the ratings given by these agencies been endorsed by a credit rating agency established in the European Union and registered under the CRA Regulation. The European Securities and Markets Authority publishes on its website ([www.esma.europa.eu](http://www.esma.europa.eu)) a list of credit rating agencies registered in accordance with the CRA Regulation. That list is updated within five working days following the adoption of a decision under Article 16, 17 or 20 of

the CRA Regulation. The European Commission shall publish that updated list in the Official Journal of the European Union within 30 days following such update.

The rating of a certain Series or Tranche of Notes to be issued under the Program may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to a relevant Series or Tranche of Notes will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed clearly and prominently in the Final Terms.

A rating is not a recommendation to buy, sell or hold Notes issued under the Program and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. A suspension, reduction or withdrawal of the rating assigned to the Issuer may adversely affect the market price of the Notes issued under the Program.

## U.S. INFORMATION

This Base Prospectus is being submitted on a confidential basis in the United States to a limited number of QIBs (as defined under “Description of the Notes – Forms of Notes”) for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorized. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

Registered Notes may be offered or sold within the United States only to QIBs in transactions exempt from registration under the Securities Act. Each U.S. purchaser of Registered Notes is hereby notified that the offer and sale of any Registered Notes to it may be made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act (“**Rule 144A**”).

Each purchaser or Noteholder represented by a Rule 144A Global Note (as defined under “Registered Notes” below) or any Notes issued in registered form in exchange or substitution therefor (together “**Legended Notes**”) will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in “Transfer and Selling Restrictions.” Unless otherwise stated, terms used in this paragraph have the meanings given to them in “Description of the Notes – Forms of Notes.”

## MIFID PRODUCT GOVERNANCE/TARGET MARKET

The applicable Final Terms in respect of any Notes will include a legend entitled “MiFID II product governance” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the Product Governance rules under EU Delegated Directive 2017/593 (the “**MiFID Product Governance Rules**”), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

## BENCHMARKS REGULATION

Interest and/or other amounts payable under the Notes may be calculated by reference to certain reference rates. Any such reference rate may constitute a benchmark for the purposes of Regulation (EU) 2016/1011 (the “**Benchmarks Regulation**”). If any such reference rate does constitute such a benchmark, the relevant Final Terms will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (Register of administrators and benchmarks) of the Benchmarks Regulation. Transitional provisions in the Benchmarks Regulation may have the result that the administrator of a particular benchmark is not required



to appear in the register of administrators and benchmarks at the date of the relevant Final Terms. The registration status of any administrator under the Benchmarks Regulation is a matter of public record and, save where required by applicable law, the Issuer does not intend to update the relevant Final Terms to reflect any change in the registration status of the administrator.

#### **NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA**

If the applicable Final Terms for the Notes issued under this Base Prospectus includes a legend entitled “Prohibition of Sales to EEA Retail Investors”, such Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“**MiFID II**”); (ii) a customer within the meaning of Directive 2002/92/EC (“**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No. 1286/2014 (the “**PRiIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRiIPs Regulation.

This Base Prospectus has been prepared on the basis that all offers of Notes in any Member State of the European Economic Area will be made pursuant to an exemption under the Prospectus Directive, from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make any offer of the Notes in that Member State may only do so in circumstances in which no obligation arises for the Issuer or any of the Dealers to publish a prospectus pursuant to Article 3 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor the Dealers have authorized, nor do they authorize, the making of any offer of the Notes in circumstances in which an obligation arises for the Issuer or the Dealers to publish a prospectus for such offer. Neither the Issuer nor the Dealers have authorized, nor do they authorize, the making of any offer of Notes through any financial intermediary, other than offers made by the Dealers, which constitute the final placement of the Notes contemplated in this Base Prospectus. The expression an “offer of Notes to the public” in relation to the Notes of any tranche in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for such Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and the expression “**Prospectus Directive**” means Directive 2003/71/EC (as amended).

#### **NOTICE TO INVESTORS IN THE UNITED KINGDOM**

This Base Prospectus is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “**Financial Promotion Order**”), (ii) are persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations, etc.”) of the Financial Promotion Order, or (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any Notes may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as “**relevant persons**”). This Base Prospectus is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Base Prospectus relates is available only to relevant persons and will be engaged in only with relevant persons.

#### **AVAILABLE INFORMATION**

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are “**restricted securities**” within the meaning of the Securities Act, the Issuer has undertaken in the Fourth Amended and Restated Dealer Agreement dated June 30, 2016 (the “**Fourth Amended and Restated Dealer Agreement**”) to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, the Issuer is neither a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”) nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

## SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a bank organized under the General Banking Law of Chile (*Ley General de Bancos*). All of its directors and executive officers and certain experts named in this Base Prospectus reside outside of the United States (principally in Chile and Spain) and substantially all of its assets and the assets of these persons are located outside the United States. As a result, it may be difficult for a holder of Notes to effect service of process within the United States on, or bring actions or enforce foreign judgments against, the Issuer or these persons in U.S. courts.

In addition, the Issuer has been advised by Philippi, Prietocarrizosa, Ferrero DU & Uría, Chilean counsel, that no treaty exists between the United States and Chile for the reciprocal enforcement of foreign judgments. There is also doubt as to the enforceability in Chilean courts of judgments of U.S. courts obtained in actions predicated upon the civil liability provisions of the U.S. federal securities laws. Chilean courts, however, have enforced judgments rendered in the United States by virtue of the legal principles of reciprocity and comity, subject to the review in Chile of the U.S. judgment in order to ascertain whether certain basic principles of due process and public policy have been respected, without reviewing the merits of the subject matter of the case. Lastly, the Issuer has been advised by Philippi, Prietocarrizosa, Ferrero DU & Uría that there is doubt as to the enforceability in original actions in Chilean courts of liabilities predicated solely upon U.S. federal securities laws.

The Issuer has appointed CT Corporation System, presently located at 111 Eighth Avenue, 13th Floor, New York, New York, 10011, as its authorized agent upon which process may be served in any action which may be instituted in any United States federal or state court having subject matter jurisdiction in the Borough of Manhattan, The City of New York, New York arising out of or based upon the Notes or the fiscal agency agreement governing the Notes. See "Description of the Notes."

**In connection with the issue of any Tranche of Notes under the Program, the Dealer or Dealers (if any) named as the stabilizing manager(s) in the applicable Final Terms (the "Stabilizing Managers") (or persons acting on their behalf) may over-allot Notes, or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager(s) (or persons acting on their behalf) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than 30 days after the date on which the Issuer received the proceeds of the relevant Tranche of Notes or no later than 60 days after the date of the allotment of the relevant Tranche of Notes, whichever is earlier.**

## CERTAIN TERMS AND CONVENTIONS

All references to “**Santander Spain**” are to the Issuer’s parent company, Banco Santander, S.A. References to the “**Santander Group**” or “**Grupo Santander**” are to the worldwide operations of the Santander Spain conglomerate, as indirectly controlled by Santander Spain and its consolidated subsidiaries, including the Issuer.

As used in this Base Prospectus, the term “**billion**” means one thousand million (1,000,000,000).

In this Base Prospectus, references to “**\$**,” “**U.S.\$**,” “**U.S. dollars**” and “**dollars**” are to United States dollars; references to “**Chilean pesos**,” “**pesos**” or “**Ch\$**” are to Chilean pesos; references to “**€**” “**EUR**,” or “**Euro**” are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended; and references to “**UF**” are to *Unidades de Fomento*, which is an inflation-indexed Chilean monetary unit with a value in Chilean pesos that changes daily to reflect changes in the official Consumer Price Index (“**CPI**”) of the *Instituto Nacional de Estadísticas* (the Chilean National Institute of Statistics) for the previous month.

In this Base Prospectus, references to the “**Audit Committee**” are to the Issuer’s *Comité de Directores y Auditoría*.

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

The language of the Base Prospectus is English. Any foreign language text that is included with or within this document has been included for convenience purposes only and does not form part of the Base Prospectus.

## PRESENTATION OF FINANCIAL INFORMATION

### General

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

The Issuer’s audited annual consolidated financial information included herein as of December 31, 2017 and 2016 and for the three years ended December 31, 2017, together with the notes thereto, has been derived from the Issuer’s audited annual consolidated financial statements prepared in accordance with IFRS (“**2017 IFRS Consolidated Financial Statements**”) included in our annual report on Form 20-F for the fiscal year ended December 31, 2017, filed on March 28, 2018 (hereinafter referred to as the “**2017 IFRS Annual Report**”), which this Base Prospectus incorporates by reference.

As required by local regulations, the Issuer’s locally filed consolidated financial statements have been prepared in accordance with the Compendium of Accounting Standards issued by the SBIF (“**Chilean Bank GAAP**”). Chilean Bank GAAP principles are substantially similar to IFRS but there are some exceptions. For further details and a discussion of the main differences between Chilean Bank GAAP and IFRS, see “Item 4. Information on the Company—B. Business Overview—Differences between IFRS and Chilean Bank GAAP” in the Issuer’s 2017 IFRS Annual Report.

This Base Prospectus also incorporates by reference the Issuer’s audited Chilean Bank GAAP consolidated financial statements for fiscal years ended December 31, 2017 and 2016 (the “**2017 Chilean Bank GAAP Financial Statements**”) included in our report on Form 6-K filed on April 6, 2018 and the Issuer’s audited consolidated financial statements for fiscal years ended December 31, 2016 and 2015 included in our report on Form 6-K filed on March 31, 2017 (collectively the “**Chilean Bank GAAP Consolidated Financial Statements**”) and the Issuer’s unaudited Chilean Bank GAAP consolidated interim financial statements for the three months ended March 31, 2018 included in our report on Form 6-K filed on May 9, 2018.

No audited annual consolidated financial information included within this Base Prospectus has been extracted from the Chilean Bank GAAP Consolidated Financial Statements.

### Functional and Presentation Currency

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

For presentation purposes, the Issuer has translated Chilean pesos (Ch\$) into U.S. dollars (U.S.\$) using the rate as indicated below under “Exchange Rates,” for the financial information included in this Base Prospectus.

### Loans

Unless otherwise specified, all references herein (except in the 2017 IFRS Consolidated Financial Statements and the Chilean Bank GAAP Consolidated Financial Statements) to loans are to loans and financial leases before deduction for loan loss allowance, and, except as otherwise specified, all market share data presented herein is based on information published periodically by the SBIF. Non-performing loans include the entire principal amount and accrued but unpaid interest on loans for which either principal or interest is past-due for 90 days or more. Restructured loans for which no payments are past-due are not ordinarily classified as non-performing loans.

Under IFRS, a loan is evaluated on each financial statement reporting date to determine whether objective evidence of impairment exists. A loan will be impaired if, and only if, objective evidence of impairment exists as a result of one or more events that occurred after the initial recognition of the loan, and such event or

events have an impact on the estimated future cash flows of such loan that can be reliably estimated. It may not be possible to identify a single event that was the individual cause of the impairment.

An impairment loss relating to an individually significant loan recorded at amortized cost which has experienced objective evidence of impairment is calculated as the difference between the recorded amount of the asset and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

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

The reversal of an impairment loss occurs only if it can be objectively related to an event occurring after the initial impairment loss was recorded. In the case of loans recorded at amortized cost, the reversal is recorded in income.

Outstanding loans and the related percentages of the Issuer's loan portfolio consisting of corporate and consumer loans are categorized based on the nature of the borrower and in accordance with the reporting requirements of the SBIF, which are based on the type and term of loans. This disclosure is consistent with IFRS.

### **Effect of Rounding**

Certain figures included in this Base Prospectus and in the 2017 IFRS Consolidated Financial Statements and the Chilean Bank GAAP Consolidated Financial Statements have been rounded up for ease of presentation. Percentage figures included in this Base Prospectus have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. For this reason, certain percentage amounts in this Base Prospectus may vary from those obtained by performing the same calculations using the figures in the 2017 IFRS Consolidated Financial Statements. Certain other amounts that appear in this Base Prospectus may not sum due to rounding.

### **Economic and Market Data**

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

### **Exchange Rates**

This Base Prospectus contains translations of certain Chilean peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Chilean peso amounts actually represent such U.S. dollar amounts, were converted from U.S. dollars at the rate indicated in the 2017 IFRS Consolidated Financial Statements, could be converted into U.S. dollars at the rate indicated, were converted or will be converted at all.

Unless otherwise indicated, all U.S. dollar amounts at any year end, for any period have been translated from Chilean pesos based on the interbank market rate published by Reuters at 1:30 pm on the last business day of the period. On December 31, 2017, 2016 and 2015, the exchange rate in the Informal Exchange Market as published by Reuters at 1:30 pm on these days was Ch\$616.85, Ch\$666.00 and Ch\$707.80 respectively, or 0.26% more, 0.19% less and 0.06% more, respectively, than the observed exchange rate published by the Central Bank for such date of Ch\$615.22, Ch\$667.29 and Ch\$707.34 respectively, per U.S.\$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for the Chilean peso. For more information on the observed exchange rate, see "Item 3. Key Information—A. Selected Financial Data—Exchange Rates" of the 2017 IFRS Annual Report.

As of December 31, 2017, 2016 and 2015, one UF was equivalent to Ch\$26,978.14, Ch\$26,347.98 and Ch\$25,629.09, respectively. The U.S. dollar equivalent of one UF was U.S.\$43.56 as of December 31, 2017, using the observed exchange rate reported by the Central Bank as of December 30, 2017 of Ch\$39.49 per U.S.\$1.00.

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## RISK FACTORS

*An investment in the Notes is subject to risks and uncertainties. You should carefully consider the following risk factors, which should be read in conjunction with all the other information presented in this Base Prospectus, before making any investment decision. The risks and uncertainties described below are not the only ones that the Issuer faces. Additional risks and uncertainties that the Issuer faces, the Issuer does not know about or that it currently thinks are immaterial may also impair the Issuer's business operations. Any of the following risks, if they actually occur, could materially and adversely affect the Issuer's business, results of operations, prospects and financial condition.*

Risk factors have been grouped as set out below:

- (a) Risk Factors in Respect of the Issuer;
- (b) Risk Factors in Respect of Chile; and
- (c) Risk Factors in Respect of the Notes, including: (i) Risk Factors related to the structure of a particular issue of Notes, (ii) Risk Factors related to Notes generally and (iii) Risk Factors related to the market generally.

During the life of each Series of Notes, risks specified in each of the above sections may impact such Notes at different points in time and for different lengths of time. Each Series of Notes may have a risk profile that changes over time. Prospective investors should seek advice from a professional financial adviser in order to further discuss and understand how the risk profile of a particular Series of Notes will affect their overall investment portfolio.

More than one risk factor may have simultaneous effect with regard to the Notes such that the effect of a particular risk factor may not be predictable. In addition, more than one risk factor may have a compounding effect which may not be predictable. No assurance can be given as to the effect that any combination of risk factors may have on the value of the Notes.

Terms used in this section and not otherwise defined shall have the meanings given to them in "Description of the Notes" on pages 57 to 86 of this Base Prospectus.

### RISK FACTORS IN RESPECT OF THE ISSUER

***Factors that may affect the Issuer's ability to fulfill its obligations under Notes issued under the Program.***

Prospective investors should consider the section entitled "Risk Factors" provided in the Issuer's 2017 IFRS Annual Report (as defined in "Presentation of Financial Information" on page vi of this Base Prospectus).

*The Issuer is vulnerable to disruptions and volatility in the global financial markets.*

Global economic conditions deteriorated significantly between 2007 and 2009, and many countries 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 experienced, and some continue to experience, significant difficulties. Around the world, there were runs on deposits at several financial institutions, numerous institutions sought additional capital or were assisted by governments, and many lenders and institutional investors reduced or ceased providing funding to borrowers (including to other financial institutions).

In particular, the Issuer may face, among others, the following risks related to the economic downturn:

- Reduced demand for the Issuer's products and services.
- Increased regulation of the Issuer's industry. Compliance with such regulation will continue to increase the Issuer's costs and may affect the pricing for the Issuer's products and services,



increase its conduct and regulatory risks to non-compliance and limit its ability to pursue business opportunities.

- Inability of the Issuer's borrowers to timely or fully comply with their existing obligations. Macroeconomic shocks may negatively impact the household income of the Issuer's retail customers and may adversely affect the recoverability of its retail loans, resulting in increased loan losses.
- The process the Issuer uses to estimate losses inherent in the Issuer's credit exposure requires complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of the Issuer's borrowers to repay their loans. The degree of uncertainty concerning economic conditions may adversely affect the accuracy of the Issuer's estimates, which may, in turn, impact the reliability of the process and the sufficiency of the Issuer's loan loss allowances.
- The value and liquidity of the portfolio of investment securities that the Issuer holds may be adversely affected.
- Any worsening of global economic conditions may delay the recovery of the international financial industry and impact the Issuer's financial condition and results of operations.

An economic slowdown or recession would have a negative impact on the Issuer's business and results of operations. A return to volatile conditions in the global financial markets could have a material adverse effect on the Issuer, including on the Issuer's ability to access capital and liquidity on financial terms acceptable to the Issuer, if at all. If capital markets financing ceases to become available, or becomes excessively expensive, the Issuer may be forced to raise the rates it pays on deposits to attract more customers and become unable to maintain certain liability maturities. Any such increase in capital markets funding availability or costs or in deposit rates could have a material adverse effect on the Issuer's interest margins and liquidity.

Additionally, the results of the 2016 United States presidential and congressional elections generated volatility in the global capital and currency markets and created uncertainty about the relationship between the United States and its major trade partners. The uncertainty persists in relation to the United States trade policy, in particular the renegotiation of the North American Free Trade Agreement and a further protectionist shift.

If all or some of the foregoing risks were to materialize, this could have a material adverse effect on the Issuer's financing availability and terms and, more generally, on its results, financial condition and prospects.

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

Credit ratings affect the cost and other terms upon which the Issuer is able to obtain funding. Rating agencies regularly evaluate the Issuer and their ratings of the Issuer's debt are based on a number of factors, including the Issuer's financial strength and conditions affecting the financial services industry generally. In addition, due to the methodology of the main rating agencies, the Issuer's credit rating is affected by the rating of Chile's sovereign debt. If Chile's sovereign debt is downgraded, the Issuer's credit rating would also likely be downgraded by an equivalent amount.

In August 2017, Fitch downgraded the Issuer's main ratings from A+ to A following similar action on the sovereign rating of the Republic of Chile. Standard and Poor's Ratings Services ("**S&P**") placed the Issuer's ratings on Outlook Negative in August 2017 and re-affirmed this rating and outlook in November 2017. In August 2017, Moody's Investors Service ("**Moody's**") placed a negative outlook on the Republic of Chile's sovereign rating and on the Issuer's rating as well.

In addition, the Issuer's ratings may be adversely affected by any downgrade in the ratings of the Issuer's parent company, Santander Spain. The long-term debt of Santander Spain is currently rated investment

grade by the major rating agencies: A2 (stable) by Moody's, A (stable) by S&P and A- (stable) by Fitch Ratings Ltd. ("**Fitch**").

Any downgrade in the Issuer's debt credit ratings would likely increase the Issuer's borrowing costs and require the Issuer to post additional collateral or take other actions under some of its derivative contracts, and could limit its access to capital markets and adversely affect its commercial business. For example, a ratings downgrade could adversely affect the Issuer's ability to sell or market certain of its products, engage in certain longer-term and derivatives transactions and retain its customers, particularly customers who need a minimum rating threshold in order to invest. In addition, under the terms of certain of the Issuer's derivative contracts and other financial commitments, it may be required to maintain a minimum credit rating or terminate such contracts or post collateral. Any of these results of a ratings downgrade could reduce the Issuer's liquidity and have an adverse effect on the Issuer, including the Issuer's operating results and financial condition.

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

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

There can be no assurance that the rating agencies will maintain the current ratings or outlooks. Failure to maintain favorable ratings and outlooks could increase the Issuer's cost of funding and adversely affect interest margins, which could have a material adverse effect on the Issuer.

*Increased competition, including from non-traditional providers of banking services such as financial technology providers, and industry consolidation may adversely affect **the Issuer's** results of operations.*

The Chilean market for financial services is highly competitive. The Issuer competes with other private sector Chilean and non-Chilean banks, with Banco del Estado de Chile, the principal government-owned sector bank, with department stores and with larger supermarket chains that make consumer loans and sell other financial products to a large portion of the Chilean population. The lower to middle-income segments of the Chilean population and the small- and mid- sized corporate segments have become the target markets of several banks and competition in these segments may increase. In addition, there has been a trend towards consolidation in the Chilean banking industry in recent years, which has created larger and stronger banks with which the Issuer must now compete. There can be no assurance that this increased competition will not adversely affect the Issuer's growth prospects, and therefore its operations. The Issuer also faces competition from non-bank (such as department stores, insurance companies, *cajas de compensación* and *cooperativas*) and non-finance competitors (principally department stores and larger supermarket chains) with respect to some of its credit products, such as credit cards, consumer loans and insurance brokerage. In addition, the Issuer faces 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.

Non-traditional providers of banking services, such as internet based e-commerce providers, mobile telephone companies and internet search engines may offer and/or increase their offerings of financial products and services directly to customers. These non-traditional providers of banking services currently have an advantage over traditional providers because they are not subject to banking regulation. Several of these competitors may have long operating histories, large customer bases, strong brand recognition and significant financial, marketing and other resources. They may adopt more aggressive pricing and rates and devote more resources to technology, infrastructure and marketing. New competitors may enter the market

or existing competitors may adjust their services with unique product or service offerings or approaches to providing banking services. If the Issuer is unable to successfully compete with current and new competitors, or if the Issuer is unable to anticipate and adapt its offerings to changing banking industry trends, including technological changes, the Issuer's business may be adversely affected. In addition, the Issuer's failure to effectively anticipate or adapt to emerging technologies or changes in customer behavior, including among younger customers, could delay or prevent its access to new digital-based markets, which would in turn have an adverse effect on the Issuer's competitive position and business.

The rise in customer use of internet and mobile banking platforms in recent years could negatively impact the Issuer's investments in bank premises, equipment and personnel for our branch network. The persistence or acceleration of this shift in demand towards internet and mobile banking may necessitate changes to the Issuer's retail distribution strategy, which may include closing and/or selling certain branches and restructuring its remaining branches and work force. These actions could lead to losses on these assets and may lead to increased expenditures to renovate, reconfigure or close a number of the Issuer's remaining branches or to otherwise reform its retail distribution channel. Furthermore, the Issuer's failure to swiftly and effectively implement such changes to its distribution strategy could have an adverse effect on its competitive position.

Increasing competition could also require that the Issuer increase its rates offered on deposits or lower the rates it charges on loans, which could also have a material adverse effect on the Issuer, including its profitability. It may also negatively affect the Issuer's business results and prospects by, among other things, limiting the Issuer's ability to increase its customer base and expand its operations and increasing competition for investment opportunities.

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

*The Issuer's ability to maintain its competitive position depends, in part, on the success of new products and services the Issuer offers its clients and its ability to continue offering products and services from third parties, and the Issuer may not be able to manage various risks it faces as it expands its range of products and services that could have a material adverse effect on it.*

The success of the Issuer's operations and its profitability depends, in part, on the success of new products and services it offers its clients and its ability to continue offering products and services from third parties. However, the Issuer cannot guarantee that its new products and services will be responsive to client demands, or that they will be successful. In addition, the Issuer's clients' needs or desires may change over time, and such changes may render the Issuer's products and services obsolete, outdated or unattractive and the Issuer may not be able to develop new products that meet its clients' changing needs. The Issuer's success is also dependent on its ability to anticipate and leverage new and existing technologies that may have an impact on products and services in the banking industry. Technological changes may further intensify and complicate the competitive landscape and influence client behavior. If the Issuer cannot respond in a timely fashion to the changing needs of its clients, the Issuer may lose clients, which could in turn materially and adversely affect the Issuer.

As the Issuer expands the range of its products and services, some of which may be at an early stage of development in the markets of certain regions where it operates, it will be exposed to new and potentially increasingly complex risks and development expenses in those markets, with respect to which the Issuer's experience and the experience of the Issuer's partners may not be sufficient. The Issuer's employees and the Issuer's risk management systems may not be sufficient to enable it to properly manage such risks. In addition, the cost of developing products that are not launched is likely to affect the Issuer's results of operations. Any or all of these factors, individually or collectively, could have a material adverse effect on the Issuer.

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

While the Issuer has successfully increased its customer service levels in recent years, should these levels ever be perceived by the market to be materially below those of its competitor financial institutions, the Issuer could lose existing and potential business. If the Issuer is not successful in retaining and strengthening customer relationships, it may lose market share, incur losses on some or all of its activities or fail to attract new deposits or retain existing deposits, which could have a material adverse effect on its operating results, financial condition and prospects.

*The financial problems faced by **the Issuer's** customers could adversely affect the Issuer.*

Market turmoil and economic recession could materially and adversely affect the liquidity, credit ratings, businesses and/or financial conditions of the Issuer's borrowers, which could in turn increase the Issuer's non-performing loan ratios, impair the Issuer's loan and other financial assets and result in decreased demand for borrowings in general. In addition, the Issuer's customers may further significantly decrease their risk tolerance to non-deposit investments such as stocks, bonds and mutual funds, which would adversely affect the Issuer's fee and commission income. The Issuer may also be adversely affected by the negative effects of the heightened regulatory environment on the Issuer's customers due to the high costs associated with regulatory compliance and proceedings. Any of the conditions described above could have a material adverse effect on the Issuer's business, financial condition and results of operations.

*The Issuer may generate lower revenues from fee and commission based businesses.*

The fees and commissions that the Issuer earns from the different banking and other financial services that the Issuer provides represent a significant source of the Issuer's revenues. The Issuer's customers may significantly decrease their risk tolerance to non-deposit investments such as stocks, bonds and mutual funds for a number of reasons, including a market downturn, which would adversely affect the Issuer, including the Issuer's fee and commission income.

Banco Santander Chile sold its asset management business in 2013 and signed a management service agreement for a 10 year-period with the acquirer of this business in which the Issuer sells asset management funds on their behalf. Therefore, even in the absence of a market downturn, below-market performance by the mutual funds of the firm the Issuer brokers for may result in a reduction in revenue the Issuer receives from selling asset management funds and adversely affect the Issuer's results of operations.

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

In the recent past, financial markets have been subject to significant stress resulting in steep falls in perceived or actual financial asset values, particularly due to volatility in global financial markets and the resulting widening of credit spreads. The Issuer has material exposures to securities, loans and other investments that are recorded at fair value and are therefore exposed to potential negative fair value adjustments. Asset valuations in future periods, reflecting then-prevailing market conditions, may result in negative changes in the fair values of the Issuer's financial assets and these may also translate into increased impairments. In addition, the value ultimately realized by the Issuer on disposal may be lower than the current fair value. Any of these factors could require the Issuer to record negative fair value adjustments, which may have a material adverse effect on the Issuer's operating results, financial condition or prospects.

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

***The credit quality of the Issuer's loan portfolio may deteriorate and its loan loss reserves could be insufficient to cover its actual loan losses, which could have a material adverse effect on the Issuer.***

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of the Issuer's businesses. Non-performing or low credit quality

loans have in the past negatively impacted the Issuer's results of operations and could do so in the future. In particular, the amount of the Issuer's reported non-performing loans may increase in the future as a result of growth in the Issuer's total loan portfolio, including as a result of loan portfolios that it may acquire in the future (the credit quality of which may turn out to be worse than the Issuer had anticipated), or factors beyond the Issuer's control, such as adverse changes in the credit quality of the Issuer's borrowers and counterparties or a general deterioration in economic conditions in Chile or in global economic and political conditions. If the Issuer were unable to control the level of its non-performing or poor credit quality loans, this could have a material adverse effect on the Issuer.

As of December 31, 2017, the Issuer's non-performing loans were Ch\$633,461 million, and the ratio of the Issuer's non-performing loans to total loans was 2.3%. As of December 31, 2017, the Issuer's allowance for loan losses was Ch\$815,773 million, and the ratio of the Issuer's allowance for loan losses to total loans was 2.9%. For additional information on the Issuer's asset quality, see "Item 5. Operating and Financial Review and Prospects—C. Selected Statistical Information—Classification of Loan Portfolio Based on the Borrower's Payment Performance" in the Issuer's 2017 IFRS Annual Report.

The Issuer's allowance for loan losses is based on the Issuer's current assessment of and expectations concerning various factors affecting the Issuer, including the quality of the Issuer's loan portfolio. These factors include, among other things, the Issuer's 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 2008 financial crisis has demonstrated, many of these factors are beyond the Issuer's control. In addition, as these factors evolve, the models the Issuer uses to determine the appropriate level of allowance for loan losses and other assets require recalibration, which can lead to increased provision expense. See "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Results of Operations for the Years ended December 31, 2017, 2016 and 2015—Provision for loan losses, net of recoveries" in the Issuer's 2017 IFRS Annual Report.

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

*The value of the collateral securing **the Issuer's** loans may not be sufficient, and the Issuer may be unable to realize the full value of the collateral securing its loan portfolio.*

The value of the collateral securing the Issuer's loan portfolio may fluctuate or decline due to factors beyond the Issuer's control, including macroeconomic factors affecting Chile's economy. The value of the collateral securing the Issuer's loan portfolio may be adversely affected by force majeure events, such as natural disasters, particularly in locations where a significant portion of the Issuer's loan portfolio is composed of real estate loans. Natural disasters such as earthquakes and floods may cause widespread damage, which could impair the asset quality of the Issuer's loan portfolio and could have an adverse impact on Chile's economy. The real estate market is particularly vulnerable in the current economic climate and this may affect the Issuer, as real estate represents a significant portion of the collateral securing the Issuer's residential mortgage loan portfolio. The Issuer may also not have sufficiently recent information on the value of collateral, which may result in an inaccurate assessment for impairment losses of the Issuer's loans secured by such collateral. If any of the above were to occur, the Issuer may need to make additional provisions to cover actual impairment losses of the Issuer's loans, which may materially and adversely affect the Issuer's results of operations and financial condition.

*The growth of **the Issuer's** loan portfolio may expose the Issuer to increased loan losses. **The Issuer's** exposure to individuals and small and mid-sized businesses could lead to higher levels of past due loans, allowances for loan losses and charge-offs.*

The further expansion of the Issuer's loan portfolio (particularly in the consumer, small- and mid-sized companies and real estate segments) can be expected to expose the Issuer to a higher level of loan losses

and require the Issuer to establish higher levels of provisions for loan losses. See “Note 8—Interbank Loans” and “Note 9—Loans and Accounts Receivables from Customers” in the Issuer’s 2017 IFRS Consolidated Financial Statements for a description and presentation of the Issuer’s loan portfolio as well as “Item 5. Operating and Financial Review and Prospects—C. Selected Statistical Information—Loan Portfolio” in the Issuer’s 2017 IFRS Annual Report.

Retail customers represent 69.4% of the value of the total loan portfolio as of December 31, 2017. As part of its business strategy, the Issuer seeks to increase lending and other services to retail clients, which are more likely to be adversely affected by downturns in the Chilean economy. In addition, as of December 31, 2017, the Issuer’s residential mortgage loan portfolio totaled Ch\$9,096,895 million, representing 32.8% of its total loans. See “Note 9—Loans and Accounts Receivables from Customers” in the Issuer’s 2017 IFRS Consolidated Financial Statements for a description and presentation of its residential mortgage loan portfolio. If the economy and real estate market in Chile experience a significant downturn, this could materially adversely affect the liquidity, businesses and financial conditions of the Issuer’s customers, which may in turn cause the Issuer to experience higher levels of past-due loans, thereby resulting in higher provisions for loan losses and subsequent charge-offs. This may materially and adversely affect the Issuer’s asset quality, results of operations and financial condition.

*The growth rate of the Issuer’s loan portfolio may be affected by economic turmoil, which could also lead to a contraction in the Issuer’s loan portfolio.*

There can be no assurance that the Issuer’s loan portfolio will continue to grow at similar rates to the historical growth rate described above. A reversal of the rate of growth of the Chilean economy, a slowdown in the growth of customer demand, an increase in market competition or changes in governmental regulations could adversely affect the rate of growth of the Issuer’s loan portfolio and the Issuer’s risk index and, accordingly, increase the Issuer’s required allowances for loan losses. An economic turmoil could materially adversely affect the liquidity, businesses and financial condition of the Issuer’s 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 Issuer’s financial results are constantly exposed to market risk. The Issuer is subject to fluctuations in interest rates and other market risks, which may materially and adversely affect the Issuer and its profitability.*

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

- net interest income;
- the volume of loans originated;
- credit spreads;
- the market value of the Issuer’s securities holdings;
- the value of the Issuer’s loans and deposits; and
- the value of the Issuer’s derivatives transactions.

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

Increases in interest rates may reduce the volume of loans the Issuer originates. Sustained high interest rates have historically discouraged customers from borrowing and have resulted in increased delinquencies in outstanding loans and deterioration in the quality of assets. Increases in interest rates may reduce the value of the Issuer's financial assets and may reduce gains or require the Issuer to record losses on sales of its loans or securities.

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

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

The Issuer is also exposed to foreign exchange rate risk as a result of mismatches between assets and liabilities denominated in different currencies. Fluctuations in the exchange rate between currencies may negatively affect the Issuer's earnings and value of the Issuer's assets and securities. Therefore, while the Issuer seeks to avoid significant mismatches between assets and liabilities due to foreign currency exposure, from time to time, it may have mismatches. "See Item 11. Quantitative and Qualitative Disclosure About Market Risks— E. Market Risks—Foreign exchange fluctuations" in the Issuer's 2017 IFRS Annual Report.

*Failure to successfully implement and continue to improve **the Issuer's** risk management policies, procedures and methods, including **the Issuer's** credit risk management system, could materially and adversely affect the Issuer, and the Issuer may be exposed to unidentified or unanticipated risks.*

The management of risk is an integral part of the Issuer's activities. The Issuer seeks to monitor and manage the Issuer's risk exposure through a variety of separate but complementary financial, credit, market, operational, compliance and legal reporting systems. While the Issuer employs a broad and diversified set of risk monitoring and risk mitigation techniques, such techniques and strategies may not be fully effective in mitigating the Issuer's risk exposure in all economic market environments or against all types of risk, including risks that the Issuer fails to identify or anticipate.

Some of the Issuer's qualitative tools and metrics for managing risk are based upon the Issuer's use of observed historical market behavior. The Issuer applies statistical and other tools to these observations to arrive at quantifications of the Issuer's risk exposures. These qualitative tools and metrics may fail to predict future risk exposures. These risk exposures could, for example, arise from factors the Issuer did not anticipate or correctly evaluate in the Issuer's statistical models. This would limit the Issuer's ability to manage the Issuer's risks. The Issuer's losses thus could be significantly greater than the historical measures indicate. In addition, the Issuer's quantified modeling does not take all risks into account. The Issuer's more qualitative approach to managing those risks could prove insufficient, exposing the Issuer to material unanticipated losses. The Issuer could face adverse consequences as a result of decisions, which may lead to actions by management, based on models that are poorly developed, implemented or used, or as a result of the modelled outcome being misunderstood or the use of such information for purposes for which it was not designed. In addition, if existing or potential customers or counterparties believe the Issuer's risk management is inadequate, they could take their business elsewhere or seek to limit their transactions with the Issuer. This could have a material adverse effect on the Issuer's reputation, operating results, financial condition and prospects.

As a commercial bank, one of the main types of risks inherent in the Issuer's business is credit risk. For example, an important feature of the Issuer's credit risk management system is to employ an internal credit rating system to assess the particular risk profile of a customer. As this process involves detailed analyses of the customer, taking into account both quantitative and qualitative factors, it is subject to human or IT systems errors. In exercising their judgment on current or future credit risk behavior of its customers, the

Issuer's employees may not always be able to assign an accurate credit rating, which may result in the Issuer's exposure to higher credit risks than indicated by the Issuer's risk rating system.

Failure to effectively implement, consistently monitor or continuously refine the Issuer's credit risk management system may result in an increase in the level of non-performing loans and a higher risk exposure for the Issuer, which could have a material adverse effect on the Issuer.

*The effectiveness of the Issuer's credit risk management is affected by the quality and scope of information available in Chile.*

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

*Liquidity and funding risks are inherent in the Issuer's business and could have a material adverse effect on the Issuer.*

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

Increases in prevailing market interest rates and in the Issuer's credit spreads can significantly increase the cost of the Issuer's funding. Changes in the Issuer's credit spreads may be influenced by market perceptions of the Issuer's creditworthiness. Changes to interest rates and the Issuer's credit spreads occur continuously and may be unpredictable and highly volatile.

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

The Issuer anticipates that its customers will continue, in the near future, to make short-term deposits (particularly demand deposits and short-term time deposits), and the Issuer intends to maintain its emphasis on the use of banking deposits as a source of funds. As of December 31, 2017, 99.1% of the Issuer's customer deposits had remaining maturities of one year or less, or were payable on demand. A significant portion of the Issuer's assets have longer maturities, resulting in a mismatch between the maturities of liabilities and the maturities of assets. Historically, one of the Issuer's principal sources of funds has been time deposits. Time deposits represented 33.3% and 35.5% of the Issuer's total liabilities and equity as of December 31, 2017 and 2016, respectively. The Chilean time deposit market is concentrated given the importance in size of various large institutional investors such as pension funds and corporations relative to the total size of the economy. As of December 31, 2017, the Issuer's top 20 time deposits represented



29.7% of total time deposits, or 9.9% of total liabilities and equity, and totaled U.S.\$5.7 billion. No assurance can be given that future economic stability in the Chilean market will not negatively affect the Issuer's ability to continue funding its business or to maintain its current levels of funding without incurring increased funding costs, a reduction in the term of funding instruments or the liquidation of certain assets. If this were to happen, the Issuer could be materially adversely affected.

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

Central banks have taken extraordinary measures to increase liquidity in the financial markets as a response to the financial crisis. If current facilities were rapidly removed or significantly reduced, this could have an adverse effect on the Issuer's ability to access liquidity and on its funding costs.

The Issuer cannot assure that in the event of a sudden or unexpected shortage of funds in the banking system, it will be able to maintain levels of funding without incurring high funding costs, a reduction in the term of funding instruments or the liquidation of certain assets. If this were to happen, the Issuer could be materially adversely affected.

*The Issuer is subject to regulatory capital and liquidity requirements that could limit its operations, and changes to these requirements may further limit and adversely affect **the Issuer's** operating results, financial condition and prospects.*

Chilean banks are required by the General Banking Law to maintain regulatory capital of at least 8% of risk-weighted assets, net of required loan loss allowance and deductions, and paid-in capital and reserves ("core capital") of at least 3% of total assets, net of required loan loss allowances. As the Issuer is the result of the merger between two predecessors with a relevant market share in the Chilean market, the Issuer is currently required to maintain a minimum regulatory capital to risk-weighted assets ratio of 11%. As of December 31, 2017, the ratio of regulatory capital to risk-weighted assets, net of loan loss allowance and deductions, was 13.9% and the core capital ratio was 11.0%. Certain developments could affect the Issuer's ability to continue to satisfy the current capital adequacy requirements applicable to the Issuer, including:

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

In June 2017 a proposed bill that changes the General Banking Law in Chile was sent to the Chilean Congress for discussion. The bill proposes the creation of a new regulatory body for the financial system as well as new capital regulation for banks in Chile in line with Basel III standards. The bill proposes to adopt the guidelines set forth under the Basel III Capital Accord with adjustments incorporated by the SBIF. These changes should be approved by the Chilean Congress in 2018 or 2019. Following this approval, Chilean banks will most likely have to fully comply with Basel III requirements by 2024.

In 2017, Law 21,000 created the Comisión para el Mercado Financiero or Financial Market Commission (FMC). The FMC would become the sole supervisor for the Chilean financial system overseeing insurance companies, companies with publicly traded securities, credit unions, credit card and prepaid card issuers, and eventually banks. It will be the responsibility of this commission to ensure the proper functioning,

development and stability of the financial market, facilitating the participation of market agents and defending public faith in the financial markets. To do so, it must maintain a general and systemic vision of the market, considering the interests of investors and policyholders. It shall also be responsible for ensuring that the persons or entities audited, from their initiation until the end of their liquidation, comply with the laws, regulations, statutes and other provisions that govern them.

The Commission will be in charge of a Council, which will be composed of five members, who are appointed and are subject to the following rules:

- A commissioner appointed by the President of the Republic, of recognized professional or academic prestige in matters related to the financial system, which will have the character of President of the Commission.
- Four commissioners appointed by the President of the Republic, from among persons of recognized professional or academic prestige in matters related to the financial system, by supreme decree issued through the Ministry of Finance, after ratification of the Senate by four sevenths of its members in exercise, in session specially convened for that purpose.

The Council's responsibilities include regulation, sanctioning and the definition of general supervision policies. In addition, there will be a prosecutor in charge of investigations and the Chairman will be responsible for supervision. The FMC will act in coordination with the Chilean Central Bank (BCCh).

The date of entry into operation of the Commission for the Financial Market was December 14, 2017. The Superintendency of Securities and Insurance was eliminated on January 15, 2018 and all functions of this Superintendency were absorbed by the FMC. Once the new General Banking Law is passed the SBIF will also be absorbed by the FMC. All current SBIF attributions would be transferred to the FMC.

According to the New Banking Law being discussed in congress minimum capital requirements would increase in terms of amount and quality. Total Regulatory Capital remains at 8% of risk-weighted assets which would include credit, market and operational risk. Minimum Tier 1 capital increases from 4.5% to 6% of risk-weighted assets, of which up to 1.5% may be Additional Tier 1 (AT1) either in the form of preferred shares or perpetual bonds, both of which may be convertible to common equity. The FMC will establish the conditions and requirements for the issuance of perpetual bonds and preferred equity. Tier 2 capital will be set at 2% of risk-weighted assets. Additional capital demands are incorporated through a Conservation Buffer of 2.5% of risk-weighted assets, setting a Total Equity Requirement of 10.5% of risk-weighted assets. As well, the BCCh may set an additional Counter Cyclical Buffer of up to 2.5% of risk-weighted assets with agreement from the FMC. Both buffers must be comprised of core capital. The FMC, with agreement from the BCCh, may impose additional capital requirements for Systemically Important Banks (SIB) of between 1-3.5% of risk-weighted assets. The FMC will have to establish the criteria to assess which banks are considered as SIBs. It is probable that we would be classified as a SIB. The following table sets forth a comparison between the current regulatory capital demands, and those proposed by the SBIF.

**Capital requirements: Basel III, current GBL and new proposed requirements**

Capital categories	Current Law	Proposed Bill
(% over risk weighted assets)		
(1) Total Tier 1 Capital (2+3)	4.5	6
(2) Basic Capital	4.5	4.5
(3) Additional Tier 1 Capital (AT1)	—	1.5
(4) Tier 2 Capital	3.5	2
<b>(5) Total Regulatory Capital (1+4)</b>	<b>8</b>	<b>8</b>
(6) Conservation Buffer	2% over regulatory capital in order to be classified in Category A solvency.	2.5

<b>(7) Total Equity Requirement (5+6)</b>	<b>8</b>	<b>10.5</b>
(8) Counter Cyclical Buffer	—	up to 2.5
(9) SIB* Requirement	Up to 6% in case of a merger	Between 1 - 3.5

\* Systemically Important Banks

According to initial estimates of the impact of market risk on regulatory capital, published by the SBIF for informational purposes only, the Issuer's ratio of regulatory capital to risk-weighted assets, net of loan loss allowance and deductions, including an initial estimate of the adjustments for market risk was 12.3% as of December 31, 2017. No assurance can be given that the adoption of the Basel III capital requirements will not have a material impact on the Issuer's capitalization ratio.

The proposed bill also incorporates Pillar II capital requirements with the objective of assuring an adequate management of risk. The FMC will have the power to impose additional regulatory capital demands of up to 4% of risk-weighted assets, either Tier I or Tier II, if it determines that the previous capital levels and buffers are not enough for a financial institution. The FMC will be responsible for establishing weightings for risk-weighted assets as a separate regulation based on the implementation of standard models, subject to agreement from the BCCh. The FMC will have until December 31 of the next year in which the bill is passed to establish the weightings. Nevertheless, banks will be allowed to use internal models to define risk-weighted assets, subject to approval from the FMC with agreement from the BCCh, in which case calculated requirements will have to be within the limits set by the FMC.

The Issuer may also be required to raise additional capital in the future in order to maintain the Issuer's capital adequacy ratios above the minimum required levels. The Issuer's ability to raise additional capital may be limited by numerous factors, including: the Issuer's future financial condition, results of operations and cash flows; any necessary government regulatory approvals; the Issuer's 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 the Issuer requires additional capital in the future, the Issuer cannot assure you that it 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 the Issuer. Accordingly, although the Issuer currently meets the applicable capital adequacy requirements, the Issuer may face difficulties in meeting these requirements in the future. If the Issuer fails to meet the capital adequacy requirements, the Issuer may be required to take corrective actions. These measures could materially and adversely affect the Issuer's business reputation, financial condition and results of operations. In addition, if the Issuer is unable to raise sufficient capital in a timely manner, the growth of the Issuer's loan portfolio and other risk-weighted assets may be restricted, and the Issuer may face significant challenges in implementing the Issuer's business strategy. As a result, the Issuer's prospects, results of operations and financial condition could be materially and adversely affected.

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

- Liability concentration per institutional and wholesale counterparty. Banks will have to calculate the percentage of their liabilities coming from institutional and wholesale counterparties, including ratios regarding renovation, renewals, restructurings, maturity and product concentration of these counterparties.
- Liquidity coverage ratio (LCR), which measures the percentage of liquid assets over net cash outflows. The new guidelines also define liquid assets and the formulas for calculating net cash outflows.
- Net Stable Funding Ratio (NSFR) which will measure a bank's available stable funding relative to its required stable funding. Both concepts are also defined in the new regulations.

Beginning on March 30, 2016, banks began reporting these ratios to the Central Bank and the SBIF. The evolution of these indicators is still being monitored and adjustments to the required ratios could be made.

The final limits and results should begin to be published by the end of 2018 or 2019. The initial limits banks must meet in order to comply with these new ratios have not been published yet. For this reason, the Issuer cannot yet determine the effect that the implementation of these models will have on its business. Such effect could be material and adverse if it materially increases the liquidity the Issuer is required to maintain.

*The Issuer is subject to regulatory risk, or the risk of not being able to meet all of the applicable regulatory requirements and guidelines.*

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

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

*Modifications to reserve requirements may affect **the Issuer's** business.*

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

***The Issuer's** business could be affected if its capital is not managed effectively or if changes limiting **the Issuer's** ability to manage its capital position are adopted.*

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

*Changes to the pension fund system may affect the funding mix of the Issuer.*

The current pension fund system dates from the 1980s when pension savings went from being state-funded to privately-funded by Chilean employees, who are required to set aside 10% of their wages. While the system is widely regarded as a success, the demographics of the Chilean society have changed and there have been some modifications to the system. As of December 31, 2017, the Chilean pension fund management companies (*Administradora de Fondos de Pensión*, or "AFPs") had US\$7,521 million invested in the Issuer via equity, deposits and fixed income. There is no assurance that in the future there will not be significant reforms that may affect the Issuer's funding mix which may have an adverse effect on its financial condition and results of operations.

*The legal restrictions on the exposure of Chilean pension funds to different asset classes may affect **the Issuer's** access to funding.*

Chilean regulations impose a series of restrictions on how Chilean pension fund management companies (*Administradora de Fondos de Pensión*, or "AFPs") may allocate their assets. In the particular case of financial issuers' there are three restrictions, each involving different assets and different limits determined by the amount of assets in each fund and the market and book value of the issuer's equity. As a consequence, limits vary within funds of AFPs and issuers. According to the Issuer's estimates in December 2017, the AFPs still had the possibility of being able to invest another U.S.\$11,425 million in the Bank via equity, deposits and fixed income. If the exposure of any AFP to Santander-Chile exceeds the regulatory limits, the Issuer would need to seek alternative sources of funding, which could be more expensive and, as a consequence, may have a material adverse effect on the Issuer's financial condition and results of operations.

*The Issuer's financial statements are based in part on assumptions and estimates which, if inaccurate, could cause material misstatement of the results of **the Issuer's** operations and financial position.*

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

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

*Changes in accounting standards could impact reported earnings.*

The accounting standard setters and other regulatory bodies periodically change the financial accounting and reporting standards that govern the preparation of the Issuer's consolidated financial statements. For example, IFRS 9 will be adopted as of January 1, 2018 and will establish a new impairment model of expected loss and make changes to the classification and measurement requirements for financial assets and liabilities. In addition, IFRS 16, to be adopted as of January 1, 2019, specifies new standards for recognition, measurement, presentation and disclosure of leases. Changes made to accounting standards can materially impact how the Issuer records and reports its financial condition and results of operations. In some cases, the Issuer could be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements. For further information about developments in financial accounting and reporting standards, see Note 1 to the Issuer's 2017 IFRS Consolidated Financial Statements.

*The Issuer is subject to review by taxing authorities, and an incorrect interpretation by the Issuer of tax laws and regulations may have a material adverse effect on it.*

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

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

If the judgment, estimates and assumptions the Issuer uses in preparing its tax returns are subsequently found to be incorrect, there could be a material adverse effect on the Issuer's results of operations. In some jurisdictions, the interpretations of the taxing authorities are unpredictable and frequently involve litigation, which introduces further uncertainty and risk as to tax expense.

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

Disclosure controls and procedures over financial reporting are designed to provide reasonable assurance that information required to be disclosed by the company in reports filed or submitted under the Securities Exchange Act is accumulated and communicated to management, and recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

These disclosure controls and procedures have inherent limitations, which include the possibility that judgments in decision-making can be faulty, and that breakdowns can occur because of errors or mistakes. Additionally, controls can be circumvented by any unauthorized override of the controls. Consequently, the Issuer's businesses are exposed to risk from potential non-compliance with policies, employee misconduct or negligence and fraud, which could result in regulatory sanctions, civil claims and serious reputational or financial harm. In recent years, a number of multinational financial institutions have suffered material losses due to the actions of 'rogue traders' or other employees. It is not always possible to deter employee misconduct and the precautions the Issuer takes to prevent and detect this activity may not always be effective. Accordingly, because of the inherent limitations in the control system, misstatements due to error or fraud may occur and not be detected.

*The Issuer engages in transactions with related parties that others may not consider to be on an arm's-length basis.*

The Issuer and its affiliates have entered into a number of services agreements pursuant to which the Issuer renders services, such as administrative, accounting, finance, treasury, legal services and others.

Chilean law applicable to public companies and financial groups and institutions and the Issuer's bylaws provide for several procedures designed to ensure that the transactions entered into with or among the Issuer's financial subsidiaries and/or affiliates do not deviate from prevailing market conditions for those types of transactions, including the requirement that the Issuer's board of directors approve such transactions. Furthermore, all significant related party transactions must be approved by the Audit Committee and the Board. These significant transactions are also reported in the Issuer's annual shareholders meeting. Please see Note 34 of the Issuer's 2017 IFRS Consolidated Financial Statements and "Item 7. Major Shareholders and Related Party Transactions" in the Issuer's 2017 IFRS Annual Report.

The Issuer is likely to continue to engage in transactions with the Issuer's affiliates. Future conflicts of interests between the Issuer and any of its affiliates, or among the Issuer's affiliates, may arise, which conflicts are not required to be and may not be resolved in the Issuer's favor.

*Any failure to effectively improve or upgrade the Issuer's information technology infrastructure and management information systems in a timely manner or any failure to successfully implement new IT regulations could have a material adverse effect on the Issuer.*

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

In addition, several new regulations are defining how to manage cyber risks and technology risks, how to report a data breach, and how the supervisory process should work, among others. These regulations are quite fragmented in terms of definitions, scope and applicability. A failure to successfully implement all or some of these new global and local regulations, that in some cases have severe sanctions regimes, could have a material adverse effect on the Issuer.

*Risks relating to data collection, processing and storage systems and security are inherent in the Issuer's business.*

Like other financial institutions, the Issuer manages and holds confidential personal information of customers in the conduct of its banking operations, as well as a large number of assets. Accordingly, the Issuer's business depends on the ability to process a large number of transactions efficiently and accurately, and on the Issuer's ability to rely on its digital technologies, computer and email services, software and networks, as well as on the secure processing, storage and transmission of confidential sensitive personal data and other information using the Issuer's computer systems and networks. The proper functioning of financial control, accounting or other data collection and processing systems is critical to the Issuer's businesses and to its ability to compete effectively. Losses can result from inadequate personnel, inadequate or failed internal control processes and systems, or from external events that interrupt normal business operations. The Issuer also faces the risk that the design of the Issuer's controls and procedures proves to be inadequate or is circumvented such that its data and/or client records are incomplete, not recoverable or not securely stored. Although the Issuer works with its clients, vendors, service providers, counterparties and other third parties to develop secure data and information processing, storage and transmission capabilities to prevent against information security risks, the Issuer routinely manages personal, confidential and proprietary information by electronic means, and the Issuer may be the target of attempted cyber-attack. If the Issuer cannot maintain an effective and secure electronic data and information management and processing system or the Issuer fails to maintain complete physical and electronic records, this could result in regulatory sanctions and serious reputational or financial harm to the Issuer.

The Issuer takes protective measures and continuously monitors and develops its systems to protect its technology infrastructure, data and information from misappropriation or corruption, but its systems, software and networks nevertheless may be vulnerable to unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. An interception, misuse or mishandling of personal, confidential or proprietary information sent to or received from a client, vendor, service provider, counterparty or third party could result in legal liability, regulatory action, reputational harm and financial loss. There can be no absolute assurance that the Issuer will not suffer material losses from operational risk in the future, including those relating to any security breaches.

The Issuer has seen in recent years computer systems of companies and organizations being targeted, not only by cyber criminals, but also by activists and rogue states. The Issuer has been and continues to be subject to a range of cyber-attacks, such as denial of service, malware and phishing. Cyber-attacks could give rise to the loss of significant amounts of customer data and other sensitive information, as well as significant levels of liquid assets (including cash). In addition, cyber-attacks could disrupt the Issuer's electronic systems used to service its customers. As attempted attacks continue to evolve in scope and sophistication, the Issuer may incur significant costs in order to modify or enhance its protective measures against such attacks, or to investigate or remediate any vulnerability or resulting breach, or in communicating cyber-attacks to its customers. If the Issuer fails to effectively manage its cyber security risk, e.g. by failing to update its systems and processes in response to new threats, this could harm its reputation and adversely affect its operating results, financial condition and prospects through the payment of customer compensation, regulatory penalties and fines and/or through the loss of assets. In addition, it may also be impacted by cyber-attacks against national critical infrastructures of the countries where it operates; for example the telecommunications network. The Issuer's information technology systems are dependent on such national critical infrastructure and any cyber-attack against such critical infrastructure could negatively affect its ability to service its customers. As the Issuer does not operate such national critical infrastructure, it has limited ability to protect its information technology systems from the adverse effects of such a cyber-attack. For further information, see "Item 11. Quantitative and Qualitative Disclosures about Market Risk—2. Non-financial risks—Cyber-security and data security plans" in the Issuer's 2017 IFRS Annual Report.

Although the Issuer has procedures and controls to safeguard personal information in the Issuer's possession, unauthorized disclosures could subject the Issuer to legal actions and administrative sanctions as well as damages and reputational harm that could materially and adversely affect the Issuer's operating results, financial condition and prospects.

Further, the Issuer's business is exposed to risk from potential non-compliance with policies, employee misconduct or negligence and fraud, which could result in regulatory sanctions and serious reputational or financial harm. It is not always possible to deter or prevent employee misconduct and the precautions the Issuer takes to detect and prevent this activity may not always be effective. In addition, the Issuer may be required to report events related to information security issues (including any cyber security issues), events

where customer information may be compromised, unauthorized access and other security breaches, to the relevant regulatory authorities. Any material disruption or slowdown of the Issuer's systems could cause information, including data related to customer requests, to be lost or to be delivered to its clients with delays or errors, which could reduce demand for the Issuer's services and products, could produce customer claims and could materially and adversely affect the Issuer.

*The Issuer relies on third parties and affiliates for important products and services.*

Third party vendors and certain affiliated companies provide key components of the Issuer's business infrastructure such as loan and deposit servicing systems, back office and business process support, information technology production and support, internet connections and network access. Relying on these third parties and affiliated companies can be a source of operational and regulatory risk to the Issuer, including with respect to security breaches affecting such parties. The Issuer is also subject to risk with respect to security breaches affecting the vendors and other parties that interact with these service providers. As the Issuer's interconnectivity with these third parties and affiliated companies increases, the Issuer increasingly faces the risk of operational failure with respect to their systems. The Issuer may be required to take steps to protect the integrity of its operational systems, thereby increasing its operational costs and potentially decreasing customer satisfaction. In addition, any problems caused by these third parties or affiliated companies, including as a result of them not providing the Issuer their services for any reason, or performing their services poorly, could adversely affect the Issuer's ability to deliver products and services to customers and otherwise conduct its business, which could lead to reputational damage and regulatory investigations and intervention. Replacing these third party vendors could also entail significant delays and expense. Further, the operational and regulatory risk the Issuer faces as a result of these arrangements may be increased to the extent that it restructures such arrangements. Any restructuring could involve significant expense to the Issuer and entail significant delivery and execution risk which could have a material adverse effect on its business, operations and financial condition.

*Damage to **the Issuer's** reputation could cause harm to **the Issuer's** business prospects.*

Maintaining a positive reputation is critical to protect the Issuer's brand, attract and retain customers, investors and employees and conduct business transactions with counterparties. Damage to the Issuer's reputation can therefore cause significant harm to the Issuer's business and prospects. Harm to the Issuer's reputation can arise from numerous sources, including, among others, employee misconduct, including the possibility of fraud perpetrated by its employees, litigation or regulatory enforcement, failure to deliver minimum standards of service and quality, compliance failures, unethical behavior, and the activities of customers and counterparties. Further, negative publicity regarding the Issuer may result in harm to the Issuer's prospects.

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

The Issuer could suffer significant reputational harm if the Issuer fails to identify and manage potential conflicts of interest properly. The failure, or perceived failure, to adequately address conflicts of interest could affect the willingness of clients to deal with the Issuer, or give rise to litigation or enforcement actions against the Issuer. Therefore, there can be no assurance that conflicts of interest will not arise in the future that could cause material harm to the Issuer.

*The Issuer relies on recruiting, retaining and developing appropriate senior management and skilled personnel.*

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



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

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

The Issuer is required to comply with applicable anti-money laundering ("AML"), anti-terrorism, anti-bribery and corruption, sanctions and other laws and regulations applicable to it. These laws and regulations require the Issuer, among other things, to conduct full customer due diligence (including sanctions and politically-exposed person screening), keep the Issuer's customer, account and transaction information up to date and have implemented financial crime policies and procedures detailing what is required from those responsible. The Issuer is also required to conduct AML training for its employees and to report suspicious transactions and activity to appropriate law enforcement following full investigation by the Issuer's AML team.

Financial crime has become the subject of enhanced regulatory scrutiny and supervision by regulators globally. AML, anti-bribery and corruption and sanctions laws and regulations are increasingly complex and detailed. Compliance with these laws and regulations requires automated systems, sophisticated monitoring and skilled compliance personnel.

The Issuer has developed policies and procedures aimed at detecting and preventing the use of the Issuer's banking network for money laundering and other financial crime related activities. However, emerging technologies, such as cryptocurrencies and blockchain, could limit our ability to track the movement of funds. Our ability to comply with the legal requirements depends on our ability to improve detection and reporting capabilities and reduce variation in control processes and oversight accountability. These require implementation and embedding within the Issuer's business effective controls and monitoring, which in turn requires on-going changes to systems and operational activities. Financial crime is continually evolving and, as noted is subject to increasingly stringent regulatory oversight and focus. This requires proactive and adaptable responses from the Issuer so that the Issuer is able to deter threats and criminality effectively. Even known threats can never be fully eliminated, and there will be instances where the Issuer may be used by other parties to engage in money laundering and other illegal or improper activities. In addition, the Issuer relies heavily on its employees to assist the Issuer by spotting such activities and reporting them, and the Issuer's employees have varying degrees of experience in recognizing criminal tactics and understanding the level of sophistication of criminal organizations. Where the Issuer outsources any of its customer due diligence, customer screening or anti financial crime operations, the Issuer remains responsible and accountable for full compliance and any breaches. If the Issuer is unable to apply the necessary scrutiny and oversight of third parties to whom we outsource certain tasks and processes, there remains a risk of regulatory breach.

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

The reputational damage to the Issuer's business and global brand would be severe if the Issuer were found to have breached AML, anti-bribery and corruption or sanctions requirements. The Issuer's reputation could also suffer if the Issuer is unable to protect the Issuer's customers' bank products and services from being used by criminals for illegal or improper purposes.

In addition, while the Issuer reviews its relevant counterparties' internal policies and procedures with respect to such matters, the Issuer, to a large degree, relies upon its relevant counterparties to maintain and properly apply their own appropriate compliance procedures and internal policies. Such measures, procedures and internal policies may not be completely effective in preventing third parties from using the Issuer's (and the Issuer's relevant counterparties') services as a conduit for illicit purposes (including illegal cash operations) without the Issuer's (and the Issuer's relevant counterparties') knowledge. If the Issuer is associated with, or even accused of being associated with, breaches of AML, anti-terrorism or sanctions requirements, the Issuer's reputation could suffer and/or the Issuer could become subject to fines, sanctions and/or legal enforcement (including being added to "black lists" that would prohibit certain parties from

engaging in transactions with it), any one of which could have a material adverse effect on the Issuer's operating results, financial condition and prospects.

Any such risks could have a material adverse effect on the Issuer's operating results, financial condition and prospects.

*The Issuer is exposed to risk of loss from legal and regulatory proceedings.*

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

The Issuer is from time to time subject to certain regulatory investigations and civil and tax claims and party to certain legal proceedings incidental to the normal course of the Issuer's business, including in connection with conflicts of interest, lending activities, relationships with the Issuer's employees and other commercial or tax matters. In view of the inherent difficulty of predicting the outcome of legal matters, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories, involve a large number of parties or are in the early stages of investigation, discovery, the Issuer cannot state with confidence what the eventual outcome of these pending matters will be or what the eventual loss, fines or penalties related to each pending matter may be. The amount of the Issuer's reserves in respect of these matters is substantially less than the total amount of the claims asserted against the Issuer and in light of the uncertainties involved in such claims and proceedings, there is no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued by the Issuer. As a result, the outcome of a particular matter may be material to the Issuer's operating results for a particular period.

*The Issuer is subject to market, operational and other related risks associated with its derivative transactions that could have a material adverse effect on the Issuer.*

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

Market practices and documentation for derivative transactions in Chile may differ from those in other countries. For example, documentation may not incorporate terms and conditions of derivatives transactions as commonly understood in other countries. In addition, the execution and performance of these transactions depend on the Issuer's ability to maintain adequate control and administration systems. Moreover, the Issuer's ability to adequately monitor, analyze and report derivative transactions continues to depend, largely, on the Issuer's information technology systems. These factors further increase the risks associated with these transactions and could have a material adverse effect on the Issuer.

*The Issuer is subject to counterparty risk in its banking business.*

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

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

*The Issuer's loan and investment portfolios are subject to risk of prepayment, which could have a material adverse effect on the Issuer.*

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

*A significant deterioration in economic conditions may make it more difficult for the Issuer to continue funding its business on favorable terms with institutional investors.*

Large denominations of funding from time deposits from institutional investors may, under some circumstances, be a less stable source of funding than savings and bonds, such as during periods of significant changes in market interest rates for these types of deposit products and any resulting increased competition for such funds. As of December 31, 2017, short-term funding from institutional investors as defined by our Asset and Liability Committee totaled U.S.\$3.4 billion or 5.9% of total liabilities and equity. Significant future market instability in global markets, specifically the Eurozone and the U.S., may negatively affect the Issuer's ability to continue funding its business or maintain its current levels of funding without incurring higher funding costs or having to liquidate certain assets.

*If the Issuer is unable to manage the growth of its operations, this could have an adverse impact on the Issuer's profitability.*

The Issuer allocates management and planning resources to develop strategic plans for organic growth, and to identify possible acquisitions and disposals and areas for restructuring its businesses. From time to time, the Issuer evaluates acquisition and partnership opportunities that the Issuer believes offer additional value to its shareholders and are consistent with its business strategy. However, the Issuer may not be able to identify suitable acquisition or partnership candidates, and the Issuer's ability to benefit from any such acquisitions and partnerships will depend in part on the Issuer's successful integration of those businesses. Any such integration entails significant risks such as unforeseen difficulties in integrating operations and systems and unexpected liabilities or contingencies relating to the acquired businesses, including legal claims. The Issuer can give no assurances that the Issuer's expectations with regard to integration and synergies will materialize. The Issuer also cannot provide assurance that the Issuer will, in all cases, be able to manage its growth effectively or deliver its strategic growth objectives. Challenges that may result from the Issuer's strategic growth decisions include the Issuer's ability to:

- manage efficiently the operations and employees of expanding businesses;
- maintain or grow the Issuer's existing customer base;
- assess the value, strengths and weaknesses of investment or acquisition candidates, including local regulation that can reduce or eliminate expected synergies;
- finance strategic investments or acquisitions;
- align the Issuer's current information technology systems adequately with those of an enlarged group;
- apply the Issuer's risk management policy effectively to an enlarged group; and
- manage a growing number of entities without over-committing management or losing key personnel.

Any failure to manage growth effectively could have a material adverse effect on the Issuer's operating results, financial condition and prospects.

In addition, any acquisition or venture could result in the loss of key employees and inconsistencies in standards, controls, procedures and policies.

Moreover, the success of the acquisition or venture will at least in part be subject to a number of political, economic and other factors that are beyond the Issuer's control. Any of these factors, individually or collectively, could have a material adverse effect on the Issuer.

***The Issuer's controlling shareholder has a great deal of influence over the Issuer's business and its interests could conflict with yours.***

Santander Spain, the Issuer's controlling shareholder, controls Santander-Chile through its holdings in Teatinos Siglo XXI Inversiones S.A. and Santander Chile Holding S.A., which are controlled subsidiaries. Santander Spain has control over 67.18% of the Issuer's shares and actual participation, excluding non-controlling shareholders that participate in Santander Chile Holding, S.A., of 67.06%.

Due to its share ownership, the Issuer's controlling shareholder has the ability to control the Issuer and its subsidiaries, including the ability to:

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

In December 2012, primarily in response to the requirements of the European Banking Authority, the Bank of Spain and regulators in various jurisdictions, Santander Spain adopted a corporate governance framework (*Marco de Gobierno Interno del Grupo Santander*). The purpose of the framework is to organize and standardize the corporate governance practices of Santander Spain and its most significant subsidiaries, including the Issuer. The Issuer's Board of Directors approved the adoption of this corporate governance framework in July 2013, subject to certain overarching principles, such as the precedence of applicable laws and regulations over the framework to the extent they are in conflict. See "Item 16G. Corporate Governance" in the Issuer's 2017 IFRS Annual Report. The Issuer's adoption of this framework may increase Santander Spain's control over the Issuer.

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

### **Risks Relating to Chile**

***The Issuer's growth, asset quality and profitability may be adversely affected by macroeconomic and political conditions in Chile.***

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

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

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

The recent fall and subsequent fluctuation in oil prices may give rise to volatility in the global financial markets and further economic instability in oil-dependent regions, such as Chile. In addition, the ability of borrowers in or exposed to the oil sector has been and may be further adversely affected by such price fluctuations.

The Issuer's growth, asset quality and profitability may be adversely affected by volatile macroeconomic and political conditions in Chile.

Any material change to United States trade policy with respect to Chile could have a material adverse effect on the economy, which could in turn materially harm our financial condition and results of operations.

*Portions of **the Issuer's** loan portfolio are subject to risks relating to force majeure events and any such event could materially adversely affect **the Issuer's** operating results.*

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

*Changes in taxes, including the corporate tax rate, in Chile may have an adverse effect on the Issuer and **the Issuer's** clients.*

The Chilean Government enacted in 2014 and again in 2016 a reform to the tax and other assessment regimes to which the Issuer is subject in order to finance greater expenditure in education. The most important changes approved were:

1. A corporation such as Banco Santander Chile with a majority of shareholders that are incorporated entities is obliged to adhere to the sistema integrado parcial (SIP or partially integrated tax system). The statutory tax rate rose to 27% in 2018 and onward, with personal taxes paid on a dividend basis, therefore retaining some benefits for shareholders of companies that reinvest profits.
2. Decree-Law 600, which gives foreign investors certain tax and other guarantees, was replaced by Law No. 20,848 of June 25, 2015, which introduced a new foreign investment regime called the Direct Foreign Investment.
3. The maximum personal income tax rate has been reduced from 40% to 35%, starting in 2018.
4. VAT exemption of 225 UF per dwelling was lowered for houses of a construction value up to 2,000 UF.
5. Extension of certain tax benefits and simplified accounting for companies with annual earnings up to 50,000 UF.
6. Under SIP, withholding tax on dividends paid to ADR holders remains unchanged at 35% with the statutory corporate tax rate paid by the company still available as credit to the withholding tax, provided that ADR holders are domiciled in a country with a signed treaty to avoid double

taxation with Chile. For other foreign investors, starting in 2018, the effective rate will be 44.45% on distributed income because the corporate tax credit is limited to 65% of the tax paid by any company.

In general, these reforms may have an adverse effect on the growth rate of mortgage loans and could slow down the rate of economic growth if tax receipts are not spent efficiently or for their intended purposes. The Issuer cannot predict at this time if these reforms will have a material impact on its business or clients or if further tax reforms will be implemented in the future. Banco Santander Chile's effective corporate tax rate should rise in the future, which may have an adverse impact on the Issuer's results of operations. Please see "Item 10—Additional information—E. Taxation" for more information regarding the impacts of this tax reform on ADR holders in the Issuer's 2017 IFRS Annual Report.

*Developments in other countries may affect the Issuer, including the prices for **the Issuer's securities**.*

The prices of securities issued by Chilean companies, including banks, are influenced to varying degrees by economic and market considerations in other countries. The Issuer 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 the Issuer's business, financial condition or results of operations.

The Issuer is exposed to risks related to the weakness and volatility of the economic and political situation in Asia, the United States, Europe (including Spain, where Santander Spain, the Issuer's controlling shareholder, is based), Brazil, Argentina and other nations. Although economic conditions in Europe and the United States may differ significantly from economic conditions in Chile, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Chilean issuers. In particular, investor perceptions of the risks associated with the Issuer's securities may be affected by perception of risk conditions in Spain.

If these nations' economic conditions deteriorate, the economy in Chile, as both a neighboring country and a trading partner, could also be affected and could experience slower growth than in recent years, with possible adverse impact on the Issuer's borrowers and counterparties. If this were to occur, the Issuer would potentially need to increase its allowances for loan losses, thus affecting the Issuer's financial results, the Issuer's results of operations and the price of the Issuer's securities. As of December 31, 2017, approximately 3.6% of the Issuer's assets were held abroad. There can be no assurance that the ongoing effects of the global financial crisis will not negatively impact growth, consumption, unemployment, investment and the price of exports in Chile. Crises and political uncertainties in other Latin American countries could also have an adverse effect on Chile, the price of the Issuer's securities or the Issuer's business.

Chile has considerable economic ties with China, the United States and Europe. In 2017, approximately 27.5% of Chile's exports went to China, mainly copper. China's economy has grown at a strong pace in recent times, but a slowdown in economic activity in China may affect Chile's GDP and export growth as well as the price of copper, which is Chile's main export. Chile exported approximately 14.4% of total exports to the United States and 14.9% to Europe in 2017.

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

*Fluctuations in the rate of inflation may affect **the Issuer's results of operations**.*

High levels of inflation in Chile could adversely affect the Chilean economy and have an adverse effect on the Issuer's business, financial condition and results of operations. Extended periods of deflation could also have an adverse effect on the Issuer's business, financial condition and results of operations. In 2009, Chile experienced deflation of 1.4% as the global economy contracted. In 2017, CPI inflation was 2.3% compared to 2.7% in 2016.

The Issuer's assets and liabilities are denominated in Chilean pesos, UF and foreign currencies. The UF is revalued in monthly cycles. On each day in the period beginning on the tenth day of any given month through the ninth day of the succeeding month, the nominal peso value of the UF is indexed up (or down in

the event of deflation) in order to reflect a proportionate amount of the change in the Chilean Consumer Price Index during the prior calendar month. For more information regarding the UF, see “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Impact of Inflation” in the Issuer’s 2017 IFRS Annual Report. Although the Issuer benefits from inflation in Chile due to the current structure of the Issuer’s assets and liabilities (*i.e.*, a significant portion of the Issuer’s 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 the Issuer’s funding base), there can be no assurance that the Issuer’s business, financial condition and result of operations in the future will not be adversely affected by changing levels of inflation, including from extended periods of inflation that adversely affect economic growth or periods of deflation.

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

*Currency fluctuations could adversely affect **the Issuer’s** financial condition and results of operations and the value of **the Issuer’s** securities.*

Any future changes in the value of the Chilean peso against the U.S. dollar will affect the U.S. dollar value of the Issuer’s 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. The Issuer’s results of operations may be affected by fluctuations in the exchange rates between the peso and the dollar despite the Issuer’s policy and Chilean regulations relating to the general avoidance of material exchange rate exposure. In order to avoid material exchange rate exposure, the Issuer enters into forward exchange transactions. The following table shows the value of the Chilean peso relative to the U.S. dollar as reported by the Central Bank at year end for the last five years and the devaluation or appreciation of the peso relative to the U.S. dollar in each of those years.

Year	Exchange rate (Ch\$) at year end	Devaluation (Appreciation) (%)
2013.....	523.76	9.4
2014.....	607.38	16.0
2015.....	707.34	16.5
2016.....	667.29	(5.7)
2017.....	615.22	(7.8)
2018 (through June 25, 2018)	637.45	(3.7)

Source: Central Bank.

The Issuer may decide to change its policy regarding exchange rate exposure. Regulations that limit such exposures may also be amended or eliminated. Greater exchange rate risk will increase the Issuer’s exposure to the devaluation of the peso, and any such devaluation may impair the Issuer’s capacity to service foreign currency obligations and may, therefore, materially and adversely affect its 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 the Issuer’s financial condition and results of operations.

*The Issuer is subject to substantial regulation and regulatory and governmental oversight which could adversely affect its business, operations and financial condition.*

As a financial institution, the Issuer is subject to extensive regulation, which materially affects its businesses. The statutes, regulations and policies to which the Issuer is subject may be changed at any time. In addition, the interpretation and the application by regulators of the laws and regulations to which the Issuer is subject may also change from time to time. In the wake of the global financial crisis, the financial services industry continues to experience significant financial regulatory reform in jurisdictions outside of Chile that directly or indirectly affect the Issuer’s business, including Spain, the European Union, the United States, Latin America and other jurisdictions. Changes to current legislation and their implementation through regulation (including additional capital, leverage, funding, liquidity and tax requirements), policies (including fiscal and monetary policies established by central banks and financial regulators, and changes to global trade policies), and other legal and regulatory actions may impose additional regulatory burden on Santander Group, including Santander-Chile, in these jurisdictions. The manner in which these laws and related regulations are applied

to the operations of financial institutions is still evolving. Moreover, to the extent these recently adopted regulations are implemented inconsistently in the various jurisdictions in which the Issuer operates, the Issuer may face higher compliance costs.

Any legislative or regulatory actions and any required changes to the Issuer's business operations resulting from such legislation and regulations, as well as any deficiencies in the Issuer's compliance with such legislation and regulation, could result in significant loss of revenue, limit the Issuer's ability to pursue business opportunities in which it might otherwise consider engaging and provide certain products and services, affect the value of assets that it holds, require the Issuer to increase its prices and therefore reduce demand for its products, impose additional compliance and other costs on the Issuer or otherwise adversely affect its businesses. In particular, legislative or regulatory actions resulting in enhanced prudential standards, in particular with respect to capital and liquidity, could impose a significant regulatory burden on the Issuer or on its bank subsidiaries and could limit the bank subsidiaries' ability to distribute capital and liquidity to the Issuer, thereby negatively impacting the Issuer. Future liquidity standards could require the Issuer to maintain a greater proportion of its assets in highly-liquid but lower-yielding financial instruments, which would negatively affect its net interest margin. Moreover, the Issuer's regulatory authorities, as part of their supervisory function, periodically review the Issuer's allowance for loan losses. Such regulators may require the Issuer to increase its allowance for loan losses or to recognize further losses. Any such additional provisions for loan losses, as required by these regulatory agencies, whose views may differ from those of the Issuer's management, could have an adverse effect on the Issuer's earnings and financial condition. Accordingly, there can be no assurance that future changes in regulations or in their interpretation or application will not adversely affect the Issuer.

The wide range of regulations, actions and proposals which most significantly affect the Issuer, or which could most significantly affect the Issuer in the future, relate to capital requirements, funding and liquidity and regulatory reforms in Chile, and are discussed in further detail below. These and other regulatory reforms adopted or proposed in the wake of the financial crisis have increased and may continue to materially increase the Issuer's operating costs and negatively impact its business model. Furthermore, regulatory authorities have substantial discretion in how to regulate banks, and this discretion, and the means available to the regulators, have been increasing during recent years. Regulation may be imposed on an ad hoc basis by governments and regulators in response to a crisis. In addition, the volume, granularity, frequency and scale of regulatory and other reporting requirements necessitate a clear data strategy to enable consistent data aggregation, reporting and management. Inadequate management information systems or processes, including those relating to risk data aggregation and risk reporting, could lead to a failure to meet regulatory reporting requirements or other internal or external information demands and the Issuer may face supervisory measures as a result.

The main regulations and regulatory and governmental oversight that can adversely impact the Issuer include but are not limited to the following (see more details on "Item 4. Information on the Company—B. Business Overview—Regulation and Supervision" in the Issuer's 2017 IFRS Annual Report):

The Issuer is subject to regulation by the SBIF and by the Central Bank with regard to certain matters, including reserve requirements, interest rates, foreign exchange mismatches and market risks. Chilean laws, regulations, policies and interpretations of laws relating to the banking sector and financial institutions are continually evolving and changing. Any new reforms could result in increased competition in the industry and thus may have a material adverse effect on the Issuer's financial condition and results of operations.

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 the Issuer's financial condition or results of operations.

Historically, Chilean banks have not paid interest on amounts deposited in checking accounts. The Issuer has begun to pay interest on some checking accounts under certain conditions. If competition or other factors lead the Issuer to pay higher interest rates on checking accounts, to relax the conditions under which



the Issuer pays interest or to increase the number of checking accounts on which the Issuer pays interest, any such change could have a material adverse effect on the Issuer's financial condition or results of operations.

On November 20, 2013, the Chilean Congress approved new legislation to reduce the maximum rates that can be charged on loans. This new legislation is aimed at loans of less than UF 50 (U.S.\$2,178) and between UF 50 and UF 200 (U.S. \$8,712) and with a term of more than 90 days, and thus includes consumer loans in installments, lines of credit and credit card lines. Previously, the maximum interest rate for loans of less than UF 200 and with a term of more than 90 days was calculated as the average rate of all transactions undertaken within the banking industry over the previous month of loans of less than UF 200 and with a term of more than 90 days, multiplied by a factor of 1.5. The objective was to lower the maximum rate to a level closer to the average interest rate for loans between UF 200 (U.S.\$8,712) to UF 5,000 (U.S.\$217,793) plus 14%, unless the flow of new loans in the industry decreases by 10%-20%, in which case the reduction will be partially or completely suspended until the next period. The average and maximum rates are published daily by the SBIF. By year-end 2017, the maximum rate for loans equal or lower than UF 50 (U.S. \$2,178) was 35.82%. The maximum rate for loans between UF 50 (U.S.\$2,178) and UF 200 (U.S.\$8,712) was 28.82%.

The SBIF and the Ministry of Finance have drafted a new General Banking Law that is expected to be approved by the Chilean Congress in 2018. Among other things, the new banking law is expected to include clearer guidelines for the adoption of Basel III regulations in Chile and new regulations regarding the SBIF's corporate governance and its absorption by the newly created Comité de Mercado Financiero (CMF).

*A change in labor laws in Chile or a worsening of labor relations in the Issuer could impact the Issuer's business.*

As of December 31, 2017 on a consolidated basis, the Issuer had 11,068 employees. The Issuer has traditionally enjoyed good relations with its employees and their unions. Of the total headcount of the Issuer and its subsidiaries, 8,206 or 74.1% were unionized as of December 31, 2017. In February 2018, a new collective bargaining agreement was signed with the main unions, ahead of schedule, which will come into effect on September 1, 2018 and which expires on August 31, 2021, though it may also be renegotiated ahead of schedule with the consent of management and the union. The Issuer generally applies the terms of its collective bargaining agreement to unionized and non-unionized employees. The Issuer has traditionally had good relations with its employees and their unions, but the Issuer cannot assure you that in the future, a strengthening of cross-industry labor movements will not materially and adversely affect its business, financial condition or results of operations.

Congress passed a new labor law in 2016 that became effective on April 1, 2017. The main points included in this law are:

- Expands the scope of collective bargaining. Currently some groups of workers are excluded from the collective bargaining process.
- Permits the extension of benefits agreed to in the collective employment contract only with the agreement of the union, in contrast to before the reform when this was a unilateral prerogative of the employer.
- Expands the right to greater information of unions including the wages of each worker included in a collective bargaining agreement.
- Simplifies the standard collective bargaining process.
- Collective bargaining agreements must last maximum three years instead of four.
- Eliminates the ability of the employer to replace workers on strike—even with in-house workers—and establishes minimum service guidelines that unions must respect.
- Establishes the current collective bargaining agreement as the bargaining floor for future collective bargaining agreements.
- Amplifies the matters that can be negotiated in collective bargaining.

- Increases hours for training of union representatives.
- Strengthens the participation of women in unions.

The Issuer currently has a high unionization level and good labor relations. At this time, the Issuer is unable to estimate the impact these new regulations will have on labor relations and costs.

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

*The Issuer's corporate disclosure may differ from disclosure regularly published by issuers of securities in other countries, including the United States.*

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

*Investors may find it difficult to enforce civil liabilities against the Issuer or **the Issuer's** directors, officers and controlling persons.*

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

It may also be difficult for holders of the Notes to enforce in the United States or in Chilean courts money judgments obtained in United States courts against the Issuer or the Issuer's 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.

## **RISK FACTORS IN RESPECT OF THE NOTES**

Notes issued under the Program may not be a suitable investment for all investors. Each potential investor in Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in such Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such Notes will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including Notes with principal or interest payable in one or more Specified Currencies, or where the Specified Currency for principal or interest payments is different from the potential investor's usual currency for holding investments;
- (d) understand thoroughly the terms of the relevant Notes and be familiar with the behavior of any relevant indices and financial markets; and
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment in the relevant Notes and its ability to bear the applicable risks.

## **RISKS RELATED TO THE NOTES GENERALLY**

Set out below is a brief description of certain risks relating to the Notes generally:

*There is no trading market for the Notes; you may be unable to sell your Notes if a trading market for the Notes does not develop.*

Each Series of Notes will constitute a new issue of securities with no established trading market. Application has been made to Euronext Dublin for Notes issued under the Program to be admitted to the Official List and trading on the Main Securities Market of Euronext Dublin. The Issuer cannot assure you that an active trading market for the Notes will develop. If a trading market does not develop or is not maintained, holders of the Notes may experience difficulty in reselling the Notes or may be unable to sell them at all. Even if a market develops, the liquidity of any market for the Notes will depend on the number of holders of the Notes, the interest of securities dealers in making a market in the Notes and other factors. Accordingly, there can be no assurance as to the development or liquidity of any market for the Notes, the ability of holders to sell the Notes or the prices at which the Notes could be sold. Because the market for any Series of Notes may not be liquid, you may have to bear the economic risk of an investment in the Notes for an indefinite period of time. If an active trading market does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price

depending upon prevailing interest rates, the market for similar securities, general economic conditions, the Issuer's performance and business prospects and other factors.

*Market price risk.*

The market price of each Series of Notes depends on various factors, such as changes of interest rate levels, the policy of central banks, overall economic developments, inflation rates or the supply and demand for the relevant type of Note. The market price of each Series of Notes may also be negatively affected by an increase in the Issuer's credit spreads (*i.e.*, the difference between yields on the Issuer's debt and the yield of government bonds or swap rates of similar maturity). The Issuer's credit spreads are mainly based on its perceived creditworthiness but also influenced by other factors such as general market trends as well as supply and demand for such Series of Notes.

*Exchange rate risk and exchange controls.*

An investment in Notes that are denominated in, or the payment of which is to be or may be made in or related to the value of, a currency or composite currency other than the currency of the country in which the purchaser is a resident or the currency in which the purchaser conducts its business or activities (the "home currency") entails significant risks that are not associated with a similar investment in a security denominated in the home currency. Such risks include the possibility of significant changes in rates of exchange between the home currency and the various foreign currencies (or composite currencies) after the issuance of such Note and the possibility of the imposition or modification of foreign exchange controls by either the U.S. or foreign governments. Such risks generally depend on economic and political events over which each Issuer has no control. In recent years, rates of exchange between certain currencies have been highly volatile and such volatility may be expected to continue in the future. Fluctuations in any particular exchange rate that have occurred in the past are not necessarily indicative, however, of fluctuations in such rate that may occur during the term of any Note. Depreciation of the currency in which a Note is denominated against the relevant home currency would result in a decrease in the effective yield of such Note below its coupon rate and, in certain circumstances, could result in a loss to the investor on a home currency basis.

Foreign exchange rates can either be fixed by sovereign governments or float. Exchange rates of most economically developed nations are permitted to fluctuate in value relative to the U.S. Dollar. National governments, however, rarely voluntarily allow their currencies to float freely in response to economic forces. Governments in fact use a variety of techniques, such as intervention by a country's central bank or imposition of regulatory controls or taxes, to affect the exchange rate of their currencies. Governments may also issue a new currency to replace an existing currency, or alter the exchange rate or relative exchange characteristics by devaluation or revaluation of a currency. Thus, a special risk in purchasing non-home currency denominated Notes is that their home currency-equivalent yields could be affected by governmental actions, which could change or interfere with theretofore freely determined currency valuation, fluctuations in response to other market forces, and the movement of currencies across borders. There will be no adjustment or change in the terms of such Notes in the event that exchange rates should become fixed, or in the event of any devaluation or revaluation or imposition of exchange or other regulatory controls or taxes, or in the event of other developments affecting the U.S. Dollar or any applicable Specified Currency.

Governments have imposed from time to time, and may in the future impose, exchange controls which could affect exchange rates as well as the availability of a specified foreign currency at the time of payment of principal and of premium, if any, or interest, if any, on a Note. Even if there are no actual exchange controls, it is possible that the Specified Currency for any particular Note not denominated in U.S. Dollars would not be available at such Note's maturity. In that event, the Issuer would make required payments in U.S. Dollars on the basis of the market exchange rate on the date of such payment, or if such rate of exchange is not then available, on the basis of the market exchange rate as of the most recent practicable date. See "Special Provisions Relating to Foreign Currency Notes—Payments on Foreign Currency Notes."

*Interest rate risk.*

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

*Credit ratings may not reflect all risks, and the Issuer cannot assure you that such ratings will not be lowered, suspended or withdrawn by the rating agencies.*

One or more independent credit rating agencies may assign credit ratings to the Notes. Where a Series of Notes is rated, such rating will not necessarily be the same as the rating assigned to the Notes to be issued under the Program. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. The credit ratings of the Notes may change after issuance. Such ratings are limited in scope, and do not address all material risks relating to an investment in the Notes, but rather reflect only the views of the rating agencies at the time the ratings are issued. An explanation of the significance of such ratings may be obtained from the rating agencies. The Issuer cannot assure you that such credit ratings will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any lowering, suspension or withdrawal of such ratings may have an adverse effect on the market price and marketability of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Any ratings assigned to Notes as at the date of this Base Prospectus are not indicative of future performance of the Issuer's business or its future creditworthiness.

***The Issuer's obligations under the Notes will be subordinated to certain statutory liabilities.***

Under Chilean bankruptcy law, the Issuer's obligations under the Notes are subordinated to certain statutory preferences. In the event of the Issuer's liquidation, such statutory preferences, including claims for salaries, wages, secured obligations, social security, taxes and court fees and expenses related thereto, will have preference over any other claims, including claims by any investor in respect of the Notes.

*Changes in Chilean tax laws could lead to the Issuer redeeming the Notes.*

Payments of interest in respect of the Notes made by the Issuer to foreign holders will be subject to Chilean interest withholding tax currently assessed at a rate of 4.0%. Subject to certain exemptions, the Issuer will pay Additional Amounts (as defined in "Description of the Notes—Payment of Additional Amounts") so that the amount received by the holder after Chilean withholding tax will equal the amount that would have been received if no such taxes had been applicable. The Notes can be redeemable at the Issuer's option, subject to applicable Chilean law, in whole but not in part, at any time, at the principal amount thereof plus accrued and unpaid interest and any Additional Amounts due thereon if, as a result of changes in the laws or regulations affecting Chilean taxation, the Issuer becomes obligated to pay Additional Amounts on the Notes based on a rate of withholding or deduction in excess of 4.0%. The Issuer cannot assure you that an increase in withholding tax rate will not be presented to or enacted by the Chilean Congress. See "Description of the Notes—Redemption Prior to Maturity Solely for Taxation Reasons" and "Taxation—Chilean Taxation."

*The Notes are subject to certain transfer restrictions.*

The Notes have not been registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. Accordingly, the Notes may be transferred or resold only in a transaction registered under or exempt from the registration requirements of the Securities Act and in compliance with any other applicable securities law. See "Transfer and Selling Restrictions."

*Holders of Notes may find it difficult to enforce civil liabilities against the Issuer or its directors, executive officers and controlling persons.*

The Issuer is organized under the laws of Chile and its principal place of business (*domicilio social*) is in Santiago, Chile. None of its directors are residents of the United States, and most of its executive officers and controlling persons reside outside of the United States.

In addition, all or a substantial portion of the assets of the Issuer and its directors, executive officers and controlling persons are located outside of the United States. As a result, it may be difficult for holders of Notes to effect service of process within the United States on such persons or to enforce judgments against them, including in any action based on civil liabilities under the U.S. federal securities laws. Based on the opinion of the Issuer's Chilean counsel, there is doubt as to the enforceability against such persons in Chile,

whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws. See “Service of Process and Enforcement of Civil Liabilities.”

*After December 31, 2018, the Issuer or other intermediaries may be required to withhold U.S. tax on payments made to certain non-U.S. financial institutions on certain Notes.*

Provisions of U.S. tax law commonly referred to as the Foreign Account Tax Compliance Act, or FATCA, impose a 30% withholding tax on certain payments made to a foreign financial institution (such as the Issuer) unless the financial institution is a “participating foreign financial institution,” or a PFFI, or otherwise exempt from FATCA. A PFFI is a foreign financial institution that has entered into an agreement with the U.S. Treasury Department, or an FFI agreement, pursuant to which it agrees to perform specified due diligence, reporting and withholding functions. Specifically, under its FFI agreement, a PFFI will be required to obtain and report to the IRS certain information with respect to financial accounts held by U.S. persons or U.S.-owned foreign entities and to withhold 30% from “foreign passthru payments” (which term is not yet defined) that it makes to “recalcitrant” accountholders or to foreign financial institutions that are not PFFIs or otherwise exempt from FATCA on or after the later of January 1, 2019 and the date of publication of final Treasury regulations defining the term “foreign passthru payments.” No such withholding would apply to any payments made on debt obligations that are issued before (and not materially modified after) the date that is six months after the date on which final regulations defining the term “foreign passthru payments” are published. The United States and Chile have entered into an intergovernmental agreement to facilitate the implementation of FATCA pursuant to which Chilean financial institutions (such as the Issuer) will be directed by Chilean authorities to register with the IRS and fulfill obligations consistent with those required under an FFI agreement. The Issuer has registered with the IRS to become a PFFI. The United States has also entered into intergovernmental agreements with other jurisdictions. These intergovernmental agreements (including the intergovernmental agreement with Chile) do not address how the United States and the relevant jurisdictions (including Chile) will address “foreign passthru payments” or whether withholding on such payments will be required by financial institutions that are subject to a FATCA intergovernmental agreement.

## **RISKS RELATED TO THE STRUCTURE OF A PARTICULAR ISSUE OF NOTES**

A wide range of Notes may be issued under the Program. Some Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the relevant Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact such investment will have on the potential investor’s overall investment portfolio. Certain Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

*Notes subject to optional redemption by the Issuer.*

Notes with an optional redemption are likely to have a limited market value. During any period when the Issuer may elect to redeem Notes, the market value of such Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

*Variable Rate Notes with a multiplier or other leverage factor.*

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

#### *LIBOR Notes, EURIBOR Notes and other Floating Rate Notes.*

On July 27, 2017, the Chief Executive of the U.K. Financial Conduct Authority (“FCA”), which regulates LIBOR, announced that the FCA will no longer persuade or require banks to submit rates for the calculation of LIBOR after 2021. This announcement, in conjunction with financial benchmark reforms more generally and changes in the interbank lending markets, have resulted in uncertainty about the future of LIBOR and certain other rates or indices which are used as interest rate “benchmarks.” These actions and uncertainties may have the effect of triggering future changes in the rules or methodologies used to calculate benchmarks or lead to the discontinuance or unavailability of benchmarks. If LIBOR, EURIBOR or another benchmark that the Issuer uses as the interest rate for Floating Rate Notes is no longer quoted or is discontinued, the interest rate for any such Notes will be calculated using an alternative method. See “Description of the Notes—Interest and Interest Rates.” Any of these alternative methods may result in interest payments on the notes that are higher than, lower than or that do not otherwise correlate over time with the interest payments that would have been made on the Notes if the applicable benchmark was available in its current form. Further, the same reforms, actions, costs and/or risks that may lead to the discontinuation or unavailability of LIBOR, EURIBOR or another benchmark may make one or more of the alternative methods impossible or impracticable to determine. For example, if LIBOR is no longer quoted or is discontinued, the final alternative method for determining LIBOR for the applicable Interest Determination Date is to use the LIBOR in effect for the then-current interest period. Any of the foregoing may have an adverse effect on the value of, return on and trading market for any Floating Rate Notes issued by the Issuer that are based on LIBOR, EURIBOR or another benchmark.

#### *Inverse Floating Rate Notes.*

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of such Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

#### *Fixed/Floating Rate Notes.*

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer’s ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favorable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

#### *Notes issued at a substantial discount.*

The market values of securities issued at a substantial discount from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the Notes, the greater the price volatility as compared to conventional interest-bearing Notes with comparable maturities.

#### *Particular Tax Consequences of Holding Bearer Notes.*

Any potential investor should consult its own independent tax adviser for more information about the tax consequences of acquiring, owning and disposing of Bearer Notes in its particular circumstances. See “Taxation.” Bearer Notes generally may not be offered or sold in the United States or to United States persons. Unless an exemption applies, a United States person holding a Bearer Note or coupon will not be entitled to deduct any loss on the Bearer Note or coupon and must treat as ordinary income any gain realized on the sale or other taxable disposition of the Bearer Note or coupon.

## GENERAL DESCRIPTION OF THE PROGRAM

### GENERAL

Under this Program, the Issuer may from time to time issue Notes to one or more of the following Dealers: BNP Paribas, London Branch, BNP Paribas Securities Corp., Citigroup Global Markets Inc., Citigroup Global Markets Limited, Crédit Agricole Corporate and Investment Bank, Credit Suisse Securities (USA) LLC, Daiwa Capital Markets America Inc., Deutsche Bank Aktiengesellschaft, Deutsche Bank Securities Inc., Goldman Sachs & Co. LLC, HSBC Bank plc, HSBC Securities (USA) Inc., J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Mizuho International plc, Mizuho Securities USA LLC, Santander Investment Securities Inc., Scotia Capital (USA) Inc., Standard Chartered Bank, UBS Limited, UBS Securities LLC, UniCredit Bank AG, Wells Fargo Securities, LLC and any other Dealer appointed from time to time in accordance with the Fourth Amended and Restated Dealer Agreement which appointment may be for a specific issue or on an ongoing basis (each a “**Dealer**” and together the “**Dealers**”). References in this Base Prospectus to the “**relevant Dealer**” shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

Each Series of Notes is issued either in bearer form or in registered form and Notes comprising each such Series will be issued in each case in the nominal amount of the denomination specified (the “**Specified Denomination**”) in the applicable final terms (the “**Final Terms**”). The maximum aggregate principal amount of all Notes from time to time outstanding under the Program will not exceed U.S.\$5,500,000,000 (or its equivalent in other currencies calculated as described in the Fourth Amended and Restated Dealer Agreement), subject to increase in accordance with the terms of the Fourth Amended and Restated Dealer Agreement.

Notes will be issued by the Issuer through its head office in Santiago, Chile.

Notes may be distributed by way of public offer (in jurisdictions in which a public offer of the Notes is permitted) or private placement and, in each case, on a syndicated or non-syndicated basis. The method of distribution of each Tranche will be stated in the applicable Final Terms.

Notes will be issued on a continuous basis in tranches (each a “**Tranche**”), each Tranche consisting of Notes that are identical in all respects (including as to admission to trading and listing). One or more Tranches that are (i) expressed to be consolidated and forming a single series and (ii) identical in all respects (except for different issue dates, interest commencement dates, issue prices and dates for first interest payments) may form a series (“**Series**”) of Notes. Further Notes may be issued as part of existing Series. The specific terms of each Tranche will be set forth in the applicable Final Terms.

Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the applicable Final Terms. The minimum Specified Denomination of the Notes will be Euro 100,000 (or, if the Notes are denominated in a currency other than the Euro, the equivalent amount in such currency) or such higher amount as may be allowed or required from time to time by the relevant Central Bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.

Notes may be issued at an issue price which is at par or at a discount to, or premium over, par, as specified in the applicable Final Terms.

References in this Base Prospectus to Notes which are intended to be listed (and all related references) shall mean that such Notes have been admitted to the Official List and trading on the Main Securities Market of Euronext Dublin. The Program provides that Notes may be listed or admitted to trading on other or further stock exchanges including, but not limited to, the Luxembourg Stock Exchange, the Frankfurt Stock Exchange and the SIX Swiss Exchange, as may be agreed between the Issuer and the relevant Dealer(s) in relation to each issue. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

**Prospective purchasers of Notes should ensure that they understand the nature of the relevant Notes and the extent of their exposure to risks and that they consider the suitability of the relevant Notes as an investment in the light of their own financial situation. Certain issues of Notes involve a high degree of risk and potential investors should be prepared to sustain a loss of all or part of their**



**investment. It is the responsibility of prospective purchasers to ensure that they have sufficient knowledge, experience and professional advice to make their own legal, financial, tax, accounting and other business evaluation of the merits and risks of investing in the Notes and are not relying on the advice of the Issuer or any Dealer in that regard. See “Risk Factors” on pages 1 to 32. In addition any applicable Final Terms may contain specific risk factors relating to the relevant issue of Notes.**

Bearer Notes will be accepted for clearing through one or more Clearing Systems as specified in the applicable Final Terms. These Clearing Systems will include those operated by Clearstream Banking AG, Frankfurt (“**CBF**”), Clearstream Banking, *société anonyme*, Luxembourg (“**CBL**”) and Euroclear Bank S.A./N.V. (“**Euroclear**”).

Registered Notes will either (i) be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company (“**DTC**”), (ii) be deposited with a common depository for, and registered in the name of a common nominee of, Euroclear and CBL, or (iii) be deposited with a custodian or depository for, and registered in the name of, a nominee of any other clearing system specified for a particular Tranche or Series of Notes, in each case, as specified in the applicable Final Terms. No beneficial owner of an interest in a Registered Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and CBL, in each case to the extent applicable.

Bank of America, National Association, London Branch will act as fiscal agent (the “**Fiscal Agent**”), unless otherwise stated in the applicable Final Terms. Bank of America, National Association, London Branch (the “**Non-U.S. Transfer Agent**”) and Bank of America, National Association (the “**U.S. Transfer Agent**”) will act as transfer agents (the “**Transfer Agents**”). Bank of America, National Association, London Branch (the “**Non-U.S. Paying Agent**”), Bank of America, National Association (the “**U.S. Paying Agent**”) and other institutions, all as indicated in the applicable Final Terms, will act as paying agents (the “**Paying Agents**”). McCann Fitzgerald Listing Services Limited will act as the Irish listing agent (the “**Irish Listing Agent**”). Bank of America, National Association will act as the U.S. registrar (the “**U.S. Registrar**”) and Bank of America Merrill Lynch International Limited, Dublin Branch will act as the Irish registrar (the “**Irish Registrar**,” and, together with the U.S. Registrar, the “**Registrars**”). Bank of America, National Association will act as exchange agent (“**Exchange Agent**”). The Fiscal Agent, the Transfer Agents, the Paying Agents, the Irish Listing Agent, the Registrars and the Exchange Agent are hereinafter referred to as the “**Agents**.”

## OVERVIEW OF THE PROGRAM

This overview must be read as an introduction to this Base Prospectus and is provided as an aid to investors when considering whether to invest in the Notes, but is not a substitute for the Base Prospectus. Any decision to invest in the Notes should be based on a consideration of the Base Prospectus as a whole, including the documents incorporated by reference.

*Conditions for determining price to be included in the Base Prospectus*

The price and amount of Notes to be issued under the Program will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.

## RISK FACTORS

There are certain factors that may affect the ability of the Issuer to fulfill its obligations under Notes issued under the Program. Such factors include liquidity, credit and event risks. In addition, there are certain factors that are material for the purpose of assessing the market risks associated with the Notes issued under the Program, including the structure of a particular issue of Notes and risks related to the market generally. See “Risk Factors” below.

## THE NOTES AND THE PROGRAM

<b>Issuer:</b>	Banco Santander-Chile
<b>Dealers:</b>	BNP Paribas, London Branch
	BNP Paribas Securities Corp.
	Citigroup Global Markets Inc.
	Citigroup Global Markets Limited
	Crédit Agricole Corporate and Investment Bank
	Credit Suisse Securities (USA) LLC
	Daiwa Capital Markets America Inc.
	Deutsche Bank Aktiengesellschaft
	Deutsche Bank Securities Inc.
	Goldman Sachs & Co. LLC
	HSBC Bank plc
	HSBC Securities (USA) Inc.
	J.P. Morgan Securities LLC
	Merrill Lynch, Pierce, Fenner & Smith Incorporated
	Mizuho International plc
	Mizuho Securities USA LLC
	Santander Investment Securities Inc.
	Scotia Capital (USA) Inc.
	Standard Chartered Bank
	UBS Limited
	UBS Securities LLC
	UniCredit Bank AG

Wells Fargo Securities, LLC

Notes may also be issued to other dealers and to third parties other than dealers.

**Fiscal Agent, Non-U.S. Paying Agent, Transfer Agent and Exchange Agent:**

Bank of America, National Association, London Branch

**Irish Registrar:**

Bank of America Merrill Lynch International Limited, Dublin Branch

**Irish Listing Agent:**

McCann Fitzgerald Listing Securities Limited

**U.S. Paying Agent, U.S. Registrar and U.S. Transfer Agent:**

Bank of America, National Association

**Distribution:**

Notes may be distributed (i) to qualified institutional buyers (as defined in Rule 144A under the Securities Act) and (ii) outside the United States to persons other than U.S. persons (as such terms are defined in Regulation S under the Securities Act) by way of private or public placement, in each case on a syndicated or non-syndicated basis, subject to the selling restrictions described under “*Transfer and Selling Restrictions.*”

**Specified Currencies:**

Subject to any applicable legal or regulatory restrictions, such currencies as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms).

**Maximum Amount:**

The aggregate principal amount of Notes outstanding at any time shall not exceed U.S.\$5,500,000,000 or the approximate equivalent thereof in another currency calculated as at the issue date of the relevant Notes.

**Maturities:**

Notes may be issued in such maturities as may be agreed between the Issuer and the relevant Dealer (as indicated in the applicable Final Terms as the stated maturity), subject to such minimum or maximum term as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency (as defined herein).

**Issue Price:**

Notes may be issued at an issue price which is equal to, less than or more than their principal amount, as provided in the applicable Final Terms.

**Form of Notes:**

Notes will be issued in either registered or bearer form as specified in the applicable Final Terms.

Each Bearer Note will be represented initially by a temporary global Note, without interest coupons, or a permanent global Note, to be deposited with either a Common Safekeeper (if the global Note is intended to be issued in new global note (“**NGN**”) form) or a Common Depositary (if the global Note is not intended to be issued in NGN form) for Euroclear and Clearstream, Luxembourg, for credit to the account designated by or on behalf of the purchaser thereof. The interests of the beneficial owner or owners in a temporary global Note will be exchangeable after the Exchange Date (as defined under “Description of the Notes – Forms of Notes”) for an interest in a permanent global Note to be held by either a Common Safekeeper (if the permanent global Note is intended to be issued in NGN form) or a Common Depositary (if the permanent global Note is not intended to be issued in NGN form) for Euroclear and Clearstream, Luxembourg, for credit to the account designated by or on behalf of the beneficial owner thereof, or for definitive Bearer Notes or

for definitive Registered Notes (as defined below), as provided in the applicable Final Terms. The interests of the beneficial owner or owners in a permanent global Note will be exchangeable for definitive Bearer Notes or for definitive Registered Notes, as provided in the applicable Final Terms.

If specified in the applicable Final Terms, Notes of each Tranche will be in fully registered form (“**Registered Notes**”). The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a global note in registered form (a “**Regulation S Global Note**”). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in the Supplement for Registered Notes.

The Registered Notes of each Tranche may only be offered and sold in the United States or to U.S. persons in private transactions to “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act (“**QIBs**”). The Registered Notes of each Tranche sold to QIBs will be represented by a global note in registered form (a “**Rule 144A Global Note**” and, together with a Regulation S Global Note, the “**Registered Global Notes**”).

**Fixed Rate Notes:**

The Issuer will pay interest on Fixed Rate Notes on the dates specified in the applicable Final Terms. Fixed interest on Notes will be calculated on the basis of such Fixed Day Count Fraction (as defined under “Description of the Notes—Interest and Interest Rates”) as may be set forth in the applicable Final Terms.

**Floating Rate Notes:**

The Issuer will pay interest on Floating Rate Notes on the dates specified in the applicable Final Terms. Each Series of Floating Rate Notes will have one or more interest rate bases as indicated in the applicable Final Terms. Interest on Floating Rate Notes will be calculated on the basis of such Floating Day Count Fraction (as defined under “Description of the Notes—Interest and Interest Rates”) as may be set forth in the applicable Final Terms.

**Interest Period(s) or Interest Payment Date(s) for Floating Rate Notes:**

Such period(s) or date(s) as may be indicated in the applicable Final Terms.

**Extendible Notes:**

Notes may be issued with an Initial Maturity Date (as defined in “Description of the Notes—General”) which may be extended from time to time upon the election of the holders on specified Election Date(s) (as defined in “Description of the Notes—Extendible Notes”).

**Redemption:**

The Final Terms relating to each Tranche of Notes will indicate either that the Notes of that Series cannot be redeemed prior to its stated maturity, or that such Notes will be redeemable for taxation reasons or at the option of the Issuer and/or the Noteholders upon giving not more than 60 nor less than 30 days irrevocable notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as are indicated in the applicable Final Terms; provided, however, that Notes denominated in currencies other than U.S. Dollars may be subject to different restrictions on redemption as described in

“Description of the Notes—Special Provisions Relating to Foreign Currency Notes—Minimum Denominations, Restrictions on Maturities, Repayment and Redemption.”

**Denomination of Notes:**

Notes may be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the applicable Final Terms. The minimum Specified Denomination of the Notes will be Euro 100,000 (or, if the Notes are denominated in a currency other than the Euro, the equivalent amount in such currency) or such higher amount as may be allowed or required from time to time by the relevant Central Bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.

**Taxation:**

All payments with respect to the Notes will be made without withholding or deduction for or on account of any taxes or other charges imposed by any governmental authority or agency in the jurisdiction of the Issuer or other Relevant Taxing Jurisdiction (as defined herein), unless such withholding is required by law, in which case, subject to certain exceptions, the Issuer will generally pay Additional Amounts as described in “Description of the Notes—Payment of Additional Amounts.” See also “Taxation.”

**Status of the Notes:**

Each Note will be unsecured and will be either a senior or a subordinated debt obligation of the Issuer. Notes which are senior debt obligations will rank equally in right of payment with all other unsecured and unsubordinated obligations of the Issuer. Notes which are subordinated debt obligations will rank junior in right of payment to all senior indebtedness of the Issuer as specified in the applicable Final Terms, which will set forth the precise terms of such subordination. See “Description of the Notes—General.”

**Rating:**

The Notes of each Tranche issued under the Program may be rated or unrated. Where the Notes of a Tranche are rated, such rating (i) will be set out in the Final Terms and (ii) will not necessarily be the same as the rating(s) assigned to the Program. Moreover, the Final Terms will set out whether the rating agency has been registered within the European Union. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

**Listing and admission to trading:**

Each Series of Notes may be admitted to the Official List and trading on the Main Securities Market of Euronext Dublin and/or listed or admitted to trading on or by such other or additional stock exchange(s), competent authority(ies) and/or market(s) or may be unlisted.

**Clearing System:**

As specified in the applicable Final Terms.

**Governing Law:**

State of New York.

**Selling Restrictions:**

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States to, or for the account or benefit of, U.S. persons except in accordance with Rule 144A or outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act or pursuant to another exemption from the registration requirements of the Securities Act. In addition, Notes issued in bearer form are subject to U.S. tax law requirements. For a description of certain restrictions on offers, sales and deliveries of Notes in the United States, the European Economic Area,

Australia, Canada and certain other jurisdictions. See “Transfer and Selling Restrictions.”

**Risk Factors:**

Prospective purchasers of the Notes should consider carefully all of the information set forth in this Base Prospectus or any supplement hereto and, in particular, the information set forth under the caption “Risk Factors” on pages 1 to 32.

## BANCO SANTANDER-CHILE

### History and Development of the Issuer

#### *Overview*

The Issuer is organized under the laws of Chile and is the largest bank in Chile in terms of total assets and loans in monetary terms, based on data from the Superintendency of Banks and Financial Institutions. As of December 31, 2017, the Issuer had total assets of Ch\$35,823,605 million (U.S.\$58,075 million), outstanding loans, net of allowances for loan losses of Ch\$26,772,544 million (U.S.\$43,402 million), total deposits of Ch\$19,682,111 million (U.S.\$31,907 million) and equity of Ch\$3,147,920 million (U.S.\$5,103 million). The Issuer has a leading presence in all the major business segments in Chile, and the largest distribution network with national coverage spanning across all the country. The Issuer offers unique transaction capabilities to clients through its 385 branches and 926 ATMs. The Issuer's headquarters are located in Santiago and it operates in every major region of Chile.

The Issuer provides a broad range of commercial and retail banking services to its 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. The Issuer seeks to offer its customers a wide range of products while providing high levels of service. In addition to its traditional banking operations, the Issuer offers 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**"). Santander-Chile was established as a subsidiary of Santander Spain in 1978 ("**Old Santander-Chile**"). 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. The Issuer's registration number is 037. It operates as a bank under Resolution No. 118.

The Issuer's principal executive offices are located at Bandera 140, 20<sup>th</sup> floor, Santiago, Chile. The Issuer's telephone number is +562-320-2000 and the Issuer's website is [www.santander.cl](http://www.santander.cl). None of the information contained on the Issuer's website is incorporated by reference into, or forms part of, this Base Prospectus. The Issuer's agent for service of process in the United States is CT Corporation, located at 111 Eighth Avenue, 13<sup>th</sup> Floor, New York, New York 10011.

#### *Relationship with Santander Spain*

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

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

Santander Spain's support of Santander-Chile includes the assignment of managerial personnel to key supervisory areas of Santander-Chile, such as risks, auditing, accounting and financial control. Santander-

Chile does not pay any management or other fees to Santander Spain in connection with these support services.

### Organizational Structure

Santander Spain controls Santander-Chile through its holdings in Teatinos Siglo XXI Inversiones S.A. and Santander Chile Holding S.A. which are controlled subsidiaries. Santander Spain control over 67.18% of the Issuer’s shares and actual participation when excluding non-controlling interests participating in Santander Chile Holding S.A. of 67.06%. Please see “Item 4. Information on the Company—C. Organizational Structure” and “—B. Business Overview—Operations through Subsidiaries” in the Issuer’s 2017 IFRS Annual Report for further information on the Issuer’s organizational structure.

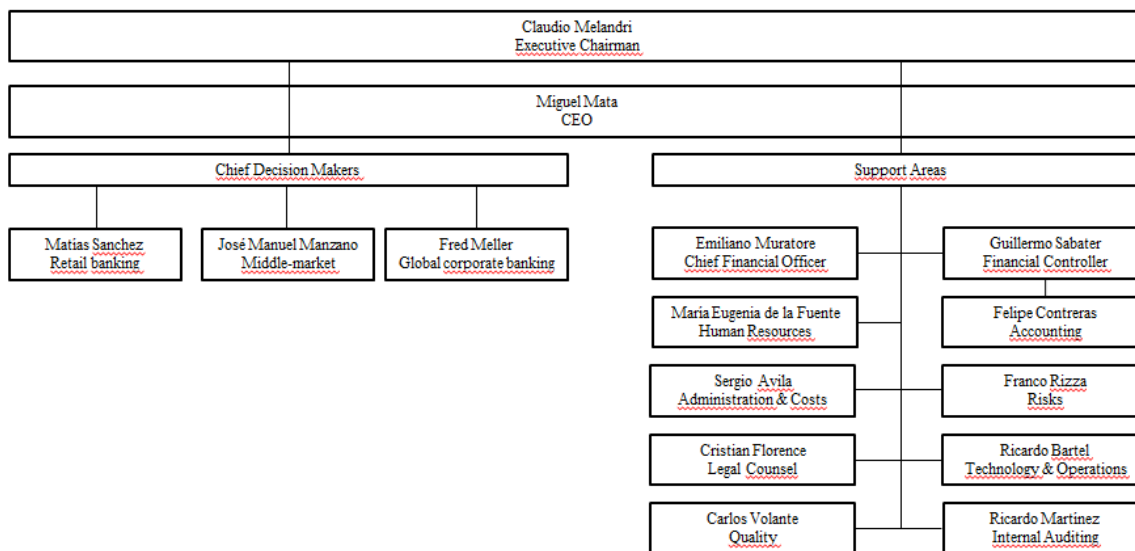
<u>Major Shareholder</u>	<u>Number of Shares</u>	<u>Percentage</u>
Santander Chile Holding S.A. ....	66,822,519,695	35.46%
Teatinos Siglo XXI Inversiones S.A. ....	59,770,481,573	31.72%

The remaining shareholders are diverse and have small holdings.

The capital stock of the Issuer is the amount of Ch\$891,302,881,691, divided into 188,446,126,794 registered shares with no par value. As of December 31, 2017, the Issuer had 188,446,126,794 shares outstanding, no par value, all of which were fully paid.

### Management Team

The chart below sets forth the names and areas of responsibility of the Issuer’s senior managers as of the date of this Base Prospectus.



### Business Overview

As of December 31, 2017, the Issuer had 385 total branches, 276 of which are operated under the Santander brand name, with the remaining branches under certain specialty brand names, including 51 under the Select brand name, 7 specialized branches for the Middle Market and 31 as auxiliary and payment centers. During 2017, the Issuer also opened 20 Santander Workcafés and completed the process of closing all branches under the Santander Banefe brand name. The Issuer provides a full range of financial



services to corporate and individual customers. The Issuer divides its clients into the following groups: (i) Retail banking, (ii) Middle-market, (iii) Global Corporate Banking and (iv) Corporate Activities (“Other”).

The Issuer has the reportable segments noted below (see “Segmentation Criteria” for further information):

#### Retail Banking

Consists of individuals and small to middle-sized entities (SMEs) with annual sales less than Ch\$1,200 million (U.S.\$1.9 million). This segment gives customers a variety of services, including consumer loans, credit cards, auto loans, commercial loans, foreign exchange, mortgage loans, debit cards, checking accounts, savings products, mutual funds, stock brokerage, and insurance brokerage. Additionally, the SME clients are offered government-guaranteed loans, leasing and factoring.

#### Middle-market

This segment serves companies and large corporations with annual sales exceeding Ch\$1,200 million (U.S.\$1.9 million). It also serves institutions such as universities, government entities, local and regional governments and companies engaged in the real estate industry who carry out projects to sell properties to third parties and annual sales exceeding Ch\$800 million (U.S.\$1.3 million) with no upper limit. The companies within this segment have access to many products including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, transactional services, treasury services, financial consulting, savings products, mutual funds, and insurance brokerage. Also companies in the real estate industry are offered specialized services to finance projects, chiefly residential, with the aim of expanding sales of mortgage loans.

#### Global Corporate Banking

This segment consists of foreign and domestic multinational companies with sales over Ch\$10,000 million (U.S.\$16.2 million). The companies within this segment have access to many products including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, transactional services, treasury services, financial consulting, investments, savings products, mutual funds and insurance brokerage.

This segment also consists of a Treasury Division which provides sophisticated financial products, mainly to companies in the Middle-market segment and Global Corporate Banking. These include products such as short-term financing and fund raising, brokerage services, derivatives, securitization and other tailor-made products. The Treasury Division may act as broker to transactions and also manages the Issuer’s trading fixed income portfolio.

#### Corporate Activities (“Other”)

This segment mainly includes the Issuer’s Financial Management Division, which develops global management functions, including managing inflation rate risk, foreign currency gaps, interest rate risk and liquidity risk. Liquidity risk is managed mainly through wholesale deposits, debt issuances and the Issuer’s available-for-sale portfolio. This segment also manages capital allocation by unit. These activities usually result in a negative contribution to income.

In addition, this segment encompasses all the intra-segment income and all the activities not assigned to a given segment or product with customers. The segments’ accounting policies are those described in the summary of accounting policies. The Issuer earns most of its income in the form of interest income, fee and commission income and income from financial operations. To evaluate a segment’s financial performance and make decisions regarding the resources to be assigned to segments, the Chief Operating Decision Maker (CODM) bases his or her assessment on the segment’s interest income, fee and commission income, and expenses.

The tables below show the Issuer’s results by reporting segment for the year ended December 31, 2017, in addition to the corresponding balances of loans and accounts receivable from customers:

For the year ended December 31, 2017							
	Loans and accounts receivable from customers (1)	Net interest income	Net fee and commission income	Financial transactions, net (2)	Provision for loan losses	Support expenses (3)	Segment's net contribution
	Ch\$m						
<b>Retail Banking</b>	19,223,169	970,332	206,449	20,595	(293,956)	(534,970)	<b>368,450</b>
<b>Middle-market</b>	6,775,734	264,663	36,280	13,751	(19,235)	(91,882)	<b>203,577</b>
<b>Global Corporate Banking</b>	1,633,796	100,808	27,626	50,714	6,440	(62,685)	<b>122,903</b>
<b>Other</b>	83,215	(9,112)	8,708	44,692	4,496	(15,536)	<b>33,428</b>
<b>Total</b>	<b>27,725,914</b>	<b>1,326,691</b>	<b>279,063</b>	<b>129,752</b>	<b>(302,255)</b>	<b>(704,893)</b>	<b>728,358</b>

Other operating income	62,016
Other operating expenses and impairment	(74,057)
Income from investments in associates and other companies	3,963
Income tax expense	(145,031)
<b>Net income for the year</b>	<b>575,249</b>

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

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

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

## Directors

The Issuer is managed by the Issuer's Board of Directors, which, in accordance with the Issuer's by-laws, consists of 9 directors and two alternates who are elected at the Issuer's 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 26, 2017. Members of the Board of Directors are elected for three-year terms. The term of the current Board members expires in April of 2020. On October 27, 2016, the SBIF authorized a reduction in the number of Board members from 11 to nine. This reduction and the corresponding amendment to Article 14 of the by-laws was approved by the shareholders at an Extraordinary Shareholders' Meeting held on January 9, 2017. As a result, at the Issuer's annual Ordinary Shareholders' Meeting held on April 26, 2017, only nine directors were elected to the Board of Directors.

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. The Issuer's 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 the Issuer's Board of Directors has a service contract which entitles any Director to any benefits upon termination of employment with Santander-Chile.

The business address of the Board of Directors is Banco Santander-Chile, Bandera 140, 20<sup>th</sup> floor, Santiago, Chile.

The Issuer's current directors as of the date of this Base Prospectus are as follows:

Directors	Position	Committees	Term Expires
Claudio Melandri(1)	Executive Chairman	Asset and Liability Committee (President) Strategy Committee (President) Risk Committee Market Committee Human Resources Committee	Apr-20
Orlando Poblete Iturrate	First Vice President	Audit Committee (President) Human Resources Committee	Apr-20
Oscar von Chrismar Carvajal	Second Vice President	Market Committee (President) Risk Committee Asset and Liability Committee	Apr-20
Juan Pedro Santa Maria Perez	Director	Analysis and Resolution Committee (President) Risk Committee	Apr-20
Lucía Santa Cruz Sutil	Director	Strategy Committee Risk Committee Analysis and Resolution Committee	Apr-20
Andreu Plaza	Director	—	Apr-20
Ana Dorrego	Director	—	Apr-20
Alfonso Gómez Morales (2)	Director	Asset and Liability Committee Risk Committee (President) Strategy Committee Market Committee	Apr-20
José Félix de Vicente Mingo (2)	Director	Asset and Liability Committee Audit Committee Strategy Committee Analysis and Resolution Committee	Apr-20
Blanca Bustamante Bravo	Alternate Director	Human Resources Committee Audit Committee	Apr-20
Raimundo Monge Zegers	Alternate Director	Risk Committee Strategy Committee Analysis and Resolution Committee	Apr-20

(1) Vittorio Corbo resigned as Chairman of the Board on February 27, 2018. The Board unanimously agreed to name Claudio Melandri as the new Chairman.

(2) Roberto Mendez and Roberto Zahler resigned as Directors on March 27, 2018. The Board appointed Alfonso Gómez Morales and José Félix de Vicente Mingo as Directors of the Board as of this date, which appointment was confirmed by the shareholders at the Ordinary Shareholders' Meeting held on April 24, 2018.

*Claudio Melandri* became the Issuer's Executive Chairman on March 1, 2018 and country head of Grupo Santander in Chile. He is also President of Santander Chile Holding S.A. and Vice President of Universia Chile S.A. He has more than 30 years of experience in the financial industry and was Chief Executive Officer of Santander Chile from January 2010 to March 2018. He started his career at Banco Concepción and joined the Santander Group in 1990, where he has held various positions, including Regional Manager of the branch network, Human Resources Manager and Manager of Commercial Banking. He was also a Vice President at Banco Santander Venezuela for three years. Mr. Melandri has Degrees in Business and Accounting and holds a Master's Degree in Business Administration from the Universidad Adolfo Ibañez.

*Orlando Poblete Iturrate* is the Issuer's First Vice President and has served on the Board since April 25, 2015. Since 1991, Mr. Poblete has been a professor at the Universidad Los Andes, serving as Dean of its Law School from 1997 to 2004 and Chancellor of the University since 2014. He is also a partner at the law firm Orlando Poblete & Company. He is a member of the Counsel on Arbitration and Mediation of Santiago of the Chamber of Commerce of Santiago. Between 1979 and 1991, he was a professor of Procedural Law at the Universidad de Chile. Mr. Poblete holds a Law Degree and a Master's Degree from the University of Chile. He also graduated from the Directive Management of Companies Program (PADE) of ESE Business School of the Universidad de los Andes.

*Oscar von Chrismar Carvajal* is the Issuer's Second Vice President of the Board. Since April 2012, he has served as a director of Sinacofi and the Stock Exchange. He joined Banco Santander in 1990 as a Manager of the Finance division. Between 1995 and 1996, he was General Manager of Banco Santander Peru. In 1997, he became the General Manager of Santander Chile, a position he held until December 2009 when he joined the Board of Directors, where he is currently Vice President. Mr. von Chrismar is also a board member of Banco Santander Argentina and the Santiago Stock Exchange. Prior to joining the Santander Group he was Manager of the Finance Division for Morgan Bank and Manager of Finance of ING Bank. He has over 25 years of experience in the banking industry. Mr. von Chrismar holds an Engineering degree from the Universidad de Santiago de Chile with specialist studies in the U.S. and Europe.

*José Félix de Vicente Mingo* became a director on March 27, 2018. He has a commercial engineering degree with a mention in Economics from the Universidad de Chile. Between 2013 and 2014 he was Minister of Economy, Development and Tourism. He was previously a director of ProChile, the institution of the Ministry of Foreign Affairs that promotes Chilean exports. His experience began in a fruit export company in the O'Higgins region. He also served as the Manager of Administration and Finance of Telemercados Europa, as well as president and partner of various companies in Chile and abroad. He has received the following distinctions: "Public Man of the Year for the Wine Industry (2011)", "Man of the Salmon Industry (2012)", "Member of the Circle of Honor of the University of Chile (2013)", "Man of the Year for the Association of Software Companies (2012)" and "Public Man of Engineering Consulting Companies (2013)". In 1999, he was nominated for "Businessman of the Year" in the Junior category for the Universidad de Desarrollo.

*Alonso Gómez* has a Civil Engineering degree from the Universidad Católica de Chile and a Ph.D. from the Royal College of Art of London. He has served as the executive president of the Innovation Center UC Anacleto Angelini. He started his career in the Industrial and System Engineering Department of Universidad Católica de Chile. He was founder of various companies, such as Apple Chile, Unlimited and Virtualia, the first social network developed in Latin America. He has also served as a director for numerous companies and institutions, including as the National Director of the National Council of Culture and the Arts, Director of Fundación País Digital and Director of the National Council of Innovation. He was Dean of the Faculty of Engineering and later Dean of the Business School of the Adolfo Ibáñez University.

*Ana Dorrego* became a Director in March 2016. She joined the Santander Group in 2005 and from then has held various positions, mainly in the Financial Planning and Corporate Development areas, coordinating the planning process for different units and projects. She was also the Director of the Electronic Business Development in Santander and has experience as a corporate client relationship manager and commercial director of transactional banking at Bankinter. Ms. Dorrego holds a degree in Business Administration from the University Pontificia de Comillas ICAI-ICADE, and Master's degrees in Business Administration from Deusto University – Bilbao, Spain and Adolfo Ibáñez, Miami/Chile.

*Andreu Plaza* became a Director in March 2016. Mr. Plaza was appointed as Santander's Chief Technology Officer in January 2015. Mr. Plaza joined the Group in 2012 as the technology and operations director for the retail and business banking segments in Santander UK. He has a graduate degree in Mathematics from the Universitat Autònoma de Barcelona and has studied the financial and banking industries. Before joining Santander, he was Executive Vice President and member of the Management Committee of Caixa Catalunya since 1998 and has also been a member of the boards of Servired and Aula Escola Europea.

*Lucía Santa Cruz Sutil* became a Director on August 19, 2003. She is a Member of the Board of the Universidad Adolfo Ibáñez. She is Vice President of the Board of Compañía de Seguros Generales y de Vida La Chilena Consolidada (Zurich). She is also a member of the Self-Regulation Committee for Insurance Companies in Chile. Ms. Santa Cruz is a historian and holds a Masters in Philosophy from Oxford University and a Doctor Honoris Causa in social sciences from King's College, University of London.

*Juan Pedro Santa María Pérez* became a Director on July 24, 2012. He has served as the Corporate Legal Director for Grupo Santander Chile and Legal Counsel for Santander-Chile and previous to that he was Legal Counsel for Banco Santiago and Banco O'Higgins. He has also been President of the Legal Committee of the Asociación de Bancos e Instituciones Financieras de Chile for over 20 years and President Pro-Tempore of the Financial Law Committee of the Federación Latinoamericana de Bancos (FELABAN). He is also a member of the Academic Counsel of the Instituto de Estudios Bancaris Guillermo Subercaseaux, member of the Counsel on Arbitration and Mediation of Santiago of the Chamber of Commerce of Santiago and the Vice President of Santander Chile Holding S.A. Mr. Santa María holds a Law Degree from the Pontificia Universidad Católica de Chile.

*Blanca Bustamante Bravo* became an Alternate Director on April 28, 2015. She holds a degree in business with a mention in economics from Universidad Católica de Chile. Her professional experience includes the position of economic analyst in the Central Bank of Chile, research analyst in Oppenheimer & Co. New York and the IM Trust. In 1998, she joined Viña Concha y Toro as Head of Investor Relations until 2010. In May 2001, she became Assistant Manager of Corporate Communications. She is currently the Director of Corporate Affairs with responsibilities of Corporate Communications and Investor Relations. Since 2013 she has been a member of the Center for Research & Innovation for Concha y Toro.

*Raimundo Monge Zegers* became an Alternate Director on April 29, 2003. He was Corporate Director of Strategic Planning and CEO of Santander Chile Holding S.A. He joined Santander Chile in 1991 after having worked for the Central Bank. Among his roles were Financial Director and Manager of Planning and Research. He is General Director of the ESE Business School, of the Universidad de los Andes de Chile. Mr. Monge has a degree in business from the Universidad Católica de Chile and an MBA from the University of California, Los Angeles.

### Major Shareholders

As of December 31, 2017, Santander-Chile's largest shareholders were the following:

Santander Spain controls Santander-Chile through its holdings in Teatinos Siglo XXI Inversiones S.A. and Santander Chile Holding S.A., which are controlled subsidiaries. Santander Spain has control over 67.18% of the Issuer's shares and actual participation, excluding non-controlling shareholders that participate in Santander Chile Holding, S.A. of 67.06%.

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

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. 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.

Other than the information disclosed in this section, there are no arrangements to the knowledge of the Issuer that could result in a change of control of the Issuer.

### Auditors

On April 24, 2018, the Issuer announced that the Board of Directors selected PricewaterhouseCoopers Consultores, Auditores y Compañía Limitada to be the Issuer's independent registered public accounting firm for the 2018 fiscal year. They have audited the Issuer's financial statements as of December 31, 2017 and for the years ended December 31, 2017 and 2016. They are members of the *Asociación de Contadores Auditores* (Public Accountants Association). Their address is 2711 Andrés Bello Avenue, 5<sup>th</sup> floor, Las Condes, Santiago, Chile, and they are registered under number 005 in the Official Register of Auditors of the Chilean Superintendency of Securities and Exchange and under number 001 in the Superintendency of Banks and Financial Institutions.

The Issuer's former auditors, Deloitte Auditores y Consultores Limitada, independent registered public accountants, have audited the Issuer's consolidated financial statements as of December 31, 2015 and for the year ended December 31, 2015. They are members of the *Asociación de Contadores Auditores* (Public Accountants Association). Their address is RUT: 80.276.200-3, Rosario Norte 407, Las Condes, Santiago, Chile, and they are registered under number 001 in the Official Register of Auditors of the Chilean Superintendency of Securities and Exchange and under number 005 in the Superintendency of Banks and Financial Institutions. As of April 26, 2016, Deloitte Auditores y Consultores Limitada was dismissed and was not re-elected for another term as the Issuer's independent public accounting firm.

#### **Trend Information (Outlook)**

Please see "Item 5. Operating and Financial Review and Prospects" in the Issuer's 2017 IFRS Annual Report for a discussion of the Issuer's operating and financial review and prospects.

#### **Conflicts of Interest**

There are no material conflicts of interest between any duties to the Issuer by any of the members of either the Board of Directors or the management team in respect of their private or other duties.

#### **Annual Reports**

The Issuer's 2017 IFRS Annual Report on Form 20-F for the year ended December 31, 2017 filed on March 28, 2018 with the SEC (which includes the Issuer's audited consolidated financial statements as of December 31, 2017 and 2016 and for the fiscal years ended December 31, 2017, 2016 and 2015, prepared in accordance with IFRS), the Issuer's current report on Form 6-K filed on April 6, 2018 with the SEC (which includes the Issuer's audited consolidated financial statements for the fiscal years ended December 31, 2017 and 2016, prepared in accordance with Chilean Bank GAAP) and the Issuer's current report on Form 6-K filed on March 29, 2018 with the SEC (which includes the Issuer's audited consolidated financial statements for the fiscal years ended December 31, 2016 and 2015, prepared in accordance with Chilean Bank GAAP) are deemed incorporated into, and to form part of, this Base Prospectus as more fully described on pages 122 to 124.

## DESCRIPTION OF CHILEAN FINANCIAL SECTOR

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 de Chile (which operates within the same legal and regulatory framework as the private sector banks). The private-sector banks include local banks and a number of foreign-owned banks operating in Chile. The Chilean banking system is comprised of 20 banks, including one public-sector bank. The four largest banks accounted for 64.8% of all outstanding loans by Chilean financial institutions as of December 31, 2017 (excluding assets held abroad by Chilean banks).

The Chilean banking system has experienced increased competition in recent years, largely due to consolidation in the industry and new legislation. The Issuer also faces competition from non-bank and non-finance competitors, principally department stores, credit unions and *cajas de compensación* (private, non-profitable corporations whose aim is to administer social welfare benefits, including payroll loans, to their members) with respect to some of the Issuer's credit products, such as credit cards, consumer loans and insurance brokerage. In addition, the Issuer faces 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.

## DESCRIPTION OF CHILEAN BANKING REGULATORY SYSTEM

### *General*

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

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

### *The Central Bank*

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

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

### *The SBIF*

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

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

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

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

- the merger of two or more banks;
- the acquisition of all or a substantial portion of a bank's assets and liabilities by another bank;



- the control by the same person, or controlling group, of two or more banks; or
- a substantial increase in the existing control of a bank by a controlling shareholder of that bank.

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

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

If the acquiring bank or resulting group would own a market share in loans determined by the SBIF to be more than 15.0% but less than 20.0%, the authorization will be conditioned on the bank or banks maintaining a regulatory capital not lower than 10.0% of their risks-weighted assets for the period specified by the SBIF, which may not be less than one year. The calculation of the risk-weighted assets is based on a five-category risk classification system applied to a bank's assets that is based on the Basel Committee recommendations.

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

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

#### *Financial Market Commission*

In 2017, Law 21,000 created the Comisión para el Mercado Financiero or Financial Market Commission (FMC). The FMC would become the sole supervisor for the Chilean financial system overseeing insurance companies, companies with publicly traded securities, credit unions, credit card and prepaid card issuers, and eventually banks. It will be the responsibility of this commission to ensure the proper functioning, development and stability of the financial market, facilitating the participation of market agents and defending public faith in the financial markets. To do so, it must maintain a general and systemic vision of the market, considering the interests of investors and policyholders. Likewise, it shall be responsible for ensuring that the persons or entities audited, from their initiation until the end of their liquidation, comply with the laws, regulations, statutes and other provisions that govern them.

The Commission will be in charge of a Council, which will be composed of five members, who are appointed and are subject to the following rules:

- A commissioner appointed by the President of the Republic, of recognized professional or academic prestige in matters related to the financial system, which will have the character of President of the Commission.

- Four commissioners appointed by the President of the Republic, from among persons of recognized professional or academic prestige in matters related to the financial system, by supreme decree issued through the Ministry of Finance, after ratification of the Senate by the four sevenths of its members in exercise, in session specially convened for that purpose.

The Council's responsibilities include regulation, sanctioning and the definition of general supervision policies. In addition, there will be a prosecutor in charge of investigations and the Chairman will be responsible for supervision. The FMC will act in coordination with the Chilean Central Bank (BCCh).

The date of entry into operation of the Commission for the Financial Market was December 14, 2017. The Superintendency of Securities and Insurance will be eliminated on January 15, 2018 and all functions of this Superintendency will be absorbed by the FMC. Once the new General Banking Law is passed the SBIF will also be absorbed by the FMC. All current SBIF attributions would be transferred to the FMC.

#### *Limitations on Types of Activities*

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

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

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

#### *Deposit Insurance*

The Chilean government guarantees up to 90.0% of the principal amount of certain time and demand deposits and savings accounts held by natural persons with a maximum value of UF120 per person (Ch\$3,215,777 or U.S.\$5,227 as of December 31, 2017) 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 100.0% "technical reserve" against them: demand deposits, deposits in checking accounts, or obligations payable on sight incurred in the ordinary course of business, and in general all deposits unconditionally payable immediately but excluding interbank demand deposits.

#### *Minimum Capital*

Under the General Banking Law, a bank is required to have a minimum of UF800,000 (approximately Ch\$21,439 million or U.S.\$34.8 million as of December 31, 2017) of paid-in capital and reserves, calculated in accordance with Chilean Bank GAAP, regulatory capital of at least 8.0% of its risk weighted assets, net of required allowances, and paid in capital and reserves of at least 3.0% of its total assets, net of required allowances, as calculated in accordance with Chilean Bank GAAP.

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

#### *Capital Adequacy Requirements*

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

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

Within the scope of Basel III in Chile, further changes in regulation may occur. See "Risk Factors—Risks Relating to Chile—The Issuer is subject to substantial regulation and regulatory and governmental oversight which could adversely affect its business, operations and financial condition."

#### *Lending Limits*

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

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

- a bank may not directly or indirectly grant a loan whose purpose is to allow an individual or entity to acquire shares of the lender bank;
- a bank may not lend, directly or indirectly, to a director or any other person who has the power to act on behalf of the bank; and
- a bank may not grant loans to related parties (including holders of more than 1.0% of its shares) on more favorable terms than those generally offered to non-related parties. Loans granted to related parties are subject to the limitations described in the first bullet point above. In addition, the aggregate amount of loans to related parties may not exceed a bank's regulatory capital.

In addition, the General Banking Law limits the aggregate amount of loans that a bank may grant to its employees to 1.5% of its regulatory capital, and provides that no individual employee may receive loans in excess of 10.0% of this 1.5% limit. Notwithstanding these limitations, a bank may grant to each of its employees a single residential mortgage loan for personal use during such employee's term of employment.

#### *Allowance for Loan Losses*

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

A detailed description of the models established for determining loan loss allowances is set forth in "Item 5. Operating and Financial Review and Prospects—C. Selected Statistical Information—Classification of Loan Portfolio" of the 2017 IFRS Annual Report and in "Note 1—Summary of Significant Accounting Policies" of the 2017 IFRS Consolidated Financial Statements incorporated by reference herein.

#### *Capital Markets*

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

#### *Legal Provisions Regarding Banking Institutions with Economic Difficulties*

The General Banking Law provides that if specified adverse circumstances exist at any bank, its Board of Directors must correct the situation within 30 days from the date of receipt of the relevant financial statements. If the Board of Directors is unable to do so, it must call a special shareholders' meeting to increase the capital of the bank by the amount necessary to return the bank to financial stability. If the shareholders reject the capital increase, or if it is not effected within the term and in the manner agreed to at the meeting, or if the SBIF does not approve the Board of Directors' proposal, the bank will be barred from increasing its loan portfolio beyond that stated in the financial statements presented to the Board of Directors and from making any further investments in any instrument other than in instruments issued by the Central Bank. In such a case, or in the event that a bank is unable to make timely payment in respect of its obligations, or if a bank is under provisional administration of the SBIF, the General Banking Law provides that the bank may receive a two-year term loan from another bank. The terms and conditions of such a loan must be approved by the directors of both banks, as well as by the SBIF, but need not be submitted to the

borrowing bank's shareholders for their approval. In any event, a creditor bank cannot grant interbank loans to an insolvent bank in an amount exceeding 25.0% of the creditor bank's regulatory capital. The Board of Directors of a bank that is unable to make timely payment of its obligations must present a reorganization plan to its creditors in order to capitalize the credits, extend their respective terms, condone debts or take other measures for the payment of the debts. If the Board of Directors of a bank submits a reorganization plan to its creditors and such arrangement is approved, all subordinated debt issued by the bank, whether or not matured, will be converted by operation of law into common stock in the amount required for the ratio of regulatory capital to risk-weighted assets to be not lower than 12.0%. If a bank fails to pay an obligation, it must notify the SBIF, which shall determine if the bank is solvent.

#### *Dissolution and Liquidation of Banks*

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

#### *Obligations Denominated in Foreign Currencies*

The Issuer must also comply with various regulatory and internal limits regarding exposure to movements in foreign exchange rates (see "Item 11. Quantitative and Qualitative Disclosures About Market Risk" of the 2017 IFRS Annual Report).

#### *Loans and Investments in Foreign Securities*

Under current Chilean banking regulations, banks in Chile may grant loans to foreign individuals and entities and invest in certain securities of foreign issuers. Banks may grant commercial loans and foreign trade loans, and can buy loans granted by banks abroad. Banks in Chile may also invest in debt securities traded in formal secondary markets. Such debt securities must be (1) securities issued or guaranteed by foreign sovereign states or their central banks or other foreign or international financial entities, and (2) bonds issued by foreign companies. If the sum of investment in foreign securities and loans granted outside of Chile surpasses 70.0% of regulatory capital, the amount that exceeds 70.0% is subject to a mandatory reserve of 100.0%.

Table 1

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

In the event that the sum of: (a) loans granted abroad that are not to subsidiaries of Chilean companies, and that have a rating of BB- or less and do not trade on a foreign stock exchange, and (b) the investments in foreign securities which have a rating that is below that indicated in Table 1 above, but is equal to or exceeds the ratings mentioned in the Table 2 below and exceeds 20.0% (and 30.0% 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 100.0%.

Table 2

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

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

Additionally, a Chilean bank may invest in foreign securities whose rating is equal to or exceeds those mentioned in Table 3 below in: (i) demand deposits with foreign banks, including overnight deposits in a single entity; and (ii) securities issued or guaranteed by sovereign states or their central banks or securities issued or guaranteed by foreign entities within the Chilean State, though investment will be subject to the limits by issuer up to 30.0% and 50.0%, respectively, of the regulatory capital of the Chilean bank that makes the investment. If these foreign securities do not have a rating, the individual limit will be 10.0% of regulatory capital.

Table 3

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

Moreover, the sum of all demand deposits with foreign banks, including overnight deposits to related parties, as defined by the Central Bank and the SBIF, cannot surpass 25.0% of a bank's regulatory capital. This limit excludes foreign branches of Chilean banks or their subsidiaries, but must include amounts deposited by these entities in related parties abroad.

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

## **United States Supervision and Regulation**

### **Financial Regulatory Reform**

Banking statutes and regulations are continually under review by the United States Congress. In addition to laws and regulations, the U.S. bank regulatory agencies may issue policy statements, interpretive letters and similar written guidance. Many changes have occurred as a result of the Dodd-Frank Act and its implementing regulations, most of which are now in place. More recently, President Trump issued an executive order in 2017 that sets forth principles for financial regulatory and legislative reform, and the Republican majority in Congress has also suggested an agenda for financial legislative reform. It is too early to assess whether there will be any major changes in the regulatory environment or merely a rebalancing of the post-financial crisis framework, but we will monitor these developments and assess their impact on our operations, if any.

### **Volcker Rule**

Section 13 of the U.S. Bank Holding Company Act of 1956, as amended, and its implementing rules (collectively, the "Volcker Rule") prohibit "banking entities" from engaging in certain forms of proprietary trading or from sponsoring or investing in or entering into certain credit-related transactions with related "covered funds," in each case subject to certain limited exceptions. The Volcker Rule also limits the ability of

banking entities and their affiliates to enter into certain transactions with covered funds with which they or their affiliates have certain relationships. Banking entities such as Santander Spain were required to bring their activities and investments into compliance with the requirements of the Volcker Rule by the end of the conformance period applicable to each requirement.

Santander Spain has assessed how the Volcker Rule affects its businesses and subsidiaries, including Santander-Chile, and has brought its activities into compliance. The Group has adopted processes to establish, maintain, enforce, review and test the compliance program designed to achieve and maintain compliance with the Volcker Rule. The Volcker Rule contains exclusions and certain exemptions for market making, hedging, underwriting, trading in U.S. government and agency obligations, as well as certain foreign government obligations, and trading solely outside the United States, and also permits certain ownership interests in certain types of funds to be retained. Santander Spain and its non-U.S. banking organization subsidiaries, including Santander-Chile, are largely able to continue their activities outside the United States in reliance on the “solely outside the U.S.” exemptions from the Volcker Rule. Those exemptions generally exempt proprietary trading, and sponsoring or investing in covered funds if, among other restrictions, the essential actions take place outside the United States and any transactions are not with U.S. persons.

On July 21, 2017 the five regulatory agencies charged with implementing the Volcker Rule announced the coordination of reviews of the treatment of certain foreign funds that are investment funds organized and offered outside of the United States and that are excluded from the definition of covered fund under the agencies’ implementing regulations. Also in July 2017, the Federal Reserve issued guidelines for banking entities seeking an extension to conform certain “seeding” investments in covered funds to the requirements of the Volcker Rule.

The Volcker Rule and its implementing regulations are currently subject to financial reform developments in the United States, including a notice issued by the Office of the Comptroller of the Currency requesting public comment on potential changes to the regulations implementing the Volcker Rule and seeking specific recommendations on how the Volcker Rule regulations could be tailored in certain focus areas to enhance their effectiveness. Santander Spain will continue to monitor these developments and assess their impact on its operations, including those of Santander-Chile, as necessary.

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

The Issuer, 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 Issuer’s officers and/or directors can be imposed for violations of the FCPA.

Furthermore, the Issuer 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 Issuer’s officers and/or directors.

## DESCRIPTION OF THE NOTES

### General

The Issuer may issue and have outstanding from time to time up to U.S.\$5,500,000,000 principal amount in the aggregate of Medium-Term Notes (the “**Notes**”) under this Program. The minimum specified denomination of the Notes will be Euro 100,000 (or, if the Notes are denominated in a currency other than the Euro, the equivalent amount in such currency) or such higher amount as may be allowed or required from time to time by the relevant Central Bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency. The Notes will have the terms described below, including, as described below, the terms specified in the Final Terms of the applicable Series of Notes, except that references below to interest payments and interest-related information do not apply to certain OID Notes (as defined in “Taxation”).

The Notes are to be issued under a Fiscal and Paying Agency Agreement dated as of June 30, 2016 among the Issuer, Bank of America, National Association, London Branch as fiscal agent (in such capacity, the “**Fiscal and Paying Agent**”), paying agent and transfer agent, Bank of America, National Association, as U.S. paying agent, U.S. registrar and U.S. transfer agent, Bank of America Merrill Lynch International Limited, Dublin Branch as the Irish Registrar, and the other paying agents and transfer agents named therein, as further amended and supplemented from time to time (the “**Fiscal Agency Agreement**”), in registered or bearer form as specified in the applicable Final Terms. The following description of certain provisions of the Fiscal Agency Agreement is subject to, and qualified in its entirety by reference to, all the provisions of the Fiscal Agency Agreement, including the definitions therein of certain terms.

The Issuer may, from time to time, re-open one or more series of Notes (each, a “**Series**”) and issue Additional Notes (as defined below in “Additional Notes”) with the same terms (including maturity and interest payment terms but excluding original issue date and public offering price) as Notes issued on an earlier date; provided that a Series of Notes may not comprise both Notes in bearer form and Notes in registered form. After such Additional Notes are issued they will be fungible with the previously issued Notes to the extent specified in the applicable Final Terms, provided further that if the Additional Notes are not fungible with the earlier Notes for United States federal income tax purposes, the Additional Notes will have a separate CUSIP number. Each such Series may contain one or more tranches of Notes (each, a “**Tranche**”) having identical terms, including the original issue date and the public offering price; provided that a Tranche of Notes may not comprise both Notes in bearer form and Notes in registered form.

Each Note will be unsecured and will be either a senior or a subordinated debt obligation. Notes which are senior debt obligations will rank equally with all other unsecured and unsubordinated obligations of the Issuer thereof. Notes which are subordinated debt obligations will rank junior in right of payment to all senior indebtedness as specified in the applicable Final Terms, which will set forth the precise terms of such subordination.

The Final Terms relating to a Tranche of Notes issued by the Issuer will describe the following terms: (i) the currency or composite currency in which the Notes of such Tranche will be denominated (each such currency or composite currency, a “**Specified Currency**”) and, if other than the Specified Currency, the currency or composite currency in which payments on the Notes of such Series will be made (and, if the Specified Currency or currency or composite currency of payment is other than U.S. Dollars, certain other terms relating to such Notes (a “**Foreign Currency Note**”) and such Specified Currency or such currency or composite currency of payment); (ii) whether such Notes are Fixed Rate Notes or Floating Rate Notes (including whether such Notes are Regular Floating Rate Notes, Floating Rate/Fixed Rate Notes or Inverse Floating Rate Notes, each as defined below); (iii) the price at which such Notes will be issued (the “**Issue Price**”); (iv) the date on which such Notes will be issued (the “**Original Issue Date**”); (v) the date on which such Notes will mature; (vi) whether such notes are senior or subordinated and, if subordinated, the terms of the subordination; (vii) if such Notes are Fixed Rate Notes, the rate per annum at which such Notes will bear interest, if any; (viii) if such Notes are Floating Rate Notes, the base rate (the “**Base Rate**”), the initial interest rate (the “**Initial Interest Rate**”), the minimum interest rate (the “**Minimum Interest Rate**”) (provided that if no Minimum Interest Rate is specified or if indicated that the Minimum Interest Rate is “not applicable,” the Minimum Interest Rate shall be zero), the maximum interest rate (the “**Maximum Interest Rate**”), the Interest Payment Dates, the period to maturity of the instrument, obligation or index with respect to which the calculation agent will calculate the interest rate basis or bases (the “**Index Maturity**”), the Spread and/or Spread Multiplier (all as defined below), if any, (ix) whether such Notes may be redeemed at the option of



the Issuer, or repaid at the option of the holder, prior to its stated maturity as described under “**Optional Redemption**” and “**Repayment at the Noteholders’ Option; Repurchase**” below and, if so, the provisions relating to such redemption or repayment; (x) any relevant tax consequences associated with the terms of the Notes which have not been described under “**Taxation—United States Federal Income Taxation**” below; and (xi) if such Notes are Additional Notes (as defined below), a description of the original issue date and aggregate principal amount of the prior Tranche of Notes having terms (other than the original issue date and public offering price) identical to such Additional Notes. In addition, each Final Terms with respect to a Tranche of Notes will identify the Dealer(s) participating in the distribution of such Notes. See “**Plan of Distribution**.” Each Final Terms relating to Notes will be in, or substantially in, the relevant forms included under “**Form of Final Terms**” below.

If any Notes are to be issued as Foreign Currency Notes, the applicable Final Terms will specify the currency or currencies, which may be composite currencies, in which the purchase price of such Notes are to be paid by the purchaser, and the currency or currencies, which may be composite currencies, in which the principal at maturity or earlier redemption, premium, if any, and interest, if any, with respect to such Notes may be paid, if applicable. See “**Special Provisions Relating to Foreign Currency Notes**.”

Subject to such additional restrictions as are described under “**Special Provisions Relating to Foreign Currency Notes**,” Notes of each Tranche will mature on a day specified in the applicable Final Terms, as selected by the initial purchaser and agreed to by the Issuer. In the event that such maturity date of any Notes or any date fixed for redemption or repayment of any Notes (collectively, the “**Maturity Date**”) is not a Business Day (as defined below), principal and interest payable at maturity or upon such redemption or repayment will be paid on the next succeeding Business Day with the same effect as if such Business Day were the Maturity Date. No interest shall accrue for the period from and after the Maturity Date to such next succeeding Business Day. Except as may be specified in the applicable Final Terms, all Notes will mature at par.

In the case of Fixed Rate Notes, the applicable Final Terms will specify the yield as of the Original Issue Date. The yield is calculated at the Original Issue Date on the basis of the Issue Price. It is not an indication of future yield.

“**Business Day**” means, unless otherwise specified in the applicable Final Terms, any day other than a Saturday or Sunday or any other day on which banking institutions are generally authorized or obligated by law or regulation to close in (i) the principal financial center of the country in which the Issuer is incorporated, (ii) the principal financial center of the country of the currency in which the Notes are denominated (if the Note is denominated in a Specified Currency other than Euro) and (iii) any additional financial center specified in the applicable Final Terms (as the case may be); provided, however, that with respect to Notes denominated in Euro, such day is a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open.

## **Forms of Notes**

### *Bearer Notes*

If specified in the applicable Final Terms, Notes of each Tranche will be in bearer form (“**Bearer Notes**”) and will initially be represented by one or more temporary global Notes or permanent global Notes, without interest coupons attached and, in the case of definitive Notes, will be serially numbered and will:

- (i) if any such global Note is intended to be issued in new global note (“**NGN**”) form, as stated in the applicable Final Terms, be delivered to a common safekeeper (the “**Common Safekeeper**”) for Euroclear Bank S.A./N.V. as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”) (each an “**ICSD**” and together the “**ICSDs**”):
  - (a) *records of the ICSDs*. The principal amount and/or number of each Note represented by the global Note shall be the amount from time to time entered in the records of both ICSDs, provided, however, that the aggregate principal amount of Notes represented by a global Note shall be as set forth on the face of such note. The records of the ICSDs (which expression means the records that each ICSD holds for its customers which reflect the amount of such customer’s interest in the Notes) shall be conclusive evidence of the principal amount and/or

number of each Note represented by the global Note and, for these purposes, a statement (which statement shall be made available to the bearer upon request) issued by an ICSD stating the principal amount and/or number of Notes so represented at any time shall be conclusive evidence of the records of the relevant ICSD at that time;

- (b) on any redemption or payment of an installment or interest being made in respect of, or purchase and cancellation of, any of the Notes represented by such global Note the Issuer shall procure that details of any redemption, payment, or purchase and cancellation (as the case may be) in respect of the global Note shall be entered pro rata in the records of the ICSDs and, upon any such entry being made, the principal amount and/or number of the Notes recorded in the records of the ICSDs and represented by the global Note shall be reduced by the aggregate principal amount and/or number of the Notes so redeemed or purchased and cancelled or by the aggregate amount of such installment so paid; and
- (ii) if any such global Note is to be issued in classic global note form (“**CGN**”), be delivered to a common depository (the “**Common Depository**”) for Euroclear and Clearstream, Luxembourg or any other recognized or agreed clearing system.

Bearer Notes in definitive form will be issued with coupons attached. Except as set out below, title to Bearer Notes and any coupons will pass by delivery. The Issuer, the Fiscal Agent and any Paying Agent (as defined below) may deem and treat the bearer of any Bearer Note or coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any global Note, without prejudice to the provisions set out in the next succeeding sentence. For so long as any of the Notes are represented by a global Note, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes except in the case of manifest error) shall be treated by the Issuer, the Fiscal Agent and any Paying Agent as the holder of such principal amount of such Notes for all purposes other than with respect to the payment of principal or interest on the Notes, the right to which shall be vested, as against the Issuer, the Fiscal Agent and any Paying Agent solely in the bearer of the relevant global Note in accordance with and subject to its terms (and the expressions “**Noteholder**” and “**Holder of Notes**” and related expressions shall be construed accordingly). Notes which are represented by a global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear or of Clearstream, Luxembourg, as the case may be.

References herein to “**Bearer Notes**” shall, except where otherwise indicated, include interests in a temporary or permanent global Note as well as definitive Notes and any coupons attached thereto.

The applicable Final Terms will specify whether (i) United States Treasury Regulation §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form as such rules for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended), (the “**TEFRA C Rules**”), (ii) United States Treasury Regulation §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form as such rules for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended) (the “**TEFRA D Rules**”) or (iii) if the Notes do not have a maturity of more than 365 days (including unilateral rights to rollover or extend), neither the TEFRA C Rules nor the TEFRA D Rules, are applicable to the Notes. If so specified in the applicable Final Terms, in the case of a Bearer Note to which the TEFRA D Rules have not been specified to apply, the Bearer Notes may be represented upon issue by one or more permanent global Notes.

Each Bearer Note having a maturity of more than 365 days (including unilateral rights to rollover or extend) and interest coupons pertaining to such Note, if any, will bear the following legend: “Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code.”

In general, Bearer Notes that are subject to the TEFRA C Rules or the TEFRA D Rules may not be offered, sold or delivered within the United States or to United States persons. In particular, if the applicable Final Terms specify that the TEFRA D Rules apply, the Bearer Notes may not be delivered, offered, sold or resold, directly or indirectly, in connection with their original issuance or during the Restricted Period (as defined below), in the United States (as defined below) or to or for the account of any United States person (as

defined below), other than to certain persons as provided under United States Treasury Regulations. An offer or sale will be considered to be made to a person within the United States if the offeror or seller has an address within the United States for the offeree or purchaser with respect to the offer or sale. In addition, any underwriters, agents and dealers will represent that they have procedures reasonably designed to ensure that their employees or agents who are directly engaged in selling Bearer Notes are aware of the restrictions on the offering, sale, resale or delivery of Bearer Notes.

As used herein, “**United States**” means the United States (including the States and the District of Columbia), its territories and its possessions. “**United States person**” means (i) a citizen or individual resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States, any state thereof or the District of Columbia or (iii) an estate or a trust the income of which is subject to U.S. federal income taxation regardless of its source. “**Restricted Period**” with respect to each Tranche of Notes means the period which begins on the earlier of the settlement date (or the date on which the Issuer receives the proceeds of the sale of Bearer Notes of such Tranche), or the first date on which the Bearer Notes of such Tranche are offered to persons other than the Dealers, and which ends 40 days after the settlement date (or the date on which the Issuer receives the proceeds of the sale of such Bearer Notes); provided that with respect to a Bearer Note held as part of an unsold allotment or subscription, any offer or sale of such Bearer Note by the Issuer or any Dealer shall be deemed to be during the Restricted Period. An “**Ownership Certificate**” is a certificate (in a form to be provided), signed or sent by the beneficial owner of the relevant Bearer Note or by a financial institution or clearing organization through which the beneficial owner holds the Bearer Note providing certification that the beneficial owner is not a United States person or person who has purchased for resale to any United States person as required by United States Treasury Regulations.

Unless otherwise specified in the applicable Final Terms, each Bearer Note will be represented initially by a temporary global Note, without interest coupons which will (a) if the temporary global Note is intended to be issued in NGN form, as stated in the applicable Final Terms, be delivered on or prior to the Original Issue Date of the Tranche of Notes to a Common Safekeeper for Euroclear and Clearstream, Luxembourg or (b) if the temporary global Note is to be issued in CGN form, be delivered on or prior to the Original Issue Date of the Tranche of Notes to a Common Depository for Euroclear and Clearstream, Luxembourg, or any other recognized or agreed clearing system in the case of a temporary global Note issued in CGN form. Upon deposit of each such temporary global Note, Euroclear or Clearstream, Luxembourg, as the case may be, will credit each subscriber with a principal amount of Notes equal to the principal amount thereof for which it has subscribed and paid. The interests of the beneficial owner or owners in a temporary global Note will be exchangeable after the expiration of the Restricted Period (the “**Exchange Date**”) for an interest in a permanent global Note which will (a) if the permanent global Note is intended to be issued in NGN form, as stated in the applicable Final Terms, be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg or (b) if the permanent global Note is not intended to be issued in NGN form, be delivered to a Common Depository for Euroclear and Clearstream, Luxembourg, for credit to the account designated by or on behalf of the beneficial owner thereof, or for definitive Bearer Notes or definitive Registered Notes, as provided in the applicable Final Terms; provided, however, that such exchange will be made only upon receipt of Ownership Certificates in the case of Bearer Notes to which the TEFRA D Rules have been specified to apply.

If so specified in the applicable Final Terms, in the case of a Bearer Note to which the TEFRA D Rules have not been specified to apply, the Bearer Notes may be represented upon issue by one or more permanent global Notes.

#### *Registered Notes*

If specified in the applicable Final Terms, Notes of each Tranche will be in fully registered form (“**Registered Notes**”). The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will be represented by a global note in registered form (a “**Regulation S Global Note**”). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person and may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

The Registered Notes of each Tranche may only be offered and sold in the United States or to U.S. persons in private transactions to “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act (“QIBs”). The Registered Notes of each Tranche sold to QIBs will be represented by a global note in registered form (a “**Rule 144A Global Note**” and, together with a Regulation S Global Note, the “**Registered Global Notes**”).

Registered Global Notes will either (i) be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company (“DTC”), (ii) be deposited with a common depository for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg, as specified in the applicable Final Terms (and in either case the “**Register**”). Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

The Rule 144A Global Note will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will be made to the person shown on the Register as the registered holder of the Registered Global Notes. None of the Issuer, any Paying Agent or any Registrar (as defined below) will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will be made to the persons shown on the Register on the relevant Record Date (as defined below) immediately preceding the due date for payment in the manner provided in that paragraph.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without interest coupons, receipts or talons attached only upon the occurrence of an Exchange Event. For these purposes, “**Exchange Event**” means that (i) in the case of Notes registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Notes and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act, (ii) in the case of Notes registered in the name of a nominee for a common depository for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of fourteen days (other than by reason of holiday, statutory or otherwise) or have announced an intention to permanently cease business or have in fact done so and, in any such case, no successor clearing system is available or (iii) the Issuer is in default.

In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Registered Global Note) may give notice to the Registrar requesting exchange. Any such exchange shall occur not later than ten days after the date of receipt of the first relevant notice by the relevant Registrar.

### **Exchange and Transfer of Notes**

A temporary global Note will be exchangeable in whole but not in part for definitive Bearer Notes (i) if Euroclear and/or Clearstream, Luxembourg or any other agreed clearing system, as applicable, has informed the Issuer that it has or they have, as the case may be, ceased or will cease to act as the clearing system(s) in respect of the relevant temporary global Note or, (ii) if required by law; but only, in each case, in the case of Bearer Notes to which the TEFRA D Rules have been specified to apply, on or after the Exchange Date and upon delivery of Ownership Certificates. No definitive Bearer Note will be delivered in or to the United States or to a United States person, except as specifically provided by applicable United States Treasury Regulations. In the event that the relevant temporary global Note is not, in the case of (i) or (ii) above, duly exchanged for definitive Bearer Notes then the terms of such temporary global Note provide for relevant account holders with Euroclear and Clearstream, Luxembourg and any other agreed clearing system, as applicable, to be able to enforce against the Issuer all rights which they would have had if they had been holding definitive Bearer Notes of the relevant value at the time of such event. Payments by the Issuer to the relevant account holders will be considered as payments to the relevant Noteholder and operate as full and final discharge to the Issuer in this respect.

A permanent global Note will be exchangeable in whole but not in part for definitive Bearer Notes (i) if Euroclear and/or Clearstream, Luxembourg or any other agreed clearing system, as applicable, has informed the Issuer that it has or they have, as the case may be, ceased or will cease to act as the clearing system(s) in respect of the relevant permanent global Note or, (ii) if an Event of Default occurs, unless such event is remedied within seven days of its occurrence. In order to make such request the holder must, not less than 45 days before the date on which delivery of definitive Bearer Notes is required, deposit the relevant permanent global Note with the relevant Paying Agent (as defined below) at its specified office outside the United States for the purposes of the Notes with the form of exchange notice endorsed thereon duly completed. No definitive Bearer Note will be delivered in or to the United States or to a United States person, except as specifically provided by applicable United States Treasury Regulations. In the event that the relevant permanent global Note is not, in the case of (i) or (ii) above, duly exchanged for definitive Bearer Notes then the terms of such permanent global Note provide for relevant account holders with Euroclear and Clearstream, Luxembourg and any other agreed clearing system as applicable, to be able to enforce against the Issuer all rights which they would have had if they had been holding definitive Bearer Notes of the relevant value at the time of such event. Payments by the Issuer to the relevant account holders will be considered as payments to the relevant Noteholder and operate as full and final discharge to the Issuer in this respect.

If specified in the applicable Final Terms, and subject to the terms of the Fiscal Agency Agreement, definitive Bearer Notes (along with all unmatured coupons, and all matured coupons, if any, in default) will be exchangeable at the option of the holder into Registered Notes of any authorized denominations of like tenor and in an equal aggregate principal amount, in accordance with the provisions of the Fiscal Agency Agreement at the office of the relevant Registrar or at the office of any Transfer Agent outside the United States designated by the Issuer for such purpose. See **“Registrar and Transfer Agents”** below. Definitive Bearer Notes surrendered in exchange for Registered Notes after the close of business at any such office (i) on or after any record date for the payment of interest (a **“Regular Record Date”**) on a Registered Note on an Interest Payment Date (as defined below) and before the close of business at such office on the date prior to the relevant Interest Payment Date, or (ii) on or after any record date to be established for the payment of defaulted interest on a Registered Note (**“Special Record Date”**) and before the opening of business at such office on the related proposed date for payment of defaulted interest, shall be surrendered without the coupon relating to such date for payment of interest. Definitive Bearer Notes will be exchangeable for definitive Bearer Notes in other authorized denominations, in an equal aggregate principal amount, in accordance with the provisions of the Fiscal Agency Agreement and at the offices of any Paying Agent outside the United States appointed by the Issuer for such purpose. See **“Registrar and Transfer Agents”** below.

Registered Notes will be exchangeable for Registered Notes in other authorized denominations, in an equal aggregate principal amount upon surrender of any such Notes to be exchanged at the offices of the relevant Registrar or any transfer agent designated by the Issuer for such purpose. Registered Notes will not be exchangeable for Bearer Notes. Registered Notes may be presented for registration of transfer at the offices of the relevant Registrar or any transfer agent designated by the Issuer and for such purpose. See **“Registrar and Transfer Agents”** below. No service charge will be made for any registration of transfer or exchange of Notes but the Issuer may require payment of a sum sufficient to cover any transfer taxes payable in connection therewith. Except as described above, Bearer Notes and any coupons appertaining thereto will be transferable by delivery. See **“Forms of Notes—Bearer Notes”** above.

The Issuer shall not be required (i) to register the transfer of or exchange Notes to be redeemed for a period of fifteen calendar days preceding the first publication of the relevant notice of redemption, or if Registered Notes are outstanding and there is no publication, the mailing of the relevant notice of redemption, (ii) to register the transfer of or exchange any Registered Note selected for redemption or surrendered for optional repayment, in whole or in part, except the unredeemed or unpaid portion of any such Registered Note being redeemed or repaid, as the case may be, in part, (iii) to exchange any Bearer Note selected for redemption or surrendered for optional repayment, except that such Bearer Note may be exchanged for a Registered Note of like tenor, provided that such Registered Note shall be simultaneously surrendered for redemption or repayment, as the case may be, or (iv) to register transfer of or exchange any Notes surrendered for optional repayment, in whole or in part.

## **Payments and Paying Agents**

Principal and premium, if any, and interest, if any, payable on a Bearer Note represented by a temporary global Note or any portion thereof in respect of an Interest Payment Date will be paid in the Specified Currency (unless otherwise specified in the applicable Final Terms) by the relevant Paying Agent to each of Euroclear and Clearstream, Luxembourg, as the case may be, with respect to that portion of such temporary global Note held for its account (upon presentation to the Non-U.S. Paying Agent of the temporary global Note, if the temporary global Note is not issued in NGN form) and, in the case of a Note to which the TEFRA D Rules have been specified to apply, upon delivery of an Ownership Certificate signed by Euroclear or Clearstream, Luxembourg, as the case may be, dated no earlier than such Interest Payment Date, which certificate must be based on Ownership Certificates provided to Euroclear or Clearstream, Luxembourg, as the case may be, by its member organizations. Each of Euroclear and Clearstream, Luxembourg, as the case may be, will in such circumstances credit any principal and interest received by it in respect of such temporary global Note or any portion thereof to the accounts of the beneficial owners thereof.

Principal and premium, if any, and interest, if any, payable on a Bearer Note represented by a permanent global Note in respect of an Interest Payment Date will be paid in the Specified Currency (unless otherwise specified in the applicable Final Terms) by the relevant Paying Agent to each of Euroclear and Clearstream, Luxembourg, as the case may be, with respect to that portion of such permanent global Note held for its account (upon presentation to the Non-U.S. Paying Agent of the permanent global Note if the permanent global Note is not issued in NGN form). Each of Euroclear and Clearstream, Luxembourg will in such circumstances credit any principal and interest received by it in respect of such permanent global Note to the respective accounts of the beneficial owners of such permanent global Note at maturity, redemption or repayment or on such Interest Payment Date, as the case may be. If a Registered Note is issued in exchange for a permanent global Note after the close of business at the office or agency where such exchange occurs (a) on or after any Regular Record Date and before the opening of business at such office or agency on the relevant Interest Payment Date, or (b) on or after any Special Record Date and before the opening of business at such office or agency on the related proposed date for payment of defaulted interest, any interest or defaulted interest, as the case may be, will not be payable on such Interest Payment Date or proposed date for payment, as the case may be, in respect of such Registered Note, but will be payable on such Interest Payment Date or proposed date for payment, as the case may be, only to Euroclear and Clearstream, Luxembourg, and Euroclear and Clearstream, Luxembourg will in such circumstances credit any such interest to the account of the beneficial owner of such permanent global Note on such Regular Record Date or Special Record Date, as the case may be. Payment of principal and of premium, if any, and any interest due at maturity, redemption or repayment (in the event, with respect to payment of interest, that any such maturity date or redemption or repayment date is other than an Interest Payment Date) in respect of any permanent global Note will be made to Euroclear and Clearstream, Luxembourg in immediately available funds.

Payments of principal and of premium, if any, and interest on definitive Bearer Notes will be made in immediately available funds in the Specified Currency (unless otherwise specified in the applicable Final Terms), subject to any applicable laws and regulations, only against presentation and surrender of such Note and any coupons at the offices of a Paying Agent outside the United States or, at the option of the holder by wire transfer of immediately available funds to an account maintained by the payee with a bank located outside the United States if appropriate wire instructions have been received by a Paying Agent not less than 10 calendar days prior to an applicable payment date. No payment with respect to any Bearer Note will be made at any office or agency of the Issuer in the United States or by wire transfer to an account maintained with a bank located in the United States, except as may be permitted under United States federal tax laws and regulations then in effect. Notwithstanding the foregoing, payments of principal and of premium, if any, and interest on Bearer Notes denominated and payable in U.S. Dollars will be made at the office of the paying agent of the Issuer, in the Borough of Manhattan, The City of New York, if and only if (i) payment of the full amount thereof in U.S. Dollars at all offices or agencies outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions and (ii) such paying agent in the Borough of Manhattan, The City of New York, under applicable law and regulations, would be able to make such payment.

Payment of principal and of premium, if any, and interest on Registered Notes at maturity or upon redemption or repayment will be made in immediately available funds in the Specified Currency (unless otherwise specified in the applicable Final Terms) against presentation of such Note at the office of the relevant Paying Agent. Payment of interest on Registered Notes will be made to the person in whose name such Note is registered at the close of business on the Regular Record Date next preceding the Interest Payment Date either by check mailed to the address of the person entitled thereto as such address shall appear in the security register or by wire transfer to an account selected by the person entitled thereto if

appropriate wire instructions have been received by the relevant Paying Agent not less than 10 calendar days prior to the applicable payment date; provided, however, that (i) if the Issuer fails to pay such interest on such Interest Payment Date, such defaulted interest will be paid to the person in whose name such Note is registered at the close of business on the Special Record Date and (ii) interest payable at maturity, redemption or repayment will be payable to the person to whom principal shall be payable. The first payment of interest on any Registered Note originally issued between a Regular Record Date and an Interest Payment Date will be made on the Interest Payment Date following the next succeeding Regular Record Date to the registered owner on such next Regular Record Date. Interest rates and interest rate formulae are subject to change by the Issuer from time to time but no such change will affect any Note theretofore issued. Unless otherwise specified in the applicable Final Terms, the Interest Payment Dates and the Regular Record Dates for Fixed Rate Notes shall be as described below under "**Fixed Rate Notes.**" The Interest Payment Dates for Floating Rate Notes shall be as indicated in the applicable Final Terms and in such Note, and, unless otherwise specified in the applicable Final Terms, each Regular Record Date for a Registered Floating Rate Note will be the calendar day (whether or not a Business Day) next preceding each Interest Payment Date.

Payments of principal, interest and any other amount in respect of the Registered Notes will, in the absence of provision to the contrary, be made to the person shown on the Register on the relevant Record Date (as defined below) as the registered holder of the Registered Notes. None of the Issuer, any Paying and Transfer Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. Payments of interest in respect of Registered Notes shall be made to the person shown on the Register at the close of business on the date specified in the applicable Final Terms (the "**Record Date**"). For the avoidance of doubt, the Record Date for Registered Notes that are held through an ICSD shall be the business day prior to each Interest Payment Date.

Pursuant to the Fiscal Agency Agreement, the Issuer has initially designated Bank of America, National Association, London Branch as its non-U.S. Paying agent (in such capacity, and including any successor non-U.S. paying agent appointed thereunder, the "**Non-U.S. Paying Agent**") and Bank of America, National Association as its U.S. paying agent for Notes sold within the United States, (in such capacity and including any successor U.S. paying agent appointed thereunder, the "U.S. Paying Agent," and together with the Non-U.S. Paying Agent and any other paying agents appointed by the Issuer, the "**Paying Agents**"). So long as any Notes are listed and/or admitted to trading on or by any stock exchange, competent authority and/or market, there will at all times be a Paying Agent with a specified office in each location, if any, required by the rules and regulations of the relevant stock exchange(s), competent authority(ies) and/or market(s) on or by which such Notes are listed and/or admitted to trading. So long as any Notes are listed and/or admitted to trading on or by any stock exchange, competent authority and/or market and the rules of such exchange, competent authority and/or market so require, the Issuer will notify the holders of its Notes in the manner specified under "**Notices**" below in the event that the Issuer appoints a Paying Agent with respect to such Notes other than the Paying Agents designated as such in this Base Prospectus or in the applicable Final Terms.

Any monies paid by the Issuer to any Paying Agent for the payment of principal of, premium, if any and interest (and Additional Amounts, if any) with respect to the Notes and remaining unclaimed at the end of one month after the date on which such monies first became payable shall be repaid to the Issuer and the holders of the Notes shall thereafter look only to the Issuer for payment. The Notes shall become void unless presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) after the Relevant Date therefor.

"**Entitlement**" is defined to include any distribution of cash or securities, being the payment due date, as determined by the terms and conditions, for cash or the settlement date for securities.

"**Relevant Date**" means the date on which such payment first becomes due, except that, if the full amount of moneys payable has not been duly received by the Fiscal Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the holders of the Notes as described under "**Notices**" below.

#### **Registrar and Transfer Agents**

Pursuant to the Fiscal Agency Agreement, the Issuer has initially designated Bank of America, National Association as U.S. registrar in respect of the Rule 144A Global Notes and also the Regulation S Global Notes which are deposited with a custodian for, and registered in the name of a nominee of, DTC (in such capacity and including any successor U.S. registrar appointed thereunder, the “**U.S. Registrar**”). Additionally, the Issuer has initially designated Bank of America Merrill Lynch International Limited, Dublin Branch, as Irish registrar in respect of the Regulation S Global Notes which are deposited with a common depository for, and registered in the name of a common nominee of Euroclear, Clearstream or any other clearing system (in such capacity and including any successor Irish registrar appointed thereunder, the “**Irish Registrar**,” and, together with the U.S. Registrar and any other registrar appointed by the Issuer, the “**Registrars**”). The Issuer has initially designated Bank of America, National Association, London Branch as non-U.S. transfer agent in respect of the Notes (in such capacity and including any successor non-U.S. transfer agent appointed thereunder, the “**Non-U.S. Transfer Agent**”). Additionally, the Issuer has initially designated Bank of America, National Association as U.S. transfer agent in respect of the Notes (in such capacity and including any successor U.S. transfer agent in respect of the Notes, the “**U.S. Transfer Agent**” and, together with the Non-U.S. Transfer Agent and any other transfer agent appointed by the Issuer, the “**Transfer Agents**”). For so long as any Notes are listed and/or admitted to trading on or by any stock exchange, competent authority and/or market, the Issuer will maintain a Transfer Agent with a specified office in each location required by the rules and regulations of the relevant stock exchange, competent authority and/or market. Any initial designation by the Issuer of the Registrar or a Transfer Agent may be rescinded at any time. The Issuer may at any time designate additional Transfer Agents with respect to the Notes. So long as any Notes are listed and/or admitted to trading on or by any stock exchange, competent authority and/or market and the rules of such exchange, competent authority and/or market so require, the Issuer will notify the holders of its Notes in the manner specified under “**Notices**” below in the event that the Issuer appoints a Registrar or Transfer Agent with respect to such Notes other than the Registrar and Transfer Agents designated as such in this Base Prospectus or in the applicable Final Terms.

### **Optional Redemption**

Each applicable Final Terms will indicate either that the relevant Tranche of Notes of a Series cannot be redeemed prior to maturity (other than as provided under “Redemption Prior to Maturity Solely for Taxation Reasons” below) or that the Notes will be redeemable at the option of the Issuer, and such Final Terms shall specify the price at which such Notes are to be redeemed, including, but not limited to, any USD Make Whole Amount or Non-USD Make Whole Amount, in each case as defined below (the “**Optional Redemption Price**”) and the relevant date upon which such Notes will be so redeemed (each such date, an “**Issuer Optional Redemption Date**”); provided, however, that Notes denominated in currencies other than U.S. Dollars may be subject to different restrictions on redemption as set forth under “Special Provisions Relating to Foreign Currency Notes—Minimum Denominations, Restrictions on Maturities, Repayment and Redemption” herein. Notice of any redemption to holders of Bearer Notes shall be published as described under “Notices” below once in each of three successive calendar weeks, the first publication to be not less than 30 nor more than 60 calendar days prior to the Issuer Optional Redemption Date. Notice of any redemption to holders of Registered Notes shall be provided as described under “Notices” below at least 30 and not more than 60 calendar days prior to the Issuer Optional Redemption Date.

#### *Optional Redemption by Issuer in Foreign Currency*

The “**Non-USD Make Whole Amount**” per Note shall be an amount equal to the sum of: (i) the principal amount of the relevant Note to be redeemed; (ii) the Applicable Premium; and (iii) accrued interest thereon to the Issuer Optional Redemption Date and any Additional Amounts payable with respect thereto. “**Applicable Premium**” means the excess, if any, of (i) the present value, discounted with the Benchmark Yield plus a spread to be indicated in the applicable Final Terms, on such redemption date of (A) the principal amount per Note, plus (B) all remaining scheduled interest payments per Note to (but excluding interest accrued through the Issuer Optional Redemption Date), over (ii) the principal amount per Note. The “**Benchmark Yield**” shall be the yield to maturity at the Redemption Calculation Date of a benchmark security with a constant maturity (as compiled and published in a publicly available source of market data selected by the Issuer) most nearly equal to the period from the Issuer Optional Redemption Date to the Maturity Date; provided, however, that if the period from the Issuer Optional Redemption Date to the Maturity Date is not equal to the constant maturity of such benchmark security for which a weekly average yield is given, the Benchmark Yield shall be obtained by a linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of such benchmark security for which such yields are given, except that if the period from the Issuer Optional Redemption Date to the Maturity Date is less than one year,



the weekly average yield on such actually traded benchmark security adjusted to a constant maturity of one year shall be used. **“Redemption Calculation Date”** means the sixth Business Day prior to the date on which the Notes are redeemed pursuant to this section.

#### *Optional Redemption by Issuer in USD*

The **“USD Make Whole Amount”** per Note shall be an amount equal to the greater of (i) 100% of the principal amount of the Notes and (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus an amount of basis points to be specified in the applicable Final Terms, plus, in each case, accrued interest thereon to the date of redemption and any Additional Amounts payable with respect thereto.

On and after the redemption date, interest on the Notes or any portion of the Notes called for redemption will cease to accrue (unless the Issuer defaults in the payment of the redemption price and accrued interest). On or before the redemption date, the Issuer will deposit with the relevant Paying Agent funds sufficient to pay the redemption price and accrued interest, through the redemption date, on the Notes subject to redemption. If the redemption date falls after a record date but on or prior to the corresponding interest payment date, the Issuer will pay accrued interest to the holder of record on the corresponding record date, which may or may not be the person who will receive payment of the redemption price (which will exclude such accrued interest). If less than all the Notes are to be redeemed, the Notes to be redeemed that are held through a clearing system will be selected in accordance with the procedures of such clearing system and Notes not held through a clearing system by lot or pro rata.

**“Comparable Treasury Issue”** means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of the Notes.

**“Comparable Treasury Price”** means, with respect to any redemption date, (A) the average, as calculated by the Issuer, of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (B) if the Issuer obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

**“Independent Investment Banker”** means one of the Reference Treasury Dealers appointed by the Issuer.

**“Reference Treasury Dealer Quotations”** means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Issuer, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Issuer by such Reference Treasury Dealer at 3:30 p.m. New York time on the third business day preceding such redemption date.

**“Treasury Rate”** means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

**“Reference Treasury Dealer”** means each of the Dealers specified in the applicable Final Terms, or their respective affiliates or successors which are primary U.S. government securities Dealers, and no less than two other leading primary U.S. government securities Dealers in the City of New York reasonably designated by the Issuer; provided, however, that if any of the foregoing or their affiliates shall cease to be a primary U.S. government securities dealer in the City of New York (a “Primary Treasury Dealer”), the Issuer shall substitute therefor another Primary Treasury Dealer.

#### **Repayment at the Noteholders’ Option; Repurchase**

If applicable, the Final Terms applicable to the Notes of a Tranche will indicate that such Notes will be repayable at the option of the holder on a date or dates specified prior to their stated maturity date (such option, “**Optional Repayment**” and each such date, a “**Noteholder Optional Redemption Date**”) and, unless otherwise specified in the applicable Final Terms, at a price equal to 100% of the principal amount outstanding thereof, together with accrued interest to, but not including, the relevant Noteholder Optional Redemption Date; provided, however, that Notes denominated in currencies other than U.S. Dollars may be subject to different restrictions on repayment as set forth under “**Special Provisions Relating to Foreign Currency Notes—Minimum Denominations, Restrictions on Maturities, Repayment and Redemption**” herein. If no Noteholder Optional Redemption Date is included with respect to a Note, such Note will not be repayable at the option of the holder prior to its maturity.

In order for such a Note to be repaid, and unless provided otherwise in the applicable Final Terms, the relevant Paying Agent must receive at least 30 but not more than 60 calendar days prior to the Noteholder Optional Redemption Date, (i) the Note with the form entitled “**Option to Elect Repayment**” on the reverse of the Note duly completed or (ii) a telegram, facsimile transmission or letter from a commercial bank or trust company in Western Europe or the United States which must set forth the name of the holder of the Note (in the case of a Registered Note only), the principal amount of the Note, the principal amount of the Note to be repaid, the certificate number or a description of the tenor and terms of the Note, a statement that the option to elect repayment is being exercised thereby and a guarantee that the Note to be repaid, together with the duly completed form entitled “**Option to Elect Repayment**” on the reverse of the Note, will be received by the Paying Agent not later than the fifth Business Day after the date of such telegram, facsimile transmission or letter; provided, however, that such telegram, facsimile transmission or letter from a commercial bank or trust company in Western Europe or the United States shall only be effective in such case if such Note and form duly completed are received by the relevant Paying Agent by such fifth Business Day. In the case of Global Notes, holders who wish to tender their Notes will be required to comply with the operating procedures for the relevant clearing system where such Notes are deposited. Exercise of the repayment option by the holder of a Note will be irrevocable. The repayment option may be exercised by the holder of a Note for less than the entire principal amount of the Note but, in that event, the principal amount of the Note remaining outstanding after repayment must be an authorized denomination. Partial redemption with respect to Notes in NGN form will be reflected in the records of Euroclear and Clearstream, Luxembourg as either pool factor (whereby a percentage reduction is applied to the nominal amount) or reduction in nominal amount, at their discretion.

The Issuer may at any time purchase Notes at any price in the open market or otherwise. Notes purchased by the Issuer will be surrendered to the Fiscal Agent for cancellation.

#### **Redemption Prior to Maturity Solely for Taxation Reasons**

The Issuer may at its election, subject to applicable Chilean law, redeem any Series of the Notes in whole, but not in part, upon giving not less than 30 nor more than 60 days’ notice to the holders of the Notes of such Series, at their principal amount outstanding, plus Additional Amounts (as defined in “—Payment of Additional Amounts”), if any, together with accrued but unpaid interest to the date fixed for redemption, if:

- (i) the Issuer certifies to the Fiscal and Paying Agent and any other relevant Paying Agent immediately prior to the giving of such notice that the Issuer has or will become obligated to pay Additional Amounts with respect to such Series of Notes (in excess of the 4.0% withholding tax payable on payments of interest on such Series of Notes) as a result of any change in or amendment to the laws or regulations of a Relevant Taxing Jurisdiction (as defined below), or any change in the application or official interpretation of such laws or regulations, which change or amendment occurs after the date of issuance of such Series of Notes; and
- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to the Issuer;

*provided, however*, that no such notice of redemption shall be given earlier than 60 days prior to the earliest date on which the Issuer would be obligated to pay such Additional Amounts if a payment in respect of any such Series of Notes were then due. For the avoidance of doubt, a change in the jurisdiction of the Paying Agents shall be considered a reasonable measure.

Before giving notice of redemption, the Issuer shall deliver to the Fiscal and Paying Agent and any other relevant Paying Agent an officers’ certificate stating that the Issuer is entitled to effect such redemption in

accordance with the terms set forth in the Fiscal Agency Agreement and setting forth in reasonable detail a statement of the facts relating thereto. The statement will be accompanied by a written opinion of counsel to the effect, among other things, that:

- (i) the Issuer has become obligated to pay the Additional Amounts as a result of a change or amendment described above;
- (ii) the Issuer cannot avoid payment of the Additional Amounts by taking reasonable measures available to the Issuer; and
- (iii) all governmental approvals necessary for the Issuer to effect the redemption have been obtained and are in full force and effect or specifying any such necessary approvals that as of the date of such opinion have not been obtained.

### **Interest and Interest Rates**

#### *General*

Each Note will bear interest at either:

- (a) a fixed rate; or
- (b) a floating rate determined by reference to an interest rate basis, which may be adjusted by a Spread and/or Spread Multiplier (as defined below). Any Floating Rate Note may also have either or both of the following:
  - (i) a maximum interest rate limitation, or ceiling, on the rate at which interest may accrue during any interest period; and
  - (ii) a minimum interest rate limitation, or floor, on the rate at which interest may accrue during any interest period, provided that if no minimum interest rate is specified or if the Final Terms indicate that the minimum interest rate is “not applicable,” then the minimum interest rate shall be zero.

The applicable Final Terms will designate:

- (a) a fixed rate per annum, in which case such Notes will be “**Fixed Rate Notes**”; or
- (b) one or more of the following interest rate bases as applicable to such Notes, in which case such Notes will be “**Floating Rate Notes**”:
  - (i) the CD Rate, in which case such Notes will be “**CD Rate Notes**”;
  - (ii) the Commercial Paper Rate, in which case such Notes will be “**Commercial Paper Rate Notes**”;
  - (iii) the Eleventh District Cost of Funds Rate, in which case such Notes will be “**Eleventh District Cost of Funds Rate Notes**”;
  - (iv) the Federal Funds Rate, in which case such Notes will be “**Federal Funds Rate Notes**”;
  - (v) LIBOR, in which case such Notes will be “**LIBOR Notes**”;
  - (vi) EURIBOR, in which case such Notes will be “**EURIBOR Notes**”;
  - (vii) the Treasury Rate, in which case such Notes will be “**Treasury Rate Notes**”; or
  - (viii) the Prime Rate, in which case such Notes will be “**Prime Rate Notes**.”

Each Note will bear interest from its date of issue or from the most recent date to which interest on such Note has been paid or duly provided for, at the annual rate, or at a rate determined pursuant to an interest rate formula, stated herein. Interest will accrue on a Note until the principal thereof is paid or made available for payment.

Interest will be payable on each Interest Payment Date and at maturity or on redemption or repayment, if any, except for:

- (a) certain OID Notes; and
- (b) Notes originally issued between a Regular Record Date and an Interest Payment Date.

The first payment of interest on any Registered Note originally issued between a Regular Record Date and an Interest Payment Date will be made on the Interest Payment Date following the next succeeding Regular Record Date. Such interest will be payable by the Issuer to the registered owner on such next Regular Record Date.

Interest will be payable on a Registered Note on each Interest Payment Date to the person in whose name such Note is registered at the close of business on the Regular Record Date next preceding the Interest Payment Date; provided, however, that:

- (a) if the Issuer fails to pay such interest on such Interest Payment Date, such defaulted interest will be paid to the person in whose name such Registered Note is registered at the close of business on the record date to be established for the payment of defaulted interest; and
- (b) interest payable at maturity, redemption or repayment will be payable to the person to whom principal shall be payable.

Unless otherwise specified in the applicable Final Terms:

- (a) for Fixed Rate Notes, the Interest Payment Dates and any Regular Record Dates shall be as described below under “**Fixed Rate Notes**”; and
- (b) for Floating Rate Notes:
  - (i) the Interest Payment Dates shall be as indicated in the applicable Final Terms and in such Note; and
  - (ii) any Regular Record Date will be the Business Day next preceding each Interest Payment Date.

“**LIBOR**” means the London Inter-bank Offered Rate for deposits in a specified currency.

“**Spread**” means the number of basis points expressed as a percentage (one basis point equals one-hundredth of a percentage point) that the calculation agent will add or subtract from the related Interest Rate Basis or Bases applicable to a Floating Rate Note.

“**Spread Multiplier**” means the percentage of the related Interest Rate Basis or Bases applicable to a Floating Rate Note by which the calculation agent will multiply such Interest Rate Basis or Bases to determine the applicable interest rate on such Floating Rate Note.

#### *Fixed Rate Notes*

*General.* Each Fixed Rate Note will bear interest at the annual rate specified in the Note and in the applicable Final Terms (the “**Fixed Rate of Interest**”). Interest on the Fixed Rate Notes will be paid on the dates specified in the applicable Final Terms (each, a “**Fixed Interest Payment Date**”). The Regular Record Dates for Fixed Rate Notes in registered form will be on the dates specified in the applicable Final Terms. In the event that any Fixed Interest Payment Date or Maturity Date for any Fixed Rate Note is not a Business

Day, interest on such Fixed Rate Note will be paid on the next succeeding Business Day without additional interest. If interest is required to be calculated for a period other than a Fixed Interest Period (as defined below), such interest shall be calculated by applying the Fixed Rate of Interest to each specified denomination of the Notes of such Series, multiplying such sum by the applicable Fixed Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards, or otherwise in accordance with applicable market convention.

*Day Count Fraction.* “**Fixed Day Count Fraction**” means:

- (1) in the case of Notes denominated in a currency other than U.S. Dollars, “Actual/Actual (ICMA),” meaning:
  - (a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Fixed Interest Payment Date (or, if none, the interest commencement date (the “Interest Commencement Date”) (as specified in the applicable Final Terms)) to (but excluding) the relevant payment date (the “Calculation Period”) is equal to or shorter than the Determination Period (as defined below) during which the Calculation Period ends, the number of days in such Calculation Period divided by the product of (1) the number of days in such Determination Period and (2) the number of determination dates (each, a “Determination Date”) (as specified in the applicable Final Terms) that would occur in one calendar year; or
  - (b) in the case of Notes where the Calculation Period is longer than the Determination Period during which the Calculation Period ends, the sum of:
    - (i) the number of days in such Calculation Period falling in the Determination Period in which the Calculation Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and
    - (ii) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (2) in the case of Notes denominated in U.S. Dollars “30/360,” meaning the number of days in the period from and including the most recent Fixed Interest Payment Date (or, if none, the Interest Commencement Date (as specified in the applicable Final Terms)) to but excluding the relevant payment date (such number of days being calculated on the basis of a year of 360 days with twelve 30-day months) divided by 360.

Where:

“**Determination Period**” means the period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date (as specified in the applicable Final Terms) or the final Fixed Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).

“**Fixed Interest Period**” means the period from (and including) a Fixed Interest Payment Date (or, if none, the Interest Commencement Date (as specified in the applicable Final Terms)) to (but excluding) the next (or first) Fixed Interest Payment Date.

“**sub-unit**” means, with respect to any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to Euro, means one cent.

#### *Floating Rate Notes*

*General.* Floating Rate Notes generally will be issued as described below. Each applicable Final Terms will specify the following terms with respect to which such Floating Rate Note is being delivered:

- (a) whether such Floating Rate Note is a Regular Floating Rate Note, a Floating Rate/Fixed Rate Note or an Inverse Floating Rate Note, each as defined below;
- (b) the Interest Rate Basis or Bases, Initial Interest Rate, Interest Reset Dates, Interest Reset Period, Regular Record Dates (if any) and Interest Payment Dates;
- (c) the Index Maturity;
- (d) the Spread and/or Spread Multiplier, if any;
- (e) the maximum interest rate and minimum interest rate, if any (provided that if no minimum interest rate is specified or if the Final Terms indicate that the minimum interest rate is "not applicable," then the minimum interest rate shall be zero); and
- (f) the Designated LIBOR Currency, if one or more of the specified Interest Rate Bases is LIBOR.

The Issuer may change the Spread, Spread Multiplier, Index Maturity and other variable terms of the Floating Rate Notes from time to time. However, no such change will affect any Floating Rate Note previously issued or as to which an offer has been accepted by the Issuer.

The interest rate in effect on each day shall be:

- (a) if such day is an Interest Reset Date, the interest rate determined on the Interest Determination Date immediately preceding such Interest Reset Date; or
- (b) if such day is not an Interest Reset Date, the interest rate determined on the Interest Determination Date immediately preceding the next preceding Interest Reset Date.

*Regular Floating Rate Note; Floating Rate/Fixed Rate Note; Inverse Floating Rate Note*

The Interest Rate Basis applicable to each Regular Floating Rate Note, Floating Rate/Fixed Rate Note and Inverse Floating Rate Note may be subject to a Spread or Spread Multiplier, provided that the interest rate on an Inverse Floating Rate Note will not be less than zero.

*Regular Floating Rate Note.* A Regular Floating Rate Note will bear interest at the rate determined by reference to the applicable Interest Rate Basis. The rate at which interest shall be payable shall be reset as of each Interest Reset Date commencing on the Initial Interest Reset Date. However:

- (a) the interest rate in effect for the period from the Original Issue Date to the Initial Interest Reset Date will be the Initial Interest Rate; and
- (b) the interest rate in effect for the ten calendar days immediately prior to a Maturity Date shall be that in effect on the tenth calendar day preceding such Maturity Date, unless otherwise specified in the applicable Final Terms.

*Floating Rate/Fixed Rate Note.* A Floating Rate/Fixed Rate Note will initially bear interest at the rate determined by reference to the applicable Interest Rate Basis. The rate at which interest shall be payable shall be reset as of each Interest Reset Date commencing on the Initial Interest Reset Date. However:

- (a) the interest rate in effect for the period from the Original Issue Date to the Initial Interest Reset Date will be the Initial Interest Rate;
- (b) the interest rate in effect for the 10 calendar days immediately prior to the fixed rate commencement date shall be that in effect on the tenth calendar day preceding the fixed rate commencement date, unless otherwise specified in the applicable Final Terms; and
- (c) the interest rate in effect commencing on, and including, the fixed rate commencement date to the Maturity Date shall be the Fixed Interest Rate, if such rate is specified in the applicable Final Terms,

or if no such Fixed Interest Rate is so specified and the Floating Rate/Fixed Rate Note is still outstanding on such day, the interest rate in effect thereon on the day immediately preceding the fixed rate commencement date.

*Inverse Floating Rate Note.* An Inverse Floating Rate Note will bear interest equal to the Fixed Interest Rate specified in the related Final Terms minus the rate determined by reference to the Interest Rate Basis. The rate at which interest is payable shall be reset as of each Interest Reset Date commencing on the Initial Interest Reset Date. However:

- (a) the interest rate in effect for the period from the Original Issue Date to the Initial Interest Reset Date will be the Initial Interest Rate; and
- (b) the interest rate in effect for the ten calendar days immediately prior to a Maturity Date shall be that in effect on the tenth calendar day preceding such Maturity Date, unless otherwise specified in the applicable Final Terms.

#### *Interest Rate Bases*

Each Floating Rate Note will have one or more of the following interest rate bases, as specified in the Final Terms:

- (a) the CD Rate;
- (b) the Commercial Paper Rate;
- (c) the Eleventh District Cost of Funds Rate;
- (d) the Federal Funds Rate;
- (e) LIBOR;
- (f) EURIBOR;
- (g) the Treasury Rate;
- (h) the Prime Rate; or
- (i) the lowest of two or more Interest Rate Bases.

#### *Date of Interest Rate Change*

The interest rate on each Floating Rate Note may be reset daily, weekly, monthly, quarterly, semi-annually or annually, as specified in the applicable Final Terms (this period is the “**Interest Reset Period**” and the first day of each Interest Reset Period is the “**Interest Reset Date**”).

If an Interest Reset Date for any Floating Rate Note falls on a day that is not a Business Day, it will be postponed to the following Business Day, except that if that Business Day is in the next calendar month, the Interest Reset Date will be the immediately preceding Business Day.

#### *How Interest Is Calculated*

*General.* The Issuer will appoint a calculation agent to calculate interest rates on the Floating Rate Notes. Unless otherwise specified in the applicable Final Terms, Bank of America, National Association, London Branch will be the calculation agent for each Series of Floating Rate Notes. Floating Rate Notes will accrue interest from and including the original issue date or the last date to which the Issuer has paid or provided for interest, to but excluding the applicable Interest Payment Date, as described below, or the Maturity Date, as the case may be. However, in the case of Registered Notes that are Floating Rate Notes on which the interest rate is reset daily or weekly, each interest payment will include interest accrued from and including

the date of issue or from but excluding the last Regular Record Date on which, unless otherwise specified in the applicable Final Terms, interest has been paid, through and including the Regular Record Date next preceding the applicable Interest Payment Date, and provided further that the interest payments on Floating Rate Notes made on the Maturity Date will include interest accrued to but excluding such Maturity Date.

*Day Count Fraction.* The amount of interest (the “**Interest Amount**”) payable on any Series of Floating Rate Notes shall be calculated with respect to each specified denomination of such Floating Rate Notes of such Series for the relevant Interest Reset Period. Each Interest Amount shall be calculated by applying the relevant Interest Rate Basis, Spread and/or Spread Multiplier to each specified denomination and multiplying such sum by the applicable Floating Day Count Fraction.

“Floating Day Count Fraction” means, in respect of the calculation of the Interest Amount for any Interest Reset Period:

if “**Actual/Actual**” or “**Actual/Actual (ISDA)**” is specified in the applicable Final Terms, the actual number of days in the Interest Reset Period divided by 365 (or, if any portion of that Interest Reset Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Reset Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Reset Period falling in a non-leap year divided by 365);

- (a) if “**Actual/365 (Fixed)**” is specified in the applicable Final Terms, the actual number of days in the Interest Reset Period divided by 365;
- (b) if “**Actual/360**” is specified in the applicable Final Terms, the actual number of days in the Interest Reset Period divided by 360;
- (c) if “**30/360**,” “**360/360**” or “**Bond Basis**” is specified in the applicable Final Terms, the number of days in the Interest Reset Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Reset Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Reset Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Reset Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Reset Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Reset Period, unless such number is 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Reset Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (d) if “**30E/360**” or “**Eurobond Basis**” is specified in the applicable Final Terms, the number of days in the Interest Reset Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$



where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Reset Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Reset Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Reset Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Reset Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Reset Period, unless such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Reset Period, unless such number would be 31, in which case D2 will be 30; and

(e) if “30E/360 (ISDA)” is specified in the applicable Final Terms, the number of days in the Interest Reset Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Reset Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Reset Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Reset Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Reset Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Reset Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Reset Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30.

Unless otherwise specified in the applicable Final Terms, the Day Count Fraction in respect of the calculation of the Interest Amount on any Floating Rate Note will (a) in the case of a Note denominated in U.S. Dollars, be Actual/360 or (b) in the case of a Note denominated in any other Specified Currency, be Actual/Actual. Notes for which the interest rate may be calculated with reference to two or more Interest Rate Bases will be calculated in each period by selecting one such Interest Rate Basis for such period. For these calculations, the interest rate in effect on any Interest Reset Date will be the new reset rate.

The calculation agent will round all percentages resulting from any calculation of the rate of interest on a Floating Rate Note, to the nearest 1/100,000 of 1% (0.0000001), with five one-millionths of a percentage point rounded upward (e.g. 9.876545% (or 0.09876545) would be rounded to 9.87655% (or 0.0987655)) and the calculation agent will round all currency amounts used in or resulting from any calculation to the nearest one-hundredth of a unit (with 0.005 of a unit being rounded upward).

The calculation agent will promptly, and no later than the fourth Business Day, notify the Fiscal Agent and the Issuer of each determination of the interest rate. The calculation agent will also notify the relevant stock exchange, competent authority and/or market (in the case of Notes that are listed or admitted to trading on or by a stock exchange, competent authority and/or market) and the relevant Paying Agents of the interest rate, the interest amount, the interest period and the Interest Payment Date related to each Interest Reset Date as soon as such information is available, and no later than the first Business Day of the interest period. The relevant Paying Agents will make such information available to the holders of Notes. The Fiscal Agent will, upon the request of the holder of any Floating Rate Note, provide the interest rate then in effect and, if determined, the interest rate which will become effective as a result of a determination made with respect to the most recent Interest Determination Date relating to such Note.

So long as any Notes are listed on or by any exchange, competent authority and/or market and the rules of such exchange(s), competent authority(ies) and/or market(s) so require, the Issuer shall maintain a calculation agent for the Notes, and the Issuer will notify the holders of its Notes in the manner specified under "Notices" below in the event that the Issuer appoints a calculation agent with respect to such Notes other than the calculation agent designated as such in the applicable Final Terms.

#### *When Interest Is Paid*

The Issuer will pay interest on Floating Rate Notes on the dates specified in the applicable Final Terms. Each such date upon which the Issuer is required to pay interest is an "**Interest Payment Date.**" The Issuer will also pay interest on the relevant Floating Rate Notes at the Maturity Date.

If an Interest Payment Date (other than the Maturity Date) for a Floating Rate Note falls on a day that is not a Business Day, the Issuer will postpone payment of interest to the following Business Day at which time the Issuer will pay additional interest that has accrued up to but excluding such following Business Day, except that if that Business Day would fall in the next calendar month, the Interest Payment Date will be the immediately preceding Business Day.

If the Maturity Date for a Floating Rate Note falls on a day that is not a Business Day, the Issuer will make the payment on the next Business Day, without additional interest.

#### *Date of Interest Rate Determination*

The interest rate for each Interest Reset Period commencing on the Interest Reset Date will be the rate determined on the relevant Interest Determination Date for such Interest Reset Date for the relevant type of Floating Rate Note, as set forth in the applicable Final Terms.

#### *Types of Floating Rate Notes*

##### *CD Rate Notes*

Each CD Rate Note will bear interest at a specified rate that will be reset periodically based on the CD Rate and any Spread and/or Spread Multiplier.

"**CD Rate**" means, with respect to any Interest Determination Date, the rate on that Interest Determination Date for negotiable certificates of deposit having the specified Index Maturity as published in H.15(519) under the heading "**CDs (secondary market).**"

The following procedures will apply if the rate cannot be set as described above:

- (a) If the rate is not published in H.15(519) prior to 3:00 p.m., New York City time, on the Interest Determination Date, then the CD Rate will be the rate for negotiable certificates of deposit having the specified Index Maturity as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption "**CDs (secondary market).**"
- (b) If the rate is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source by 3:00 p.m., New York City time, on the Interest Determination Date, the CD Rate will be the average of the secondary market offered rates, as of 10:00 a.m., New York City time, of three

leading non-bank dealers of negotiable U.S. Dollar certificates of deposit in The City of New York selected by the calculation agent for negotiable certificates of deposit of major money market banks with a remaining maturity closest to the specified Index Maturity in a denomination of U.S.\$5,000,000.

- (c) If fewer than three dealers are providing quotes, the rate will be the same as the rate used in the prior interest period.

“**H.15(519)**” means the publication entitled “**Statistical Release H.15(519), Selected Interest Rates,**” or any successor publication published by the Board of Governors of the United States Federal Reserve System.

“**H.15 Daily Update**” means the daily update of H.15(519), available through the world-wide web site of the Board of Governors of the United States Federal Reserve System at <http://www.federalreserve.gov/releases/H15/update/>, or any successor service.

*Commercial Paper Rate Notes*

Each Commercial Paper Rate Note will bear interest at a specified rate that will be reset periodically based on the Commercial Paper Rate and any Spread and/or Spread Multiplier.

“**Commercial Paper Rate**” means, with respect to any Interest Determination Date, the Money Market Yield of the rate on that Interest Determination Date for commercial paper having the specified Index Maturity as published in H.15(519) under the heading “**Commercial Paper Nonfinancial.**”

The following procedures will apply if the rate cannot be set as described above:

- (a) If the rate is not published in H.15(519) prior to 3:00 p.m., New York City time, on the Interest Determination Date, then the Commercial Paper Rate will be the Money Market Yield of the rate for commercial paper having the specified Index Maturity as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “**Commercial Paper Nonfinancial.**”
- (b) If the rate is not published in H.15(519), H.15 Daily Update or another recognized electronic source by 3:00 p.m., New York City time, on the Interest Determination Date, the Commercial Paper Rate will be the Money Market Yield of the average for the offered rates, as of 11:00 a.m., New York City time, on that Interest Determination Date, of three leading dealers of commercial paper in The City of New York selected by the calculation agent for commercial paper having the specified Index Maturity placed for an industrial issuer whose bond rating is “AA,” or the equivalent, by a nationally recognized rating agency.
- (c) If fewer than three dealers are providing quotes, the rate will be the same as the rate used in the prior interest period.

“**Money Market Yield**” means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Money Market Yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where “D” refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and “M” refers to the actual number of days in the period for which interest is being calculated.

*Eleventh District Cost of Funds Rate Notes*

Each Eleventh District Cost of Funds Rate Note will bear interest at a specified rate that will be reset periodically based on the Eleventh District Cost of Funds Rate and any Spread and/or Spread Multiplier.

**“Eleventh District Cost of Funds Rate”** means, with respect to any Interest Determination Date, the rate equal to the monthly weighted average cost of funds for the calendar month preceding such Interest Determination Date as set forth under the caption **“11th District”** on Reuters Screen COFI/ARMS (or such other page as is specified in the applicable Final Terms) as of 11:00 a.m. San Francisco time, on such Interest Determination Date.

The following procedures will apply if the rate cannot be set as described above:

- (a) If such rate does not appear on Reuters Screen COFI/ARMS, the Eleventh District Cost of Funds Rate shall be the monthly weighted average cost of funds paid by member institutions of the Eleventh Federal Home Loan Bank District that was most recently announced by the Federal Home Loan Bank of San Francisco as such cost of funds for the calendar month preceding the date of such announcement.
- (b) If the Federal Home Loan Bank of San Francisco fails to announce such rate for the calendar month next preceding such Interest Determination Date, then the Eleventh District Cost of Funds Rate will be the same as the rate used in the prior interest period.

#### *Federal Funds Rate Notes*

Each Federal Funds Rate Note will bear interest at a specified rate that will be reset periodically based on the Federal Funds Rate and any Spread and/or Spread Multiplier.

**“Federal Funds Rate”** means, with respect to any Interest Determination Date unless otherwise specified in any applicable Final Terms, the rate on specified dates for federal funds published in H.15(519) prior to 11:00 a.m., New York City time, under the heading **“Federal Funds Effective,”** as such rate is displayed on Reuters Screen FEDFUNDS1 Page (or any such other page as specified in the applicable Final Terms).

The following procedures will apply if the rate cannot be set as described above:

- (a) If the rate does not appear on Reuters Screen FEDFUNDS1 Page (or any other pages as may replace such pages on such service) or is not published in H.15(519) prior to 11:00 a.m., New York City time, on the Interest Determination Date, then the Federal Funds Rate will be the rate on such Interest Determination Date published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption **“Federal Funds (Effective).”**
- (b) If the rate does not appear on Reuters Screen FEDFUNDS1 Page (or any other pages as may replace such pages on such service) or is not published in H.15(519), H.15 Daily Update or another recognized electronic source by 3:00 p.m., New York City time, on the Interest Determination Date, the Federal Funds Rate will be the average of the rates, as of 11:00 a.m., New York City time, on that Interest Determination Date, for the last transaction in overnight federal funds arranged by three leading brokers of federal funds transactions in The City of New York selected by the calculation agent.
- (c) If fewer than three brokers are providing quotes, the rate will be the same as the rate used in the prior interest period.

#### *LIBOR Notes*

Each LIBOR Note will bear interest at a specified rate that will be reset periodically based on LIBOR and any Spread and/or Spread Multiplier.

The calculation agent will determine LIBOR on each Interest Determination Date as follows:

- (a) With respect to any Interest Determination Date, LIBOR will be generally determined as either:
  - (i) If at least two offered rates appear on the Designated LIBOR Page, the average of the offered rates for deposits in the Designated LIBOR Currency having the specified Index Maturity

beginning on the relevant Interest Reset Date, that appear on the Designated LIBOR Page as of 11:00 a.m., London time, on that Interest Determination Date; or

- (ii) If fewer than two offered rates appear on the Designated LIBOR Page, the rate for deposits in the London interbank market in the Designated LIBOR Currency having the specified Index Maturity beginning on the relevant Interest Reset Date, that appears on the Designated LIBOR Page as of 11:00 a.m., London time, on that Interest Determination Date.
  - (iii) If no rate appears on the Designated LIBOR Page, LIBOR for that Interest Determination Date will be determined based on the rates on that Interest Determination Date at approximately 11:00 a.m., London time, at which deposits on that date in the Designated LIBOR Currency for the period of the specified Index Maturity beginning on the relevant Interest Reset Date are offered to prime banks in the London interbank market by four major banks (one of which may be an affiliate of the calculation agent) in that market selected by the calculation agent and in a Representative Amount. The calculation agent will request the principal London office of each of these banks to quote its rate. If the calculation agent receives at least two quotations, LIBOR will be the average of those quotations.
- (b) If the calculation agent receives fewer than two quotations, LIBOR will be the average of the rates quoted at approximately 11:00 a.m., New York City time, on the Interest Determination Date by three major banks (one of which may be an affiliate of the calculation agent) in the principal financial center selected by the calculation agent. The rates will be for loans in the Designated LIBOR Currency to leading European banks having the specified Index Maturity beginning on the relevant Interest Reset Date and in a Representative Amount.
- (c) If fewer than three banks provide quotes, the rate will be the same as the rate used in the prior interest period.

Notwithstanding the foregoing, if we, in our sole discretion, or the calculation agent, in its sole discretion, determine on or prior to an Interest Determination Date that LIBOR has been permanently discontinued and we or the calculation agent have notified the other of such determination, the calculation agent will use, as a substitute for LIBOR (the "Alternative Rate") for that Interest Determination Date and each Interest Determination Date thereafter, the reference rate selected as an alternative to LIBOR by the central bank, reserve bank, monetary authority or any similar institution (including any committee or working group thereof) in the jurisdiction of the currency in which the LIBOR Notes are denominated and that is consistent with accepted market practice regarding the selection and use of a substitute for LIBOR. As part of such substitution, the calculation agent will, after consultation with us, make such adjustments ("Adjustments") to the Alternative Rate or the spread thereon, as well as the business day convention, Interest Determination Dates and related provisions and definitions, in each case that are consistent with accepted market practice for the use of such Alternative Rate for the LIBOR Notes. If the calculation agent determines, following consultation with us, that there is no clear market consensus as to whether any rate has replaced LIBOR in customary market usage, we may appoint, in our sole discretion, a new calculation agent, which may be our affiliate, to determine the Alternative Rate and make any Adjustments thereto, and the determinations of such calculation agent will be binding on us, the trustee and the holders of the LIBOR Notes. If, however, the calculation agent or new calculation agent determines that LIBOR has been discontinued, but for any reason an Alternative Rate has not been determined, LIBOR will be equal to such rate as the rate in effect for the LIBOR Notes on such Interest Determination Date.

**"Designated LIBOR Currency"** means the currency (including composite currencies and Euro) specified in the Final Terms as to which LIBOR shall be calculated. If no such currency is specified in the Final Terms, the Designated LIBOR Currency shall be U.S. Dollars.

**"Designated LIBOR Page"** means Capital Markets Report Screen LIBOR01 of Reuters, or any other page as may replace such page on such service.

#### *EURIBOR Notes*

Each EURIBOR Note will bear interest at a specified rate that will be reset periodically based on EURIBOR and any Spread and/or Spread Multiplier.

**“EURIBOR”** means the European Interbank Offered Rate and, with respect to each Interest Determination Date, the rate for deposits in Euro having the Index Maturity beginning on the relevant Interest Reset Date that appears on the Designated EURIBOR Page as of 11:00 a.m., Brussels time, on that Interest Determination Date.

The following procedures will apply if the rate cannot be set as described above:

- (a) If such rate does not appear on the Designated EURIBOR Page as of 11:00 a.m., Brussels time, on the related Interest Determination Date, then the calculation agent will request the principal offices of four major banks (one of which may be an affiliate of the calculation agent) in the Euro-zone selected by the calculation agent to provide such bank’s offered quotation to prime banks in the Euro-zone interbank market for deposits in Euro having the Index Maturity beginning on the relevant Interest Reset Date as of 11:00 a.m., Brussels time, on such Interest Determination Date and in a Representative Amount. If at least two quotations are provided, EURIBOR for that date will be the average (if necessary rounded upwards) of the quotations.
- (b) If fewer than two quotations are provided, EURIBOR will be the average (if necessary rounded upwards) of the rates quoted by major banks (which may include an affiliate of the calculation agent) in the Euro-zone, selected by the calculation agent, at approximately 11:00 a.m., Brussels time, on the Interest Determination Date for loans in Euro to leading European banks for a period of time corresponding to the Index Maturity beginning on the relevant Interest Reset Date and in a Representative Amount.
- (c) If no rates are quoted by major banks, the rate will be the same as the rate used for the prior interest period.

**“Designated EURIBOR Page”** means Capital Markets Report Screen EURIBOR01 of Reuters, or any other page as may replace such page on such service.

#### *Treasury Rate Notes*

Each Treasury Rate Note will bear interest at a specified rate that will be revised periodically based on the Treasury Rate and any Spread and/or Spread Multiplier.

**“Treasury Rate”** means, with respect to any Interest Determination Date, the rate for the most recent auction of direct obligations of the United States (**“Treasury bills”**) having the specified Index Maturity as it appears under the caption **“INVEST RATE”** on either Reuters Screen USAUCTION10 Page or Reuters Screen USAUCTION11 Page (or any other pages as may replace such pages on such service).

The following procedures will apply if the rate cannot be set as described above:

- (a) If the rate is not so published by 3:00 p.m., New York City time, on the Interest Determination Date, the rate will be the auction average rate for such Treasury bills (expressed as a bond equivalent, on the basis of a year of 365 or 366 days as applicable, and applied on a daily basis) for such auction as otherwise announced by the U.S. Department of the Treasury.
- (b) If the results of the auction of Treasury bills are not so published by 3:00 p.m., New York City time, on the Interest Determination Date, or if no such auction is held, the Treasury Rate will be the rate (expressed as a bond equivalent on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) on such Interest Determination Date of such Treasury bills having the specified Index Maturity as published in H.15(519) under the caption **“U.S. Government Securities/Treasury Bills/Auction high.”**
- (c) If such rate is not so published in H.15(519) by 3:00 p.m., New York City time, on the related Interest Determination Date, the rate on such Interest Determination Date of such Treasury bills will be as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption **“U.S. Government Securities/Treasury Bills/Auction high.”**

- (d) If such rate is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source, then the Treasury Rate will be a yield to maturity (expressed as a bond equivalent on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) of the average of the secondary market bid rates as of approximately 3:30 p.m., New York City time, on the Interest Determination Date, of three leading primary U.S. government securities dealers in The City of New York selected by the calculation agent for the issue of Treasury bills with a remaining maturity closest to the specified Index Maturity.
- (e) If fewer than three dealers are providing quotes, the rate will be the same as the rate used in the prior interest period.

#### *Prime Rate Notes*

Each Prime Rate Note will bear interest at a specified rate that will be reset periodically based on the Prime Rate and any Spread and/or Spread Multiplier.

**"Prime Rate"** means, with respect to any Interest Determination Date, unless otherwise specified in any applicable Final Terms, the rate set forth on that Interest Determination Date in H.15(519) under the heading **"Bank Prime Loan."**

The following procedures will apply if the rate cannot be set as described above:

- (a) If the rate is not published in H.15(519) by 3:00 p.m., New York City time, on the Interest Determination Date, then the Prime Rate will be the rate as published on such Interest Determination Date in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate under the caption **"Bank Prime Loan."**
- (b) If the rate is not published in H.15(519), H.15 Daily Update or another recognized electronic source by 3:00 p.m., New York City time, on the Interest Determination Date, then the Prime Rate will be the average (rounded upwards, if necessary, to the next higher one-hundred thousandth of a percentage point) of the rates publicly announced by each bank on the Reuters Screen USPRIME1 Page as its prime rate or base lending rate for that Interest Determination Date.
- (c) If fewer than four, but more than one, rates appear on the Reuters Screen USPRIME1 Page, the Prime Rate will be the average of the prime rates (quoted on the basis of the actual number of days in the year divided by a 360-day year) as of the close of business on the Interest Determination Date by four major money center banks in The City of New York selected by the calculation agent.
- (d) If fewer than two rates appear, the Prime Rate will be determined based on the rates furnished in The City of New York by the appropriate number of substitute banks or trust companies organized and doing business under the laws of the United States, or any State thereof, having total equity capital of at least U.S.\$500 million and being subject to supervision or examination by a Federal or State authority, as selected by the calculation agent.
- (e) If no banks are providing quotes, the rate will be the same as the rate used for the prior interest period.

#### *Extendible Notes*

Notes may be issued with an initial maturity date (the **"Initial Maturity Date"**) which may be extended from time to time upon the election of the holders on specified dates (each, an **"Election Date"**) up to a final maturity date (the **"Final Maturity Date"**) as set forth in the applicable Final Terms (**"Extendible Notes"**). The Final Terms relating to each issue of Extendible Notes will set forth the terms of such Notes, including the Initial Maturity Date, the Final Maturity Date and the Election Dates, and will also describe the manner in which holders may elect to extend the Notes and such other terms and conditions as may apply to such issue.

#### **Additional Notes**

The Issuer may issue Notes from time to time having terms identical to a prior Tranche of Notes but for the original issue date and the public offering price (“**Additional Notes**”). Any such Additional Notes that are Regulation S Global Notes will be issued in the form of a temporary global Note which will be exchangeable for a beneficial interest in a permanent global Note on or after the Exchange Date specified in the applicable Final Terms relating to such Additional Notes. Additional Notes may be issued prior to or after the Exchange Date relating to such prior Tranche of Notes of the same Series. In the event Additional Notes are issued prior to the Exchange Date for the prior Tranche, the Exchange Date relating to such prior Tranche shall be moved to a date not earlier than 40 calendar days after the original issue date of the related Additional Notes; provided, however, in no event shall the Exchange Date for a Tranche of Notes be extended to a date more than 160 calendar days after the date such Tranche was issued. Once any Additional Notes have been issued, whether Regulation S Global Notes or Rule 144A Global Notes, such Additional Notes together with each prior and subsequent Tranche of Notes of the same Series, shall constitute one and the same Series of Notes for all purposes; provided, however, that in the case of Regulation S Global Notes, or Notes to which the TEFRA D Rules apply, such consolidation of Additional Notes issued after the Exchange Date will occur only following the exchange of interests in the temporary global Note for interests in the permanent global Note upon receipt of certificates described below; and provided further that if the Additional Notes are not fungible with the earlier Notes for United States federal income tax purposes, the Additional Notes will have a separate CUSIP number. The Final Terms relating to any Additional Notes will set forth matters related to the issuance, exchange and transfer of Additional Notes, including identifying the prior Tranche of Notes, their original issue date and aggregate principal amount. Any Additional Notes that are Bearer Notes will be subject to the same restrictions as are set forth under “**Forms of Notes—Bearer Notes**” above.

### **Covenants**

The Issuer has agreed to restrictions on its activities for the benefit of holders of each Series of Notes. The following restrictions will apply separately to each Series of Notes:

#### *Consolidation, Merger, Sale or Conveyance*

The Issuer may not consolidate with or merge into any other corporation or convey or transfer its properties and assets substantially as an entirety to any person, unless:

- (i) the corporation formed by such consolidation or into which the Issuer is merged or the person which acquires by conveyance or transfer the properties and assets of the Issuer substantially as an entirety shall be a corporation organized and existing under the laws of the Republic of Chile and shall expressly assume, by a supplemental Fiscal Agency Agreement, executed and delivered to the Fiscal and Paying Agent, in form satisfactory to the Fiscal and Paying Agent, the due and punctual payment of the principal of (and premium, if any) and interest on all the outstanding Notes and the performance of every covenant of the Fiscal Agency Agreement on the part of the Issuer to be performed or observed;
- (ii) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both would become an Event of Default, shall have happened and be continuing; and
- (iii) The Issuer shall have delivered to the Fiscal Agent an officers’ certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance or transfer and such supplemental Fiscal Agency Agreement comply with the foregoing provisions relating to such transaction and all conditions precedent in the Fiscal Agency Agreement relating to such a transaction have been complied with.
- (iv) In case of any such consolidation, merger, conveyance or transfer such successor corporation will succeed to and be substituted for the Issuer as obligor on each Series of Notes with the same effect as if it had issued such Series of Notes. Upon the assumption of its obligations by any such successor corporation in such circumstances subject to certain exceptions, the Issuer will be discharged from all obligations under the Notes and the Fiscal Agency Agreement.



### *Periodic Reports*

The Fiscal Agency Agreement provides that if the Issuer is not required to file with the Securities and Exchange Commission information, documents, or reports pursuant to Section 13 or Section 15(d) of the Exchange Act, it will file with the Fiscal Agent and the Securities and Exchange Commission the supplementary and periodic information, documents and reports required pursuant to Section 13 of the Exchange Act in respect of a security of a "foreign private issuer" (as defined in Rule 3b-4 under the Exchange Act) listed and registered on a national securities exchange.

### **Events of Default**

An "Event of Default," with respect to each Series of Notes is defined in the Fiscal Agency Agreement as:

- (i) The Issuer's default in the payment of any principal of any of the Notes of such Series (including Additional Amounts), when due and payable, whether at maturity or otherwise; or
- (ii) The Issuer's default in the payment of any interest or any Additional Amounts when due and payable on any of the Notes of such Series and the continuance of such default for a period of 30 days; or
- (iii) The Issuer's default in the performance or observance of any other term, covenant, warranty, or obligation in respect of the Notes of such Series or the Fiscal Agency Agreement, not otherwise expressly defined as an Event of Default in (i) or (ii) above, and the continuance of such default for more than 60 days after written notice of such default has been given to the Issuer by the Fiscal and Paying Agent on behalf of the Noteholders, or the holders of at least 25% in aggregate principal amount of the Notes of such Series outstanding specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default"; or
- (iv) if any of the Issuer's Indebtedness (as defined below) or that of its subsidiaries becomes due and repayable prematurely by reason of an event of default (however described) or the Issuer or any of its subsidiaries fails to make any payment in respect of any Indebtedness on the due date for such payment or within any originally applicable grace period or any security given by the Issuer or any of its subsidiaries for any Indebtedness becomes enforceable and steps are taken to enforce the same or if the Issuer or any of its subsidiaries default in making any payment when due (or within any originally applicable grace period in respect thereof) under any guarantee and/or indemnity given by the Issuer or such subsidiary (as the case may be) in relation to any Indebtedness of any other person, provided that no such event as aforesaid shall constitute an Event of Default unless such Indebtedness either alone or when aggregated with other Indebtedness in respect of which one or more of the events mentioned in this paragraph has occurred shall amount to at least U.S.\$40,000,000 (or its equivalent in any other currency on the basis of the middle spot rate for any relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates); or
- (v) the entry of an order for relief against the Issuer under any Bankruptcy Law by a court or regulatory entity having jurisdiction in the premises or a decree or order by a court or regulatory entity having jurisdiction in the premises adjudging the Issuer a bankrupt or insolvent under any other applicable law, or the entry of a decree or order approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Issuer under any Bankruptcy Law, or appointing a receiver, liquidator, assignee, trustee, sequestrator (or other similar official under any Bankruptcy Law, including a "síndico") of the Issuer or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 60 consecutive days; or
- (vi) the consent by the Issuer to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any Bankruptcy Law, or the consent by it to the filing of any such petition or to the appointment of a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official under any Bankruptcy Law, including a "síndico") of the Issuer or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its

debts generally as they become due, or the taking of corporate action by the Issuer in furtherance of any such action.

The term “**Bankruptcy Law**” as used in this Section means (i) articles 120 et seq. of the Chilean Banking Law (D.F.L. 3 of 1997, as amended), (ii) the Chilean “Ley de Quiebras” (Law No. 20,720, as amended) or (iii) any other applicable law that amends, supplements or supersedes the Chilean Banking Law and/or the Ley de Quiebras, and any applicable bankruptcy, insolvency, reorganization or other similar law of any applicable jurisdiction.

For purposes of the above, “**Indebtedness**” means (a) any liability of such person (1) for borrowed money or under any reimbursement obligation relating to a letter of credit, financial bond or similar instrument or agreement, (2) evidenced by a bond, note, debenture or similar instrument or agreement (including a purchase money obligation) given in connection with the acquisition of any business, properties or assets of any kind (other than a trade payable or a current liability arising in the ordinary course of business or a performance bond or similar obligation) or (3) for the payment of money relating to any obligations under any capital lease of real or personal property; (b) any liability of others described in the preceding clause (a) that the person has guaranteed or that is otherwise its legal liability; and (c) any amendment, supplement, modification, deferral, renewal, extension or refunding of any liability of the types referred to in clauses (a) and (b) above. For the purpose of determining any particular amount of Indebtedness under this definition, guarantees of (or obligations with respect to letters of credit or financial bonds supporting) Indebtedness otherwise included in the determination of such amount shall also not be included.

The Fiscal Agency Agreement provides that if an Event of Default with respect to any Series of Notes described in paragraph (i), (ii), (iii) and (iv) above occurs and is continuing with respect to the Notes of any Series, then and in each and every such case, unless the principal of all the Notes of such Series shall have already become due and payable, the holders of not less than 25% in aggregate principal amount of the Notes of such Series then outstanding hereunder (each such Series acting as a separate class), by notice in writing to the Issuer and to the Fiscal Agent, may declare the principal amount of all the Notes of such Series then outstanding and all accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Fiscal Agency Agreement or in the Notes of such Series contained to the contrary notwithstanding. If an Event of Default with respect to any Series of Notes described in paragraph (v) or (vi) of the above occurs and is continuing, then the principal amount of the Notes then outstanding and all accrued interest thereon shall, without any notice to the Issuer or any other act on the part of the Fiscal Agent or any holder of the Notes, become and be immediately due and payable, anything in the Chilean Banking Law, the Fiscal Agency Agreement or in the Notes contained to the contrary notwithstanding.

At any time after such a declaration of acceleration has been made with respect to the Notes of such Series, the holders of a majority in aggregate principal amount of the outstanding Notes of such Series, by written notice to the Issuer and the Fiscal Agent, may rescind and annul such declaration and its consequences if: (1) the Issuer has paid or deposited with the Fiscal and Paying Agent a sum sufficient to pay: (i) all overdue installments of interest on the outstanding Notes of such Series, (ii) the principal of (and premium, if any, on) any outstanding Notes of such Series which have become due otherwise than by such declaration of acceleration, and interest thereon at the rate or rates prescribed therefor by the terms of the Notes of such Series, to the extent that payment of such interest is lawful, (iii) interest upon overdue installments of interest at the rate or rates prescribed therefor by the terms of the Notes of such Series, to the extent that payment of such interest is lawful, and all sums paid or advanced by the Fiscal and Paying Agent hereunder and the reasonable compensation, expenses, disbursements and advances of the Fiscal and Paying Agent, its agents and counsel and all other amounts due the Fiscal and Paying Agent under Section 11(a); and (2) all Events of Default with respect to such Series of Notes, other than the nonpayment of the principal of the Notes of such Series which have become due solely by such acceleration, have been cured or waived. No such rescission shall affect any subsequent default or impair any right consequent thereon.

#### **Payment of Additional Amounts**

The Issuer is required to make all payments in respect of each Series of Notes free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, fines, penalties, assessments or other governmental charges (or interest on those taxes, duties, fines, penalties, assessments or other governmental charges) (collectively, “Taxes”) imposed, levied, collected, withheld or assessed by, within or on behalf of the Republic of Chile (or any political subdivision or governmental

authority thereof or therein having power to tax), or any other jurisdiction from or through which the Issuer makes any payment under a Series of Notes (or any political subdivision or governmental authority thereof or therein having power to tax) (each, a “**Relevant Taxing Jurisdiction**”) unless such withholding or deduction is required by law. In that event the Issuer will pay to the Holders of such Series of Notes, or the relevant Paying Agent, as the case may be, such additional amounts (“**Additional Amounts**”) as may be necessary to ensure that the net amounts received by the Holders of such Series of Notes or the relevant Paying Agent after such withholding or deduction shall not be less than the amounts of principal, interest and premium, if any, which would have been received in respect of such Series of Notes in the absence of such withholding or deduction, except that no such Additional Amounts shall be payable in respect of any Note:

- (i) in the case of payments for which presentation of such Note is required, presented for payment more than 30 days after the later of:
  - (a) the date on which such payment first became due, and
  - (b) if the full amount payable has not been received in the place of payment by the relevant Paying Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Holders by the relevant Paying Agent, except to the extent that the Holder would have been entitled to such Additional Amounts on presenting such Note for payment on the last day of such period of 30 days;
- (ii) held by or on behalf of a Holder who is liable for Taxes or other governmental charges imposed in respect of such Note by reason of such Holder having some present or former direct or indirect connection with the taxing jurisdiction imposing such tax, other than the mere holding of such Note or the receipt of payments or the enforcement of rights in respect thereto;
- (iii) with respect to Taxes imposed on a payment to a Holder that would not have been imposed but for the failure of the Holder to comply with certification, information or other reporting requirements concerning the nationality, residence or identity of the Holder, if compliance is required by statute or by regulation of a Relevant Taxing Jurisdiction as a precondition to relief or exemption from such Taxes;
- (iv) with respect to Taxes imposed under: (a) Sections 1471 to 1474 of the Code (including regulations and official guidance thereunder), (b) any successor version thereof that is substantially comparable and not materially more onerous to comply with, (c) any agreement entered into pursuant to Section 1471(b) of the Code or (d) any law, regulation, rule or practice implementing an intergovernmental agreement entered into in connection with the implementation of such Sections of the Code;
- (v) in the case of payments for which presentation of such Note is required, with respect to Taxes that would not have been imposed but for the presentation of such Note in the Relevant Taxing Jurisdiction, unless such Note could not have been presented for payment elsewhere;
- (vi) with respect to any payment on a Note to a Holder who is a fiduciary, a partnership, a limited liability company or other than the sole beneficial owner of that payment to the extent that payment would be required by the laws of a Relevant Taxing Jurisdiction (or any political subdivision thereof) to be included in the income, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a member of that partnership, an interestholder in a limited liability company or a beneficial owner who would not have been entitled to the Additional Amounts had that beneficiary, settlor, member or beneficial owner been the Holder; or
- (vii) any combination of (i) through (vi).

As used in this section, a “Holder” shall mean, (a) with respect to any Registered Note, the person in whose name at the time such Registered Note is registered on the Register or (b) with respect to any Bearer Note, the bearer thereof.

References to principal, interest, premium or other amounts payable in respect of any Series of Notes also refer to any Additional Amounts that may be payable. Refunds, if any, of taxes with respect to which the Issuer pays Additional Amounts are for the Issuer's account.

Notwithstanding the foregoing, the limitations on the obligations of the Issuer to pay Additional Amounts set forth in clause (iii) will not apply if the provision of any certification, identification, information, documentation or other reporting requirement described in such clause (iii) would be materially more onerous, in form, in procedure or in the substance of information disclosed, to a Holder or beneficial owner of a note (taking into account any relevant differences between U.S. law, rules, regulations or administrative practice and the law, rules, regulations or administrative practice of the Relevant Taxing Jurisdiction) than comparable information or other reporting requirements imposed under U.S. tax law, regulations and administrative practice (such as Internal Revenue Service Forms W-8BEN and W-9).

Except as described in the Fiscal Agency Agreement, the Issuer will pay when due any present or future stamp, transfer, court or documentary taxes or any other excise or property taxes, charges or similar levies imposed by the Republic of Chile (or any political subdivision or governmental authority thereof or therein having power to tax) with respect to the initial execution, delivery or registration of each Series of Notes or any other document or instrument relating thereto.

### **Modification of Fiscal Agency Agreement and Notes**

The Fiscal Agency Agreement may be amended by the Issuer and the Fiscal Agent, without the consent of the holder of any Note of a Series for the purposes, among others, of curing any ambiguity, or of correcting or supplementing any defective or inconsistent provisions contained therein or to effect any assumption of the Issuer's obligations thereunder and under the Notes of a Series under the circumstances described under "**Consolidation, Merger, Sale or Conveyance**" above or in any other manner which the Issuer and the Fiscal Agent may deem necessary or desirable and which, in the sole determination of the Issuer, will not adversely affect the interests of the holders of Notes of a Series outstanding on the date of such amendment. Nothing in the Fiscal Agency Agreement prevents the Issuer and the Fiscal Agent from amending the Fiscal Agency Agreement in such a manner as to only have a prospective effect on Notes issued on or after the date of such amendment.

Modifications and amendments to the Fiscal Agency Agreement and, to the terms and conditions of the Notes of a Series may also be made, and future compliance therewith or past Events of Default by the Issuer may be waived, by holders of a majority in aggregate principal amount of the Notes of such Series (or, in each case, such lesser amount as shall have acted at a meeting of holders of such Notes, as described below), provided, however, that no such modification or amendment to the Fiscal Agency Agreement, or to the terms and conditions of the Notes of a Series may, without the consent of the holders of each Note of such Series affected thereby, among other things, (a) change the stated maturity of the principal of any Note of such Series or extend the time for payment of interest thereon; (b) reduce the principal amount of any Note of such Series or reduce the amount of interest payable thereon or the amount payable thereon in the event of redemption or acceleration (or in the case of OID Notes, change the amount that would be due and payable upon an acceleration thereof); (c) change the currency of payment of principal of or any other amounts payable on any Note of such Series; (d) impair the right to institute suit for the enforcement of any such payment on or with respect to any Note of such Series; (e) reduce the above-stated percentage of the principal amount of Notes of such Series, the consent of whose holders is necessary to modify or amend the Fiscal Agency Agreement, the terms and conditions of the Notes or reduce the percentage of Notes of such Series required for the taking of action or the quorum required at any such meeting of holders of Notes of such Series; or (f) modify the foregoing requirements to reduce the percentage of outstanding Notes of such Series necessary to waive any future compliance or past default. The persons entitled to vote a majority in principal amount of the Notes of a Series outstanding shall constitute a quorum at a meeting of Noteholders of such Series except as hereinafter provided. In the absence of such a quorum, a meeting of Noteholders called by the Issuer shall be adjourned for a period of not less than 10 days, and in the absence of a quorum at any such adjourned meeting, the meeting shall be further adjourned for another period of not less than 10 days, at which further adjourned meeting persons entitled to vote 25% in principal amount of Notes of a Series at the time outstanding shall constitute a quorum. Except for modifications or amendments in (a) to (f) above which require the consent of the holders of each Note of such series affected thereby, any modifications, amendments or waivers to the Fiscal Agency Agreement, the terms and conditions of the Notes of a Series at a meeting of Noteholders require a favorable vote of holders of the lesser of (i) a majority in principal amount of the outstanding Notes of such Series or (ii) 75% of the principal amount of

Notes of such Series represented and voting at the meeting. Any such modifications, amendments or waivers will be conclusive and binding on all holders of Notes of such Series, whether or not they have given such consent or were present at such meeting and whether or not notation of such modifications, amendments or waivers is made upon the Notes, and on all future holders of Notes of such Series. Any instruments given by or on behalf of any holder of a Note of a Series in connection with any consent to any such modification, amendment or waiver will be irrevocable once given and will be conclusive and binding on all subsequent holders of such Note.

### **Replacement of Notes and Coupons**

Any Notes or coupons that become mutilated, destroyed, lost or stolen or are apparently destroyed, lost or stolen will be replaced by the Issuer at the expense of the holder upon delivery of the Notes or coupons or satisfactory evidence of the destruction, loss or theft thereof to the Issuer and the Fiscal Agent. In each case, an indemnity satisfactory to the Issuer and the Fiscal Agent may be required at the expense of the holder of such Note or coupon before a replacement Note or coupon will be issued. For so long as the Notes are listed or admitted to trading on or by any other stock exchange, competent authority and/or market and the rules of such stock exchange(s), competent authority(ies) and/or market(s) so require, a noteholder shall be able to obtain a replacement Note or coupon at the offices of the paying agent located in each location required by the rules and regulations of such stock exchange(s), competent authority(ies) and/or market(s).

### **Applicable Law**

The Fiscal Agency Agreement and the Notes will be governed by, and construed in accordance with, the laws of the State of New York, United States of America.

### **Notices**

The Issuer shall ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or any other relevant authority on which the Notes are for the time being listed or by which they have been admitted to listing. Any notice so given will be deemed to have been validly given on the date of such publication (or, if published more than once, on the date of the first such publication).

Notices to holders of Registered Notes will also be given by mailing such notices to each holder by first class mail, postage prepaid, at the respective address of each holder as that address appears upon the books of the relevant Registrar.

So long as no definitive Bearer Notes are in issue in respect of a particular Series, there may, so long as the global Note(s) for such Series is or are held in its or their entirety on behalf of Euroclear and Clearstream, Luxembourg, and/or another clearance system, as the case may be, and the Notes for such Series are not listed and/or admitted to trading on a stock exchange, competent authority and/or market, or if so listed or admitted to trading, for so long as the relevant stock exchange, competent authority and/or market so permits, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear, Clearstream, Luxembourg and/or such other clearance system for communication by them to the holders of the Notes. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear, Clearstream, Luxembourg and/or such other clearance system.

Notices to be given by a Noteholder shall be in writing and given by lodging the same, together with the related Note or Notes, with the Fiscal Agent. While any Notes are represented by a global Note, such notice may be given by a Noteholder to the Fiscal Agent via Euroclear, Clearstream, Luxembourg, and/or such other clearance system, as the case may be, in such manner as the Fiscal Agent and Euroclear, Clearstream, Luxembourg and/or such other clearance system may approve for this purpose.

### **Consent to Service**

The Issuer has designated CT Corporation System, presently located at 111 Eighth Avenue, 13th Floor, New York, New York, as authorized agent for service of process in any legal action or proceeding arising out

of or relating to the Fiscal Agency Agreement or the Notes brought in any federal or state court in the Borough of Manhattan, the City of New York, State of New York.

### **Consent to Jurisdiction**

- (a) The Issuer irrevocably consents to the nonexclusive jurisdiction of any court of the State of New York or any United States Federal court sitting, in each case, in the Borough of Manhattan, The City of New York, New York, United States of America, and any appellate court from any thereof, and waives any immunity from the jurisdiction of such courts over any suit, action or proceeding that may be brought by the Fiscal and Paying Agent or a holder in connection with the Fiscal Agency Agreement or the Notes. The Issuer irrevocably waives, to the fullest extent permitted by law, any objection to any suit, action or proceeding that may be brought in connection with the Fiscal Agency Agreement or the Notes in such courts on the grounds of venue or on the ground that any such suit, action or proceeding has been brought in an inconvenient forum. The Issuer agrees that final judgment in any such suit, action or proceeding brought in such court shall be conclusive and binding upon the Issuer and may be enforced in any court to the jurisdiction of which the Issuer is subject by a suit upon such judgment; provided that service of process is effected upon the Issuer in the manner provided by the Fiscal Agency Agreement. Notwithstanding the foregoing, any suit, action or proceeding brought in connection with the Fiscal Agency Agreement or the Notes against the Issuer may be instituted in any competent court in the Chile.
- (b) The Issuer agrees that service of all writs, process and summonses in any suit, action or proceeding brought in connection with the Fiscal Agency Agreement or the Notes against the Issuer in any court of the State of New York or any United States Federal court sitting, in each case, in the Borough of Manhattan, The City of New York, may be made upon CT Corporation System, presently located at 111 Eighth Avenue, 13th Floor, New York, New York.
- (c) Nothing in this Section shall affect the right of any party to serve legal process in any other manner permitted by law or affect the right of any party to bring any action or proceeding against any other party or its property in the courts of other jurisdictions.

### **Judgment Currency**

The Issuer agrees, to the fullest extent that it may effectively do so under applicable law, that (a) if for the purpose of obtaining judgment in any court it is necessary to convert the sum due in respect of the principal of, or premium or interest, if any, on the Notes of any Series (the “**Required Currency**”) into a currency in which a judgment will be rendered (the “**Judgment Currency**”), the rate of exchange used shall be the rate at which, in accordance with normal banking procedures, the Fiscal and Paying Agent could purchase the Required Currency with the Judgment Currency and (b) its obligations under the Fiscal Agency Agreement to make payments in the Required Currency (i) shall not be discharged or satisfied by any tender, or any recovery pursuant to any judgment (whether or not entered in accordance with subsection (a)), in any currency other than the Required Currency, except to the extent that such tender or recovery shall result in the actual receipt, by the payee, of the full amount of the Required Currency expressed to be payable in respect of such payments, (ii) shall be enforceable as an alternative or additional cause of action for the purpose of recovering in the Required Currency the amount, if any, by which such actual receipt shall fall short of the full amount of the Required Currency so expressed to be payable and (iii) shall not be affected by judgment being obtained for any other sum due under the Fiscal Agency Agreement.

## FORM OF FINAL TERMS

FINAL TERMS NO. [●]

Dated [●]

**BANCO SANTANDER-CHILE (the “Issuer”)  
ISSUE OF MEDIUM-TERM NOTES  
[●]% [Fixed Rate][Floating Rate] Notes Due [●]  
Series No.: [●]**

### PART A CONTRACTUAL TERMS

**[MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ELIGIBLE COUNTERPARTIES ONLY TARGET MARKET** – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Details of any negative target market to be included if applicable*]. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]

**[BENCHMARKS REGULATION** – Amounts payable under the Notes will be calculated by reference to [specify benchmark (as this term is defined in the Benchmarks Regulation)] which is provided by [legal name of the benchmark administrator]. As at the date of these Final Terms, [legal name of the benchmark administrator] [appears/does not appear] on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority pursuant to Article 36 of Regulation (EU) 2016/1011 (the “**Benchmarks Regulation**”).

[As far as the Issuer is aware, [specify benchmark (as this term is defined in the Benchmarks Regulation)] [does not fall within the scope of the Benchmarks Regulation/the transitional provisions in Article 51 of the Benchmarks Regulation apply] such that [legal name of the benchmark administrator] is not currently required to obtain authorization or registration (or, if located outside the EU, recognition, endorsement or equivalence).]

**[PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“**MiFID II**”); (ii) a customer within the meaning of Directive 2002/92/EC (“**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC, as amended (the “**Prospectus Directive**”). Consequently no key information document required by Regulation (EU) No 1286/2014 (the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

This document constitutes the Final Terms of the Notes described herein and must be read in conjunction with the base prospectus dated June 27, 2018 [, together with the supplement(s) thereto dated [●]] ([collectively,] the “**Base Prospectus**”). Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been, and these Final Terms will be, published on the website of the Central Bank of Ireland ([www.centralbank.ie](http://www.centralbank.ie)).

#### **1. General Information:**

- (i) Series Number: [•]
- (ii) Tranche Number: [•] *(if fungible with an existing Series, provide details of that Series, including the date on which the Notes become fungible)*
- (iii) Trade Date: [•]
- (iv) Settlement Date (Original Issue Date): [•]
- (v) Maturity Date: [•]
- (vi) Specified Currency: [•]
- (vii) Principal Amount (in Specified Currency): [•]
- (viii) Dealer's Discount or Commission: [•]
- (ix) Issue Price: [•]
- (x) Ranking: [Senior][Subordinated]
- 2. Payment of Additional Amounts:** [Applicable/Not applicable]
- 3. Authorization/Approval**
- (i) Date Board approval for issuance of Notes obtained: [•] [Not applicable]
- 4. Fixed Rate Notes Only Interest Rate:** [Applicable/Not applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (ii) Fixed Interest Rate: [•]
- (iii) Interest Payment Period: [Annual]  
[Semi-Annual]  
[Quarterly] [Monthly]
- (iv) Fixed Interest Payment Dates: Each [•], commencing [•]
- (v) Day Count Fraction: [30/360] *[in the case of Notes denominated in U.S. Dollars]*  
  
[Actual/Actual (ICMA)] *[in the case of Notes denominated in a currency other than U.S. Dollars]*
- (vi) Regular Record Dates (if any): [The 15<sup>th</sup> calendar day prior to each Interest Payment Date] [The business day prior to each Interest Payment Date]
- (vii) Determination Dates: [Each [•]] [Not applicable] [relevant only to Registered Notes]



- (viii) Interest Commencement Date:  [Not applicable]
- 5. Floating Rate Notes Only Interest Rate:**  [Applicable/Not applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Interest Calculation:  [Regular Floating Rate]  
 [Floating Rate/Fixed Rate]  
 [Inverse Floating Rate]
- (ii) Interest Rate Basis:  [CD Rate]  [Commercial Paper Rate]  [Eleventh District Cost of Funds Rate]  [Federal Funds Rate]  [LIBOR]  [EURIBOR]  [Treasury Rate]  [Prime Rate]
- (iii) Spread (Plus or Minus):  [plus/minus %]
- (iv) Spread Multiplier:  [•]
- (v) Index Maturity:  [•] Months
- (vi) Designated LIBOR Currency:  [•]
- (vii) Maximum Interest Rate:  [•]
- (viii) Minimum Interest Rate:  [•]
- (ix) Interest Payment Period:  [Daily/Monthly/Quarterly/Semi-annually]
- (x) Interest Payment Date: Each  [list interest payment dates]
- (xi) Initial Interest Rate Per Annum: To be determined  [•] Business Days prior to the Original Issue Date based upon  [interest rate basis plus/minus the spread amount]
- (xii) Interest Reset Periods and Dates:  [Daily/monthly/quarterly/semi-annually] on each Interest Payment Date
- (xiii) Interest Determination Date:  [•] Business Days prior to each Interest Reset Date
- (xiv) Regular Record Dates (if any):  [The 15th calendar day prior to each Interest Payment Date]  [The business day prior to each Interest Payment Date]  [relevant only to Registered Notes]  [Not applicable]
- (xv) Day Count Fraction:  [Actual/Actual]  [Actual/Actual (ISDA)]  [Actual/365 (Fixed)]  [Actual/360]  [30/360]  [360/360]  [Bond Basis]  [30E/360]  [Eurobond Basis]  [30E/360 (ISDA)]
- (xvi) Calculation Agent:  [Fiscal Agent]  [Other][if Other, insert name]
- 6. Repayment and Redemption:**
- (i) Issuer Optional Redemption Date:  [Applicable/Not Applicable][if applicable, provide date]
- (ii) Noteholder Optional Redemption Date:  [Applicable/Not Applicable][if applicable, provide date]
- (iii) Redemption Price:  [•]

(iv) Make Whole Redemption: [Applicable/Not applicable] [if applicable, specify agent calculating the Make Whole Amount] [if applicable, specify spread]

(v) Calculation Agent: [Applicable/Not Applicable] [Fiscal Agent] [Other]

**7. Extendible Notes:**

(i) Initial Maturity Date: [•]

(ii) Election Date: [•]

(iii) Final Maturity Date: [•]

**8. Form of Notes:**

(i) Temporary global Note to permanent global Note [Applicable/Not applicable][Bearer/Registered]

(ii) Permanent global Note [Applicable/Not applicable][Bearer/Registered]

(iii) Bearer Note [Applicable/Not applicable]

(iv) Registered Notes [Applicable/Not applicable]

(v) New global Note [Applicable/Not applicable][Bearer]

(vi) Exchange of temporary global Notes into definitive Bearer Notes: [Not applicable][Specify Exchange Date]

(vii) Exchange of permanent global Notes into definitive Bearer Notes: [Not applicable] [Specify Exchange Date]

(viii) Exchange of definitive Bearer Notes into Registered Notes: [Not applicable] [Specify Exchange Date]

(ix) Exchange of Registered Notes into Registered Notes in other authorized denominations: [Not applicable] [Specify Exchange Date]

**9. U.S. Selling Restrictions:** [Rule 144A restrictions on transfers and Regulation S Compliance Category 2]; [TEFRA C/TEFRA D/TEFRA not applicable]

**10. Prohibition of Sales to EEA Retail Investors:** [Applicable/Not Applicable]

**11. Distribution:** [Rule 144A/Regulation S]

**12. Denominations:** The Notes will be available in denominations of [•] and integral multiples of [•] in excess thereof.

**13. Managers:** [•]: [•](List all Managers (legal names) (List amount))

(i) The Notes are being purchased[, on a several and not joint basis,] by the following financial institutions (each a “Manager” and collectively, the “Managers”) in the respective amounts set forth next to the name of each Manager pursuant to a Terms Agreement between Issuer and the Managers dated [•], executed  
Total: [•]

under the Dealer Agreement. To the extent that any of the Managers are not named as Dealers in the Dealer Agreement, Banco Santander Chile has appointed them as Dealers thereunder for this transaction pursuant to the relevant Terms Agreement.

(ii) Stabilizing manager(s) [●][Not applicable]

## Part B Other Information

### 1. Admissions to Listing and Trading:

[(i) Application [has been][is expected to be] made by the Issuer (or on its behalf) for the Notes to be admitted to the Official List and trading on the Main Securities Market of Euronext Dublin with effect from [•] [the Issue Date].]

[(ii) Application [has been][is expected to be] made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the [regulated market of the Luxembourg Stock Exchange]/[[regulated market] [Freiverkehr] of the Frankfurt Stock Exchange]/[regulated market of the SIX Swiss Exchange] with effect from [•] [the Issue Date].]

[Estimated total expenses related to the admission to trading [•]]

### 2. Ratings:

The Notes to be issued [have been][are expected to be] rated:

(i) Moody's: [●][Not applicable]

(ii) Standard & Poor's: [●][Not applicable]

(iii) Fitch: [●][Not applicable]

(iv) [Other]: [●][Insert the full legal name of credit rating agency]

[[Insert the full legal name of credit rating agency] is [not] incorporated in the European Union [or][and] registered under Regulation (EC) No 1060/2009, as amended by Regulation (EC) No 513/2011.]

### 3. Interests of Natural and Legal Persons Involved in the Issue:

[●][So far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer. The Dealers and their affiliates have engaged, and/or may in the future engage, in investment banking and/or commercial banking transactions with, and/or may perform other services for, the Issuer and its affiliates in the ordinary course of business.]

### 4. Use of Proceeds, Estimated Net Proceeds and Total Expenses:

(i) Use of proceeds: [General corporate purposes][●]

(ii) Estimated net proceeds to Banco Santander-Chile (in Specified Currency): [●]

(iii) Estimated total expenses: [●]

**5. Fixed Rate Notes only Yield:**

(i) Indication of yield as of the Original Issue Date: [●][Not applicable]

**6. Operational Information:**

(i) ISIN: [●]  
(ii) Common Code: [●]  
(iii) Book-entry Clearing Systems: [Euroclear Bank S.A./N.V.][Clearstream Banking, *société anonyme*][The Depository Trust Company]  
(iv) Names and addresses of additional Paying Agent(s) (if any): [Not applicable] [●]

**7. Intended to be held in a manner which would allow Eurosystem eligibility:**

[No. Whilst the designation is specified as “no” at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper.][include this text for registered notes] . Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intraday credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]

## TAXATION

### Chilean Taxation

The following is a general overview of the principal consequences under Chilean tax law with respect to an investment in the Notes made by a Foreign Holder (as defined below). It is based on the tax laws of Chile as in effect on the date of this Base Prospectus, as well as regulations, rulings and decisions of Chile available on or before such date and now in effect. All of the foregoing are subject to change. Under Chilean law, provisions contained in statutes such as tax rates applicable to foreign investors, the computation of taxable income for Chilean purposes and the manner in which Chilean taxes are imposed and collected may be amended only by another law. In addition, the Chilean tax authorities enact rulings and regulations of either general or specific application and interpret the provisions of Chilean tax law. Chilean tax law may not be assessed retroactively against taxpayers who act in good faith relying on such rulings, regulations or interpretations, but Chilean tax authorities may change their rulings, regulations or interpretations prospectively. For purposes of this overview, the term "Foreign Holder" means either (1) in the case of an individual, a person who is not resident or domiciled in Chile (for purposes of Chilean taxation, (a) an individual holder is resident in Chile if he or she has remained in Chile for more than six months in one calendar year, or a total of more than six months in two consecutive fiscal years and (b) an individual is domiciled in Chile if he or she resides in Chile with the actual or presumptive intent of staying in Chile (such intention to be evidenced by circumstances such as the acceptance of employment in Chile or the relocation of one's family to Chile)); or (2) in the case of a legal entity, a legal entity that is not organized under the laws of Chile, unless the Notes are assigned to a branch or a permanent establishment of such entity in Chile.

Under the *Ley de Impuesto a la Renta* (the "**Income Tax Law**"), payments of interest or premium, if any, made to a Foreign Holder in respect of the Notes will generally be subject to a Chilean withholding tax currently at the rate of 4%. Under existing Chilean law and regulations, a Foreign Holder will not be subject to any Chilean taxes in respect of payments of principal made by the Issuer with respect to the Notes. The Issuer has agreed, subject to specific exceptions and limitations, to pay to the holders of the Notes Additional Amounts in respect of the Taxes mentioned above in order that the interest the Foreign Holder receives, net of such Taxes, equals the amount which would have been received by such Foreign Holder in the absence of such Taxes. If the Issuer pays Additional Amounts in respect of such Chilean withholding taxes, any refunds of such Additional Amounts will be for the account of the Issuer. See "Description of the Notes—Payment of Additional Amounts."

The Income Tax Law provides that a Foreign Holder is subject to income tax on his Chilean source income. For this purpose, Chilean source income means earnings from activities performed in Chile or from the sale, disposition or other transactions in connection with assets or goods located in Chile. As of this date, capital gain earned by a Foreign Holder on the sale or other disposition of a note issued abroad by a Chilean company will be considered foreign source income. Therefore, any capital gains realized on the sale or other disposition by a Foreign Holder of the Notes generally will not be subject to any Chilean taxes.

A Foreign Holder will not be liable for estate, gift, inheritance or similar taxes with respect to its holdings unless Notes held by a Foreign Holder are either located in Chile at the time of such Foreign Holder's death, or, if the Notes are not located in Chile at the time of a Foreign Holder's death, if such Notes were purchased or acquired with cash obtained from Chilean sources. A Foreign Holder will not be liable for Chilean stamp, registration or similar taxes.

The issuance of the Notes is subject to a maximum 0.8% stamp tax which will be payable by the Issuer. If the stamp tax is not paid when due, Chile's Stamp Tax Law imposes a penalty of three times the amount of the tax plus inflation adjustments and interest. Until such tax (and any penalty) is paid, Chilean courts will not enforce any action brought with respect to the Notes. The Issuer has agreed, subject to specific exceptions and limitations, to pay to the holders of the Notes, any present or future stamp, court or documentary taxes, charges or levies that arise in the Republic of Chile from the execution, delivery, enforcement or registration of the Notes or any other document or instrument in relation thereto and the Issuer has agreed to indemnify holders of Notes for any such taxes, charges or similar levies paid by holders. See "Description of the Notes—Payment of Additional Amounts."

## United States Federal Income Taxation

The following is a discussion of certain U.S. federal income tax consequences of the ownership and disposition of Registered Notes. This disclosure does not address Bearer Notes, which generally may not be offered or sold in the United States or to U.S. Holders (as defined below). This discussion applies only to Notes that are:

- purchased by those initial holders who purchase the Notes at their “issue price,” which generally will equal the first price to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the Notes is sold for money;
- held as capital assets (generally, property held for investment purposes); and
- beneficially owned by U.S. Holders.

This discussion does not describe all of the tax consequences, including Medicare Contribution Tax consequences, that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as:

- financial institutions;
- regulated investment companies;
- insurance companies;
- real estate investment trusts;
- dealers in securities;
- traders in securities that elect to use a mark-to-market method of tax accounting;
- persons holding Notes as part of a hedging transaction, straddle or other integrated transaction;
- persons whose functional currency is not the U.S. dollar;
- partnerships or other entities or arrangements classified as partnerships for U.S. federal income tax purposes;
- persons required for U.S. federal income tax purposes to conform the timing of income accruals with respect to the Notes to its financial statements under Section 451(b) of the Code (as defined below);
- persons subject to the alternative minimum tax; or
- persons that own, or are deemed to own, ten percent or more of any class of the Issuer’s stock.

If a partnership (or other entity or arrangement classified as a partnership for U.S. federal income tax purposes) holds Notes, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Thus, partnerships holding Notes and partners therein should consult their tax advisers.

This discussion is based on the Internal Revenue Code of 1986, as amended (the “Code”), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, changes to any of which subsequent to the date of this Base Prospectus may affect the tax consequences described herein, possibly with retroactive effect. Persons considering the purchase of Notes are urged to consult their tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations, as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

This discussion applies only to Notes that are classified as indebtedness for U.S. federal income tax purposes. This discussion does not apply to every type of Registered Note that may be issued under the Program, including certain Floating Rate Notes and Extendible Notes. In particular, this discussion does not address the tax consequences of any Notes that are treated under applicable Treasury regulations as providing for contingent payments and subject to special rules thereunder. Additional material U.S. federal income tax consequences of any such Notes will be addressed in an applicable supplement to this Base Prospectus.

As used herein, the term “**U.S. Holder**” means, for U.S. federal income tax purposes, a beneficial owner of a Note that is:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state thereof or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

*Payments of Interest.* Interest paid on a Note will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is received in accordance with the U.S. Holder’s method of accounting for U.S. federal income tax purposes, provided that the interest is qualified stated interest (as defined below). Any amounts withheld with respect to interest paid on the Notes and any Additional Amounts paid with respect to interest will be treated as ordinary interest income. Interest income earned by a U.S. Holder with respect to a Note will constitute foreign-source income for U.S. federal income tax purposes, which may be relevant in calculating the U.S. Holder’s foreign tax credit limitation. The limitation on foreign taxes eligible for credit is calculated separately with respect to two specific classes of income. For this purpose, interest income on the Notes generally will constitute “passive category income” or, in the case of certain holders, “general category income.” The rules governing foreign tax credits are complex and, therefore, U.S. Holders should consult their own tax advisers regarding the availability of foreign tax credits in their particular circumstances. Instead of claiming a credit, a U.S. Holder may, at its election, deduct withheld taxes in computing its taxable income. An election to deduct foreign taxes instead of claiming foreign tax credits must apply to all applicable foreign taxes paid or accrued in the taxable year.

Special rules governing the treatment of interest paid with respect to OID Notes, including certain Variable Rate Notes and Foreign Currency Notes are described under “–Original Issue Discount” and “–Foreign Currency Notes” below.

*Original Issue Discount.* A Note that is issued at an issue price less than its “stated redemption price at maturity” will be considered to have been issued with original issue discount for U.S. federal income tax purposes (and will be referred to in this section as an “**OID Note**”) unless the Note satisfies a *de minimis* threshold (as described below). The “stated redemption price at maturity” of a Note will equal the sum of all payments required under the Note other than payments of “qualified stated interest.” “**Qualified stated interest**” is stated interest unconditionally payable as a series of payments in cash or property (other than in debt instruments of the Issuer) at least annually during the entire term of the Note and equal to the outstanding principal balance of the Note multiplied by a single fixed rate of interest or, subject to certain conditions, based on one or more floating rates or indices.

All stated interest on a Variable Rate Note (as defined below) will constitute qualified stated interest if the Note provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof that is unconditionally payable in cash or property (other than debt instruments of the Issuer) at least annually. Therefore, such a Variable Rate Note will not be treated as having been issued with original issue discount unless it is issued at a “true” discount (i.e., at a price below the Note’s stated principal amount that equals or exceeds a specified *de minimis* amount). In general, a “**Variable Rate Note**” is a Note that provides for one or more qualified floating rates of interest, a single fixed rate and one or more qualified floating rates, a single objective rate, or a single fixed rate and a single objective rate that is a qualified inverse floating rate (as such terms are defined in applicable Treasury regulations), provided that the issue price of the Note does not exceed the total noncontingent principal payments due under the Note by more than an amount equal to the lesser of (x) 0.015 multiplied by the product of the total noncontingent principal

payments and the number of complete years to maturity from the issue date and (y) 15% of the total noncontingent principal payments.

A “**qualified floating rate**” is any variable rate where variations in the value of such rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Rate Note is denominated. An interest rate that is based on the product of a qualified floating rate, or that subjects a qualified floating rate to a cap, floor, governor or similar restriction, may also be treated as a qualified floating rate if certain conditions are satisfied. An “objective rate” is generally a rate that is determined using a single fixed formula and that is based on objective financial or economic information. If a Variable Rate Note provides for two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Note, the qualified floating rates together constitute a single qualified floating rate. Two or more qualified floating rates will be conclusively presumed to meet the requirements of the preceding sentence if the values of the applicable rates on the issue date are within 1/4 of one percent of each other. If interest on a debt instrument is stated at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period, and the value of the variable rate on the issue date is intended to approximate the fixed rate, the fixed rate and the variable rate together constitute a single qualified floating rate or objective rate. If, after application of these rules, a Variable Rate Note is treated as having been issued with interest other than qualified stated interest or as issued at a “true” discount, the U.S. federal income tax treatment of such Note will be more fully described in the applicable supplement to the base prospectus.

If the difference between a Note’s stated redemption price at maturity and its issue price is less than a *de minimis* amount, i.e., 1/4 of one percent of the stated redemption price at maturity multiplied by the number of complete years to maturity (or weighted average maturity if any amount included in the stated redemption price at maturity is payable before maturity), then the Note will not be considered to have original issue discount.

Subject to the rules applicable to Short-Term Notes discussed below, a U.S. Holder of an OID Note will be required to include any qualified stated interest payments in income in accordance with the U.S. Holder’s method of accounting for U.S. federal income tax purposes and will be required to include original issue discount in income for U.S. federal income tax purposes as it accrues, in accordance with a constant-yield method based on a compounding of interest. Under this method, U.S. Holders of OID Notes generally will be required to include in income increasingly greater amounts of original issue discount in successive accrual periods.

A U.S. Holder may make an election to include in gross income all interest that accrues on any Note (including stated interest and original issue discount or *de minimis* original issue discount, as adjusted by any amortizable bond premium) in accordance with a constant-yield method based on the compounding of interest (a “constant-yield election”).

A Note that matures one year or less from its date of issuance (a “**Short-Term Note**”) will be treated as being issued at a discount, and none of the interest paid on the Note will be treated as qualified stated interest. In general, a cash-method U.S. Holder of a Short-Term Note is not required to accrue the discount for U.S. federal income tax purposes unless it elects to do so. Holders who so elect and certain other U.S. Holders, including those who report income on the accrual method of accounting for U.S. federal income tax purposes, are required to include the discount in income as it accrues on a straight-line basis, unless another election is made to accrue the discount according to a constant-yield method based on daily compounding. A U.S. Holder who is not required and who does not elect to include the discount in income currently will treat any gain realized on the sale, exchange, retirement or other taxable disposition of the Short-Term Note as ordinary income to the extent of the discount accrued on a straight-line basis (or, if elected, according to a constant-yield method based on daily compounding) through the date of sale, exchange, retirement or other taxable disposition and will be required to defer deductions for any interest paid on indebtedness incurred to purchase or carry Short-Term Notes, in an amount not exceeding the accrued discount, until the accrued discount is included in income.

Under applicable Treasury regulations, if the Issuer or the U.S. Holders have an unconditional option to redeem a Note prior to its Maturity Date, this option will be presumed to be exercised if, by utilizing any date on which the Note may be redeemed as the maturity date and the amount payable on that date in accordance with the terms of the Note as the stated redemption price at maturity, (1) in the case of the Issuer’s option, the yield on the Note would be lower than its yield to the Maturity Date or (2) in the case of



the U.S. Holders' option, the yield on the Note would be higher than its yield to the Maturity Date. If this option is not in fact exercised, the Note would be treated, solely for purposes of calculating original issue discount, as if it were redeemed, and a new note were issued, on the presumed exercise date for an amount equal to the Note's adjusted issue price on that date.

*Amortizable Bond Premium.* If a U.S. Holder purchases a Note for an amount that is greater than the sum of all amounts payable on the Note other than qualified stated interest, the U.S. Holder will be considered to have purchased the Note with amortizable bond premium in an amount equal to such excess. In general, a U.S. Holder may elect to amortize this premium, using a constant-yield method, over the remaining term of the Note. Special rules may apply in the case of Notes that are subject to optional redemption. A U.S. Holder generally may use the amortizable bond premium allocable to an accrual period to offset qualified stated interest required to be included in the U.S. Holder's income with respect to the Note in that accrual period. A U.S. Holder who elects to amortize bond premium must reduce its tax basis in the Note by the amount of the premium allowable as an offset in any year. An election to amortize bond premium applies to all taxable debt obligations then owned and thereafter acquired by the U.S. Holder and may be revoked only with the consent of the Internal Revenue Service (the "IRS").

If a U.S. Holder makes a constant-yield election (as described under "—Original Issue Discount" above) for a Note with amortizable bond premium, that election will result in a deemed election to amortize bond premium for all of the U.S. Holder's debt instruments with amortizable bond premium, and may be revoked only with the permission of the IRS, and only with respect to debt instruments acquired after revocation.

*Sale, Exchange, Retirement or Other Taxable Disposition of the Notes.* Upon the sale, exchange, retirement or other taxable disposition of a Note, a U.S. Holder will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange, retirement or other taxable disposition and the U.S. Holder's adjusted tax basis in the Note. Gain or loss, if any, generally will be U.S.-source for purposes of computing a U.S. Holder's foreign tax credit limitation. For these purposes, the amount realized does not include any amount attributable to accrued qualified stated interest. Amounts attributable to accrued qualified stated interest are treated as interest as described under "—Payments of Interest" above. A U.S. Holder's adjusted tax basis in a Note generally will equal its initial investment in the Note increased by any original issue discount included in income and decreased by any bond premium previously amortized and any payments, other than qualified stated interest, previously received.

Except as described below, gain or loss realized on the sale, exchange, retirement or other taxable disposition of a Note will be capital gain or loss, which will be long-term capital gain or loss if at the time of sale, exchange, retirement or other taxable disposition, the Note has been held for more than one year. Long-term capital gain of a non-corporate U.S. Holder generally is taxed at preferential rates. The deductibility of capital losses is subject to limitations. An exception to this general rule applies in the case of a Short Term Note to the extent of any accrued discount not previously included in the holder's taxable income. See "Original Issue Discount" above. In addition, another exception to this general rule applies in the case of certain Foreign Currency Notes. See "—Foreign Currency Notes" below.

*Foreign Currency Notes.* The rules applicable to Notes issued in a currency other than U.S. dollars ("Foreign Currency Notes") could require some or all of the gain or loss on the sale, exchange or other taxable disposition of a Foreign Currency Note to be recharacterized as ordinary income or loss. The rules applicable to Foreign Currency Notes are complex, and their application may depend on the U.S. Holder's particular U.S. federal income tax situation. For example, various elections are available under these rules, and whether a U.S. Holder should make any of these elections may depend on the U.S. Holder's particular U.S. federal income tax situation. Holders are urged to consult their tax advisers regarding the U.S. federal income tax consequences of the ownership and disposition of Foreign Currency Notes.

A U.S. Holder who uses the cash method of accounting and who receives a payment of qualified stated interest (or who receives proceeds from a sale, exchange or other disposition attributable to accrued qualified stated interest) in a foreign currency with respect to a Foreign Currency Note will be required to include in income the U.S. dollar value of the foreign currency payment (determined based on a spot rate on the date the payment is received) regardless of whether the payment is in fact converted into U.S. dollars at that time, and this U.S. dollar value will be the U.S. Holder's tax basis in the foreign currency received.

An accrual-method U.S. Holder will be required to include in income the U.S. dollar value of the amount of interest income (including original issue discount, but reduced by amortizable bond premium to the extent applicable) that has accrued and is otherwise required to be taken into account with respect to a Foreign

Currency Note during an accrual period. The U.S. dollar value of the accrued income will be determined by translating the income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. The U.S. Holder may recognize ordinary income or loss (which will not be treated as interest income or expense) with respect to accrued interest income on the date the interest payment or proceeds from the sale, exchange or other taxable disposition attributable to accrued interest is actually received. The amount of ordinary income or loss recognized will equal the difference between the U.S. dollar value of the foreign currency payment received (determined based on a spot rate on the date the payment is received) in respect of the accrual period and the U.S. dollar value of interest income that has accrued during the accrual period (as determined above). Rules similar to these rules apply in the case of cash-method U.S. Holders who are required to currently accrue original issue discount on a Foreign Currency Note. An accrual-method U.S. Holder (including a cash-method U.S. Holder with respect to original issue discount) may elect to translate interest income (including original issue discount) into U.S. dollars at the spot rate on the last day of the interest accrual period (or, in the case of a partial accrual period, the spot rate on the last day of the taxable year) or, if the date of receipt is within five business days of the last day of the interest accrual period, the spot rate on the date of receipt. A U.S. Holder that makes this election must apply it consistently to all debt instruments from year to year, and may not change the election without the consent of the IRS.

Original issue discount and amortizable bond premium on a Foreign Currency Note are determined in the relevant foreign currency. If an election to amortize bond premium is made, amortizable bond premium taken into account on a current basis will reduce interest income in units of the relevant foreign currency. Gain or loss attributable to fluctuations in exchange rates is realized on amortized bond premium with respect to any period by treating the bond premium amortized in the period in the same manner as it would have been treated on the sale, exchange, retirement or other taxable disposition of the Foreign Currency Note. Any such exchange gain or loss will be ordinary income or loss as described below. If the election is not made, any bond premium will be taken into account in determining the overall gain or loss on the Notes.

As discussed above under “—Sale, Exchange, Retirement or Other Taxable Disposition of a Note,” a U.S. Holder generally will recognize gain or loss on the sale, exchange, retirement or other taxable disposition of a Note equal to the difference between the amount realized on the sale, retirement or other taxable disposition and the adjusted tax basis of the Note. A U.S. Holder's initial tax basis in a Foreign Currency Note generally will be determined by reference to the U.S. dollar cost of the Note. The U.S. dollar cost of a Foreign Currency Note generally will be the U.S. dollar value of the purchase price based on the spot rate in effect on the date of purchase (or if the Note is traded on an established securities market and the U.S. Holder is a cash-method U.S. Holder or an electing accrual-method U.S. Holder, on the settlement date). If this election is made by an accrual-method U.S. Holder it must be applied consistently from year to year and cannot be revoked without the consent of the IRS. The amount of any subsequent adjustment to the U.S. Holder's tax basis (including adjustments for original issue discount included as income and any bond premium previously amortized or principal payments received), will be the U.S. dollar value of the foreign currency amount paid for the Foreign Currency Note, and of the foreign currency amount of the adjustment, determined on the date of the adjustment.

The amount realized on a sale, exchange, retirement or other taxable disposition for an amount in foreign currency will be the U.S. dollar value of the amount of foreign currency received based on the spot rate in effect on the date of sale, exchange, retirement or other taxable disposition (or, in the case of a Foreign Currency Note traded on an established securities market, as defined in the applicable Treasury regulations, sold by a cash-method U.S. Holder, or an accrual-method U.S. Holder that so elects, on the settlement date). Such an election by an accrual-method U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

Gain or loss on the sale, exchange, retirement or other taxable disposition of a Foreign Currency Note that is attributable to fluctuations in currency exchange rates will be ordinary income or loss which will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates generally will equal the difference between (i) the U.S. dollar value of the U.S. Holder's purchase price for the Foreign Currency Note (or if less, the principal amount of the Foreign Currency Note), determined on the date the payment is received or the Note is disposed of (or if the Note is traded on an established securities market, and the U.S. Holder is a cash-method U.S. Holder or an electing accrual-method U.S. Holder, on the settlement date); and (ii) the U.S. dollar value of the U.S. Holder's purchase price for the Foreign Currency Note (or if less, the principal amount of the Foreign Currency Note), determined on the date the U.S. Holder acquired the Note (or if the Note is traded on an established securities market and the U.S. Holder is a cash-method U.S. Holder or an electing accrual-method U.S. Holder, on the settlement date). Payments received

attributable to accrued qualified stated interest will be treated in accordance with the rules applicable to payments of interest on Foreign Currency Notes described above. The foreign currency gain or loss (including any foreign currency gain or loss with respect to accrued interest on a disposition) will be recognized only to the extent of the total gain or loss realized by a U.S. Holder on the sale, exchange, retirement or other taxable disposition of the Foreign Currency Note. The foreign currency gain or loss for U.S. Holders will be U.S.-source. Any gain or loss in excess of the foreign currency gain or loss will be capital gain or loss (except in the case of a Short-Term Note, to the extent of any discount not previously included in income).

A U.S. Holder will have a tax basis in any foreign currency received on the sale, exchange, retirement or other taxable disposition of a Foreign Currency Note equal to the U.S. dollar value of the foreign currency, determined at the time of sale, exchange, retirement or other taxable disposition. As noted above, if the Foreign Currency Notes are traded on an established securities market, a cash-method U.S. Holder or an electing accrual-method U.S. Holder who buys or sells a Foreign Currency Note is required to translate units of foreign currency paid or received into U.S. dollars at the spot rate on the settlement date of the purchase or sale. Accordingly, no exchange gain or loss will result from currency fluctuations between the trade date and the settlement of the purchase or sale. Any gain or loss realized on a sale or other taxable disposition of foreign currency (including its exchange for U.S. dollars or its use to purchase Foreign Currency Notes) will be ordinary income or loss.

A U.S. Holder may be required to file a reportable transaction disclosure statement with its U.S. federal income tax return if it realizes a loss on the sale or other taxable disposition of a Foreign Currency Note that is greater than an applicable threshold amount, which depends on the status of the U.S. Holder. A U.S. Holder that claims a deduction with respect to a Foreign Currency Note should consult its tax adviser regarding the need to file a reportable transaction disclosure statement.

*Backup Withholding and Information Reporting.* Information returns may be filed with the IRS in connection with payments on the Notes and the proceeds from a sale or other taxable disposition of the Notes. A U.S. Holder may be subject to backup withholding on these payments if it fails to provide its taxpayer identification number and comply with certain certification procedures or otherwise establish an exemption. The amount of any backup withholding will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability, and may entitle the U.S. Holder to a refund, provided that the required information is timely furnished to the IRS.

Certain U.S. Holders may be required to report information relating to an interest in the Issuer's Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by certain financial institutions). U.S. Holders should consult their tax advisers regarding their reporting obligations with respect to the Notes.

*Potential U.S. FATCA withholding after December 31, 2018.* Provisions of U.S. tax law commonly referred to as the Foreign Account Tax Compliance Act, or FATCA, impose a 30% withholding tax on certain payments made to a foreign financial institution (such as the Issuer) unless the financial institution is a "participating foreign financial institution," or a PFFI, or is otherwise exempt from FATCA. A PFFI is a foreign financial institution that has entered into an agreement with the U.S. Treasury Department, or an FFI agreement, pursuant to which it agrees to perform specified due diligence, reporting and withholding functions. Specifically, under its FFI agreement, a PFFI will be required to obtain and report to the IRS certain information with respect to financial accounts held by U.S. persons or U.S.-owned foreign entities and to withhold 30% from "foreign passthru payments" (which term is not yet defined) that it makes to "recalcitrant" accountholders or to foreign financial institutions that are not PFFIs or otherwise exempt from FATCA on or after the later of January 1, 2019 and the date of publication of final Treasury regulations defining the term "foreign passthru payments." No such withholding would apply to any payments made on debt obligations that are issued before (and not materially modified after) the date that is six months after the date on which final regulations defining the term "foreign passthru payments" are published. The United States and Chile have entered into an intergovernmental agreement to facilitate the implementation of FATCA pursuant to which Chilean financial institutions (such as the Issuer) will be directed by Chilean authorities to register with the IRS and fulfill obligations consistent with those required under an FFI agreement. The Issuer has registered with the IRS to become a PFFI. The United States has also entered into intergovernmental agreements with other jurisdictions. These intergovernmental agreements (including the intergovernmental agreement with Chile) do not address how the United States and the relevant jurisdictions (including Chile) will address "foreign passthru payments" or whether withholding on such payments will be required by financial institutions that are subject to a FATCA intergovernmental agreement.

## CERTAIN BENEFIT PLAN INVESTOR CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended, or ERISA, imposes fiduciary standards and certain other requirements on employee benefit plans subject to Title I of ERISA including separate accounts, (collectively, “ERISA Plans”), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans and by the entities (such as collective investment funds) and accounts whose underlying assets are treated as the assets of such plans pursuant to U.S. Department of Labor “plan assets” regulation, 29 CFR Section 2510.3-101, as modified by Section 3(42) of ERISA are subject to ERISA’s general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan’s investments be made in accordance with the documents governing the ERISA Plan. The prudence of a particular investment will be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan’s particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed in “Risk Factors” and the fact that in the future there may be no market in which the fiduciary will be able to sell or otherwise dispose of the Notes.

In addition, Section 406 of ERISA and Section 4975 of the U.S. Internal Revenue Code of 1986, as amended, (the “Code”), prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code (together with ERISA Plans, “Plans”)) and certain persons (referred to as “parties in interest” or “disqualified persons”) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. In particular, a sale or exchange of property or an extension of credit between a Plan and a “party in interest” or “disqualified person” may constitute a prohibited transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

The Issuer, directly or through its affiliates, may be considered a party in interest or disqualified person with respect to many Plans. Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if Notes are acquired, held or disposed of by a Plan with respect to which the Issuer, the Arrangers, the Dealers or any of their respective affiliates is a party in interest or a disqualified person unless the Notes are acquired pursuant to and in accordance with an applicable exemption. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may apply depending in part on the type of Plan fiduciary making the decision to acquire the Notes and the circumstances under which that decision is made. Included among these exemptions are Prohibited Transaction Class Exemption (“PTCE”) 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a “qualified professional asset manager”), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 95-60 (relating to investments by insurance company general accounts) and PTCE 96-23 (relating to transactions determined by an in-house asset manager). In addition, ERISA Section 408(b)(17) and Section 4975(d)(20) of the Code provide a limited exemption for the purchase and sale of securities and related lending transactions, provided that neither the issuer of the securities nor any of its affiliates have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any Plan involved in the transaction, and provided further that the Plan pays no more than “adequate consideration” (within the meaning of ERISA Section 408(b)(17) and Section 4975(f)(10) of the Code) in connection with the transaction (the “service provider exemption”). There can be no assurance however that any of these exemptions or any other exemption will be available with respect to any particular transaction involving the Notes.

Governmental plans, certain church plans, non-U.S. plans, and other plans, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to federal, state, local, non-U.S., or other laws that are substantially similar to the foregoing provisions of ERISA and the Code (“Similar Law”). Fiduciaries of any such plans should consult with their counsel before purchasing the Notes.

Each purchaser of the Notes will be deemed to have represented and warranted that (A) either: (i) no portion of the assets used by it to purchase and hold the Notes constitutes assets of (a) any Plan or (b) any non-U.S., governmental or church plan subject to any “Similar Law” and/or laws or regulations that provide that the assets of the Issuer could be deemed to include “plan assets” of such plan (each, an “Other Plan

Investor”), or (ii) the purchase and holding of the Notes by such purchaser will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or, in the case of Other Plan Investors, will not result in a violation of any applicable Similar Law and will not subject the Issuer to any laws, rules, or regulations applicable to such Other Plan Investor solely as the result of the investment in the Issuer by such Other Plan Investor; and (B) if it is a Plan, the decision to acquire and hold the Notes has been made by a duly authorized fiduciary who is independent of the Issuer, the Arrangers, the Dealers and their respective affiliates (collectively, the “Transaction Parties”) and who (i) is a U.S. bank, U.S. insurance carrier, U.S. registered investment adviser, U.S. registered broker-dealer or independent fiduciary with at least \$50 million of assets under management or control, (ii) in the case of a Plan that is an individual retirement account (“IRA”), is not the IRA owner, beneficiary of the IRA or relative of the IRA owner or beneficiary, (iii) is capable of evaluating investment risks independently, both in general and with regard to the prospective investment in the Notes, (iv) is a fiduciary under ERISA or the Code, or both, with respect to the decision to acquire and hold the Notes, (v) has exercised independent judgment in evaluating whether to invest the assets of the Plan in the Notes, (vi) understands and has been fairly informed of the existence and the nature of the financial interests of the Transaction Parties in connection with the Plan’s acquisition of the Notes, (vii) understands that the Transaction Parties are not undertaking to provide impartial investment advice, or to give advice in a fiduciary capacity to the Plan, in connection with the Plan’s acquisition of the Notes and (viii) confirms that no fee or other compensation will be paid directly to any of the Transaction Parties by the Plan, or any fiduciary, participant or beneficiary of the Plan, for the provision of investment advice (as opposed to other services) in connection with the Plan’s acquisition of the Notes (it being understood that you will not be deemed to make the representation in clause (B) above to the extent that the regulations under Section 3(21) of ERISA issued by the U.S. Department of Labor on April 8, 2016 are revoked, repealed or no longer effective).

Due to the complexity of these rules and the potential penalties for any non-exempt prohibited transactions, the Issuer would advise any persons considering purchasing the Notes on behalf of, or with the assets of, any Plan to consult with their counsel regarding these matters.

**The foregoing discussion is general in nature and is not intended to be all-inclusive. Each Plan fiduciary should consult with its legal advisor concerning the potential consequences to the Plan under ERISA or the Code of an investment in the Notes.**

**The sale of the Notes to a Plan is in no respect a representation by the Issuer that such an investment meets all relevant legal requirements with respect to investment by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.**

## SPECIAL PROVISIONS RELATING TO FOREIGN CURRENCY NOTES

### GENERAL

Unless otherwise specified in the applicable Final Terms, the following provisions shall apply to Foreign Currency Notes which are in addition to, and to the extent inconsistent therewith replace, the description of general terms and provisions of the Notes set forth elsewhere in this Base Prospectus.

### PAYMENTS ON FOREIGN CURRENCY NOTES

Purchasers are required to pay for the Notes in the currency specified in the applicable Final Terms. In certain jurisdictions, there may be limited facilities for conversion of home currencies into foreign currencies, and vice versa. In addition, in certain jurisdictions, many banks may not offer foreign currency denominated checking or savings account facilities.

Payment of principal, premium, if any, and interest, if any, on each Note will be made in immediately available funds in the Specified Currency unless otherwise specified in the applicable Final Terms and except as provided under "Changing the Specified Currency of Foreign Currency Notes" below.

Unless otherwise specified in the applicable Final Terms, a holder of the equivalent of U.S.\$1,000,000 or more aggregate principal amount of a definitive Registered Note denominated in a Specified Currency other than U.S. Dollars may elect subsequent to the issuance thereof that future payments be converted, or not be converted, as the case may be, at the Market Exchange Rate to U.S. Dollars by transmitting a written request for such payments to the relevant Paying Agent on or prior to the Regular Record Date or at least 16 days prior to maturity or earlier redemption or repayment, as the case may be. Such request shall include appropriate payment instructions and shall be in writing (mail or hand delivered) or by cable, telex or facsimile transmission. A holder may elect to receive all future payments of principal, premium, if any, and interest in either the Specified Currency or in U.S. Dollars, as specified in the written request, and need not file a separate election for each payment. Such election will remain in effect until revoked by a subsequent election made in the manner and at the times prescribed in this paragraph. Owners of beneficial interests in permanent global Notes or holders of definitive Bearer Notes should contact their broker or nominee to determine whether and how an election to receive payment in either U.S. Dollars or the Specified Currency may be made.

The "**Market Exchange Rate**" means, as of any time of determination which shall be two business days prior to payment date the Specified Currencies other than U.S. Dollars to U.S. dollar exchange rate as quoted by the Exchange Rate Agent for similar client driven orders.

All determinations made by the Exchange Rate Agent shall be at its sole discretion and, in the absence of manifest error, shall be conclusive for all purposes and binding on holders of the Notes and the Exchange Rate Agent shall have no liability therefor. Under no circumstances shall Banco Santander-Chile bear any responsibility for losses incurred by a holder due to fluctuations in the Market Exchange Rate.

Specific information about the Specified Currency in which a particular Foreign Currency Note is denominated will be set forth in the applicable Final Terms. Any information therein concerning exchange rates is furnished as a matter of information only and should not be regarded as indicative of the range of or trends in fluctuations in currency exchange rates that may occur in the future.

### MINIMUM DENOMINATIONS, RESTRICTIONS ON MATURITIES, REPAYMENT AND REDEMPTION

*General.* Notes denominated in Specified Currencies other than U.S. Dollars shall have such minimum denominations and be subject to such restrictions on maturities, repayment and redemption as are set forth below or as are set forth in the applicable Final Terms in the event different restrictions on minimum denominations, maturities, repayment and redemption may be permitted or required from time to time by any relevant central bank or equivalent governmental body, however designated, or by such laws or regulations as are applicable to the Notes or the Specified Currency. Certain restrictions related to the distribution of Notes denominated in Specified Currencies other than U.S. Dollars are set forth under "Plan of Distribution" in this Base Prospectus. Any other restrictions applicable to Notes denominated in Specified Currencies other than U.S. Dollars will be set forth in the applicable Final Terms relating to such Notes.

*Minimum Denominations.* Unless permitted by then current laws, regulations and directives, Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are received by the Issuer in the United Kingdom and which have a maturity of less than one year will only be issued if (a) the redemption value of each such Note is at least £100,000 as determined at the time of issuance or an amount of equivalent value denominated wholly or partly in a currency other than Sterling, (b) no part of any Note may be transferred unless the redemption value of that part is at least £100,000, or such an equivalent amount, and (c) such Notes are issued to a limited class of professional investors, unless the relevant Note(s) can be issued and sold without contravention of Section 19 of the FSMA. See “Plan of Distribution.”

*Restrictions on Maturities, Repayment and Redemption.* All Notes (irrespective of the Specified Currency in which they are denominated) will comply with applicable legal, regulatory and/or central bank requirements in respect of minimum required maturities and limitations on redemption by the Issuer or holder of such Note.

## **REDENOMINATION**

The Issuer may, without the consent of holders of Notes denominated in a Specified Currency of a member state of the European Union, which on or after the issue date of such Notes participates in the European Economic and Monetary Union, on giving at least 30 days’ prior notice (the “**Redenomination Notice**”) to the holders of such Notes and on prior notice to the Fiscal Agent, and Euroclear, Clearstream, Luxembourg and/or any other relevant clearing system, elect that, with effect from the date specified in the Redenomination Notice (the “**Redenomination Date**”), such Notes shall be redenominated in Euro.

The election will have effect as follows:

- (a) the Notes shall be deemed to be redenominated into Euro in the denomination of €0.01 with a nominal amount for each Note equal to the nominal amount of that Note in the Specified Currency, converted into Euro at the Established Rate (defined below); provided that, if the Issuer determines after consultation with the Fiscal Agent that the then market practice in respect of the redenomination into Euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the holders of Notes, any stock exchange on which the Notes may be listed, the Fiscal Agent and the relevant Paying Agents of such deemed amendments;
- (b) save to the extent that an Exchange Notice (defined below) has been given in accordance with paragraph (d) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes presented (or, as the case may be, in respect of which coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest €0.01;
- (c) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued, subject to compliance with all applicable laws and regulations, at the expense of the Issuer in the denominations of €1,000, €10,000, €100,000 and (but only to the extent of any remaining amounts less than €1,000 or such smaller denominations as the relevant Paying Agent may approve) €0.01 and such other denominations as the Issuer shall determine and notify to the Noteholders;
- (d) if issued prior to the Redenomination Date, all unmatured coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the “**Exchange Notice**”) that replacement Euro-denominated Notes and coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes so issued will also become void on that date although such Notes will continue to constitute valid exchange obligations of the Issuer. New Euro-denominated Notes and coupons, if any, will be issued in exchange for Notes and coupons, if any, denominated in the Specified Currency in such manner as the relevant Paying Agent may specify and as shall be notified to the holders of Notes in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;
- (e) after the Redenomination Date, all payments in respect of the Notes and the coupons, if any, including payments of interest in respect of periods commencing before the Redenomination Date,

will be made solely in Euro as though references in the Notes to the Specified Currency were to Euro. Payments will be made in Euro by credit or transfer to a Euro account outside the United States (or any other account to which Euro may be credited or transferred) specified by the payee or, at the option of the payee, by a Euro check mailed to an address outside the United States;

- (f) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated by applying the Fixed Interest Rate to each specified denomination, multiplying such sum by the applicable Fixed Day Count Fraction specified in the applicable Final Terms, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention;
- (g) if the Notes are Floating Rate Notes, the applicable Final Terms will specify any relevant changes to the provisions relating to interest; and
- (h) such other changes shall be made as the Issuer may decide, after consultation with the relevant Paying Agent and the calculation agent (if applicable), and as may be specified in the Redenomination Notice, to conform them to conventions then applicable to instruments denominated in Euro.

**“Established Rate”** means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Union regulations) into Euro established by the Council of European Union pursuant to Article 109L(4) of the treaty establishing the European Communities, as amended by the Treaty on European Union.

**“sub-unit”** means, with respect to any Specified Currency other than Euro, the lowest amount of such Specified Currency that is available as legal tender in the country of such Specified Currency and, with respect to Euro, means one cent.

#### **CHANGING THE SPECIFIED CURRENCY OF FOREIGN CURRENCY NOTES**

Payments of principal, premium, if any, and interest, if any, on any Note denominated in a Specified Currency other than U.S. Dollars shall be made in U.S. Dollars if, on any payment date, such Specified Currency (a) is unavailable due to imposition of exchange controls or other circumstances beyond the Issuer’s control or (b) is no longer used by the government of the country issuing such Specified Currency or for the settlement of transactions by public institutions in that country or within the international banking community. Such payments shall be made in U.S. Dollars on such payment date and on all subsequent payment dates until such Specified Currency is again available or so used as determined by such Issuer.

Amounts so payable on any such date in such Specified Currency shall be converted into U.S. Dollars at a rate determined by the Exchange Rate Agent (as defined below) on the basis of the most recently available Market Exchange Rate. The **“Exchange Rate Agent”** at the date of this Base Prospectus is Bank of America, National Association. Any payment required to be made on Foreign Currency Notes denominated in a Specified Currency that is instead made in U.S. Dollars under the circumstances described above will not constitute a default of any obligation of the Issuer under such Notes.

The provisions of the two preceding paragraphs shall not apply in the event of the introduction in the country issuing any Specified Currency of the Euro pursuant to the entry of such country into European Economic and Monetary Union. In such an event, payments of principal, premium, if any, and interest, if any, on any Note denominated in any such Specified Currency shall be effected in Euro at such time as is required by, and otherwise in conformity with, legally applicable measures adopted with reference to such country’s entry into the European Economic and Monetary Union.



## BOOK ENTRY CLEARANCE SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear, CBL or CBF (together, the "Clearing Systems") currently in effect. The information in this section concerning the Clearing Systems has been accurately reproduced and far as the Issuer is aware and able to ascertain from information published by such third-party Clearing Systems, no facts have been omitted that would render the reproduced information inaccurate or misleading. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer nor any other party to the Fiscal Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

### BOOK-ENTRY SYSTEMS

#### DTC

DTC has advised the Issuer that it is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to section 17A of the Exchange Act. DTC holds securities that its participants ("**Participants**") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations ("**Direct Participants**"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**").

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "**Rules**"), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC's book-entry settlement system ("**DTC Notes**") as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes ("**Owners**") have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each actual purchaser of each DTC Note ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to

whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "*Transfer and Selling Restrictions*."

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

#### *Euroclear, CBL and CBF*

Euroclear, CBL and CBF each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear, CBL and CBF provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear, CBL and CBF also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear, CBL and CBF have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear, CBL and CBF customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear, CBL and CBF is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

#### **BOOK-ENTRY OWNERSHIP OF AND PAYMENTS IN RESPECT OF DTC NOTES**

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective principal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer.

Ownership of beneficial interests in such a Registered Global Note will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositories of Euroclear and CBL. Ownership of beneficial interests in a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the relevant Paying Agent, the relevant Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

#### **TRANSFERS OF NOTES REPRESENTED BY REGISTERED GLOBAL NOTES**

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and CBL will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of notes in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. However, as discussed above, such exchanges will generally not be available. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "*Transfer and Selling Restrictions*," cross-market transfers between DTC, on the one hand, and directly or indirectly through CBL or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the relevant Registrar, the relevant Paying Agent and any custodian ("**Custodian**") with whom the relevant Registered Global Notes have been deposited.

On or after the Original Issue Date for any Series, transfers of Notes of such Series between accountholders in CBL and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date two business days after the trade date (T+2). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in CBL or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and CBL and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the relevant Registrar, the relevant Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or CBL accountholders and DTC participants cannot be made on a delivery versus payment basis. The Notes will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, CBL and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of DTC, CBL and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents nor any Dealer will be responsible for any performance by DTC, CBL or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

## TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in the Fourth Amended and Restated Dealer Agreement, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Description of the Notes.*” In the Fourth Amended and Restated Dealer Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Program and the issue of Notes under the Program and to indemnify the Dealers certain liabilities incurred by them in connection therewith.

### Transfer Restrictions

*As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.* Each purchaser of Registered Notes or person wishing to transfer an interest from one Registered Note to another or from global to definitive form or vice versa, will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (a) that either: (i) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (ii) it is outside the United States and is not a U.S. person;
- (b) that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. State securities laws and may not be offered, sold, pledged or otherwise transferred within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (c) that, unless it holds an interest in a Regulation S Global Note, the applicable distribution compliance period has elapsed and it is a person located outside the United States or is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, it will do so only (i) to the Issuer or any affiliate thereof, (ii) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A and which takes delivery in the form of an interest in the Rule 144A Global Note, (iii) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (iv) pursuant to another available exemption from registration under the Securities Act or (v) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;
- (d) that it will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions referred to in paragraph (c) above, if then applicable;
- (e) that Notes initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Notes, and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes;
- (f) that the Notes, other than the Regulation S Global Notes, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE NOTES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS; (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE NOTES EXCEPT IN ACCORDANCE WITH THE FISCAL AGENCY AGREEMENT AND OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO

A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144A UNDER THE SECURITIES ACT FOR RESALE OF THIS NOTE.

THIS NOTE AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE FISCAL AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH NOTES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED NOTES GENERALLY. THE HOLDER OF THIS NOTE SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS NOTE AND ANY NOTES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON);

THIS LEGEND CAN ONLY BE REMOVED AT THE OPTION OF THE ISSUER.

- (g) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Notes prior to the expiration of the 40-day distribution compliance period which commences upon completion of distribution of all the Notes of the Tranche of which the Notes being resold or otherwise transferred forms a part of the offering and the closing date with respect to the original issuance of the Notes), it will do so only (i) outside the United States in compliance with Rule 903 or 904 under the Securities Act and (ii) in accordance with all applicable U.S. State securities laws; and it acknowledges that the Regulation S Global Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE FISCAL AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF FORTY DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS PART.";

- (h) that (x) either: (i) no portion of the assets used by it to purchase and hold the Notes constitutes assets of (a) any employee benefit plan subject to Title I of ERISA, (b) any plan, individual retirement account ("IRA") or other arrangement subject to section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), (c) any entity whose underlying assets are considered to include "plan assets" (as defined in ERISA) of any such employee benefit, plan, account or arrangement (each of the foregoing, a "Plan") or (d) any non-U.S., governmental or church plan subject to any federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code ("Similar Law") and/or laws or regulations that provide that the assets of the Issuer could be deemed to include "plan assets" of such plan (each, an "Other Plan Investor"), or (ii) the purchase and holding of the Notes by such purchaser will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or, in the case of Other Plan Investors, will not result in a violation of any applicable Similar Law and will not subject the Issuer to any laws, rules, or regulations applicable to such Other Plan

Investor solely as the result of the investment in the Issuer by such Other Plan Investor; and (y) if it is a Plan, the decision to acquire and hold the Notes has been made by a duly authorized fiduciary who is independent of the Issuer, the Arrangers, the Dealers and their respective affiliates (collectively, the "Transaction Parties") and who (i) is a U.S. bank, U.S. insurance carrier, U.S. registered investment adviser, U.S. registered broker-dealer or independent fiduciary with at least \$50 million of assets under management or control, (ii) in the case of a Plan that is an IRA, is not the IRA owner, beneficiary of the IRA or relative of the IRA owner or beneficiary, (iii) is capable of evaluating investment risks independently, both in general and with regard to the prospective investment in the Notes, (iv) is a fiduciary under ERISA or the Code, or both, with respect to the decision to acquire and hold the Notes, (v) has exercised independent judgment in evaluating whether to invest the assets of the Plan in the Notes, (vi) understands and has been fairly informed of the existence and the nature of the financial interests of the Transaction Parties in connection with the Plan's acquisition of the Notes, (vii) understands that the Transaction Parties are not undertaking to provide impartial investment advice, or to give advice in a fiduciary capacity to the Plan, in connection with the Plan's acquisition of the Notes and (viii) confirms that no fee or other compensation will be paid directly to any of the Transaction Parties by the Plan, or any fiduciary, participant or beneficiary of the Plan, for the provision of investment advice (as opposed to other services) in connection with the Plan's acquisition of the Notes (it being understood that you will not be deemed to make the representation in clause (y) above to the extent that the regulations under Section 3(21) of ERISA issued by the U.S. Department of Labor on April 8, 2016 are revoked, repealed or no longer effective); and such purchaser acknowledges that the Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"(X) EACH PURCHASER OR TRANSFEREE OF THIS NOTE WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT EITHER: (I) NO PORTION OF THE ASSETS USED BY IT TO PURCHASE AND HOLD THE NOTES CONSTITUTES ASSETS OF (A) ANY EMPLOYEE BENEFIT PLAN SUBJECT TO TITLE I OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), (B) ANY PLAN, INDIVIDUAL RETIREMENT ACCOUNT ("IRA") OR OTHER ARRANGEMENT SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), (C) ANY ENTITY WHOSE UNDERLYING ASSETS ARE CONSIDERED TO INCLUDE "PLAN ASSETS" (AS DEFINED IN ERISA) OF ANY SUCH EMPLOYEE BENEFIT, PLAN, ACCOUNT OR ARRANGEMENT (EACH OF THE FOREGOING, A "PLAN") OR (D) ANY NON-U.S., GOVERNMENTAL OR CHURCH PLAN SUBJECT TO ANY FEDERAL, STATE, LOCAL, NON-U.S. OR OTHER LAWS OR REGULATIONS THAT ARE SIMILAR TO SUCH PROVISIONS OF ERISA OR THE CODE ("SIMILAR LAW") AND/OR LAWS OR REGULATIONS THAT PROVIDE THAT THE ASSETS OF THE ISSUER COULD BE DEEMED TO INCLUDE "PLAN ASSETS" OF SUCH PLAN (EACH, AN "OTHER PLAN INVESTOR"), OR (II) THE PURCHASE AND HOLDING OF THE NOTES BY SUCH PURCHASER WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR, IN THE CASE OF OTHER PLAN INVESTORS, WILL NOT RESULT IN A VIOLATION OF ANY APPLICABLE SIMILAR LAW AND WILL NOT SUBJECT THE ISSUER TO ANY LAWS, RULES, OR REGULATIONS APPLICABLE TO SUCH OTHER PLAN INVESTOR SOLELY AS THE RESULT OF THE INVESTMENT IN THE ISSUER BY SUCH OTHER PLAN INVESTOR; AND (Y) IF IT IS A PLAN, THE DECISION TO ACQUIRE AND HOLD THE NOTES HAS BEEN MADE BY A DULY AUTHORIZED FIDUCIARY WHO IS INDEPENDENT OF THE ISSUER, THE ARRANGERS, THE DEALERS AND THEIR RESPECTIVE AFFILIATES (COLLECTIVELY, THE "TRANSACTION PARTIES") AND WHO (I) IS A U.S. BANK, U.S. INSURANCE CARRIER, U.S. REGISTERED INVESTMENT ADVISER, U.S. REGISTERED BROKER-DEALER OR INDEPENDENT FIDUCIARY WITH AT LEAST \$50 MILLION OF ASSETS UNDER MANAGEMENT OR CONTROL, (II) IN THE CASE OF A PLAN THAT IS AN IRA, IS NOT THE IRA OWNER, BENEFICIARY OF THE IRA OR RELATIVE OF THE IRA OWNER OR BENEFICIARY, (III) IS CAPABLE OF EVALUATING INVESTMENT RISKS INDEPENDENTLY, BOTH IN GENERAL AND WITH REGARD TO THE PROSPECTIVE INVESTMENT IN THE NOTES, (IV) IS A FIDUCIARY UNDER ERISA OR THE CODE, OR BOTH, WITH RESPECT TO THE DECISION TO ACQUIRE AND HOLD THE NOTES, (V) HAS EXERCISED INDEPENDENT JUDGMENT IN EVALUATING WHETHER TO INVEST THE ASSETS OF THE PLAN IN THE NOTES, (VI) UNDERSTANDS AND HAS BEEN FAIRLY INFORMED OF THE EXISTENCE AND THE NATURE OF THE FINANCIAL INTERESTS OF THE TRANSACTION PARTIES IN CONNECTION WITH THE PLAN'S ACQUISITION OF THE NOTES, (VII) UNDERSTANDS THAT THE TRANSACTION PARTIES ARE NOT UNDERTAKING TO PROVIDE IMPARTIAL INVESTMENT ADVICE, OR TO GIVE ADVICE IN A FIDUCIARY CAPACITY TO THE PLAN, IN CONNECTION WITH THE PLAN'S ACQUISITION OF THE NOTES AND (VIII) CONFIRMS THAT NO FEE OR OTHER COMPENSATION WILL BE PAID DIRECTLY TO ANY OF THE TRANSACTION PARTIES BY THE PLAN, OR ANY FIDUCIARY, PARTICIPANT OR

BENEFICIARY OF THE PLAN, FOR THE PROVISION OF INVESTMENT ADVICE (AS OPPOSED TO OTHER SERVICES) IN CONNECTION WITH THE PLAN'S ACQUISITION OF THE NOTES (IT BEING UNDERSTOOD THAT YOU WILL NOT BE DEEMED TO MAKE THE REPRESENTATION IN CLAUSE (Y) ABOVE TO THE EXTENT THAT THE REGULATIONS UNDER SECTION 3(21) OF ERISA ISSUED BY THE U.S. DEPARTMENT OF LABOR ON APRIL 8, 2016 ARE REVOKED, REPEALED OR NO LONGER EFFECTIVE);

- (i) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

No sale of Legended Notes in the United States to any one purchaser will be for less than U.S.\$100,000 (or its foreign currency equivalent) principal amount and no Legended Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.\$100,000 (or its foreign currency equivalent) of Registered Notes.

## UNITED STATES

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

In connection with any Notes which are offered or sold outside the United States in reliance on the safe harbor from the registration requirements of the Securities Act provided under Regulation S ("**Regulation S Notes**"), each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that it will not offer, sell or deliver such Regulation S Notes (a) as part of their distribution at any time or (b) otherwise until forty days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Regulation S Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Program will be required to agree, that it will send to each dealer to which it sells any Regulation S Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Notes within the United States or to, or for the account or benefit of, U.S. persons.

Until forty days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Dealers, directly or through their respective U.S. broker dealer affiliates, may arrange for the resale of Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Notes which may be purchased by a QIB pursuant to Rule 144A is U.S.\$150,000 (or the approximate equivalent thereof in any other Specified Currency). To the extent that the Issuer is not subject to or does not comply with the reporting requirements of Section 13 or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g3-2(b) thereunder, the Issuer has agreed to furnish to holders of Notes and to prospective purchasers designated by such holders, upon request, such information as may be required by Rule 144A(d)(4) so long as the Notes are considered "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act.

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by United States Treasury Regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.



The applicable Final Terms will specify whether the TEFRA C Rules or the TEFRA D Rules are applicable to the Bearer Notes, or whether neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

In the case of Bearer Notes to which the TEFRA D Rules have been specified to apply, the Notes may not be delivered, offered, sold or resold, directly or indirectly, in connection with their original issuance or during the Restricted Period in the United States to or for the account of any United States person, other than to certain persons as provided under United States Treasury Regulations. An offer or sale will be considered to be made to a person within the United States if the offeror or seller has an address within the United States for the offeree or purchaser with respect to the offer or sale. In addition, each Dealer has represented and agreed (and each further Dealer appointed under the Program will be required to represent and agree) that:

- (a) except to the extent permitted under the TEFRA D Rules, (i) it has not offered or sold, and during the Restricted Period will not offer or sell, Notes in bearer form to a person who is within the United States or to a United States person, and (ii) such Dealer has not delivered and will not deliver within the United States definitive Notes in bearer form that are sold during the Restricted Period;
- (b) it has and throughout the Restricted Period will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes in bearer form are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or to a United States person, except as permitted by the TEFRA D Rules;
- (c) if such Dealer is a United States person, it represents that it is acquiring the Notes in bearer form for purposes of resale in connection with their original issuance and, if such Dealer retains Notes in bearer form for its own account, it will only do so in accordance with the requirements of United States Treasury Regulation §1.163-5(c)(2)(i)(D)(6); and
- (d) with respect to each affiliate (if any) that acquires from such Dealer Notes in bearer form for the purposes of offering or selling such Notes during the restricted period, such Dealer either (i) hereby represents and agrees on behalf of such affiliate (if any) to the effect set forth in sub-paragraphs (a), (b) and (c) of this paragraph or (ii) agrees that it will obtain from such affiliate (if any) for the benefit of the Issuer the representations and agreements contained in sub-paragraphs (a), (b) and (c) of this paragraph.

Where the TEFRA C Rules are specified in the applicable Final Terms as being applicable to any Tranche of Bearer Notes, such Notes must be issued and delivered outside the United States in connection with their original issuance. Accordingly, each Dealer has represented and agreed (and each additional Dealer appointed under the Program will be required to represent and agree) in respect of such Notes that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any such Notes within the United States in connection with the original issuance. Further, each Dealer has represented and agreed (and each further Dealer appointed under the Program will be required to represent and agree) in connection with the original issuance of such Notes in bearer form, that it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such Dealer or such purchaser is within the United States or its possessions and will not otherwise involve the U.S. office of such Dealer in the offer and sale of Notes.

Each Dealer has agreed, and each further Dealer appointed under the Program will be required to agree, that it has not entered and will not enter into any contractual arrangements with respect to the distribution or delivery of Notes except with its affiliates (if any) or with the prior written consent of the Issuer.

Each Bearer Note having a maturity of more than 365 days (including unilateral rights to rollover or extend) and interest coupons pertaining to such Note, if any, will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code."

#### **PROHIBITION OF SALES TO EEA RETAIL INVESTORS**

If the applicable Final Terms for the Notes issued under this Base Prospectus specifies the "Prohibition of Sales to EEA Retail Investors" as "Applicable", each Dealer will be required to represent and agree that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final

Terms in relation thereto to any retail investor in the European Economic Area (Iceland, Norway and Liechtenstein in addition to the member states of the European Union). For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to the Notes of any tranche in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for such Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and the expression “Prospectus Directive” means Directive 2003/71/EC (as amended) and includes any relevant implementing measure in each Member State.

If the applicable Final Terms in respect of any Notes specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive, as defined below, was implemented in each member state of the European Economic Area (the “Relevant Implementation Date”) it has not made and will not make an offer of the Notes of any tranche to the public in that relevant member state of the European Economic Area except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that relevant member state of the European Economic Area:

- (a) if the Final Terms in relation to such Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Member State (a “Non-exempt Offer”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Member State, provided that any such prospectus has subsequently been completed by the Final Terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Final Terms, as applicable, and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the Dealers; or
- (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

*provided* that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

The above selling restriction is in addition to any other selling restrictions set out below.

## **UNITED KINGDOM**

Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer to sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their business or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as

principal or agent), for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

In connection with any offering of Notes hereunder, none of the Dealers that are regulated in the United Kingdom are acting for anyone other than the Issuer and will not be responsible to anyone other than the Issuer for providing the protections afforded to their clients nor for providing advice in relation to any such offering.

## LUXEMBOURG

This Base Prospectus has not been approved by, and will not be submitted for approval to, the Luxembourg Financial Services Authority (*Commission de Surveillance du Secteur Financier*, or the “**CSSF**”) or a competent authority of another EU Member State for notification to the CSSF, for purposes of a public offering or sale in the Grand Duchy of Luxembourg (“**Luxembourg**”). Accordingly, the Notes may not be offered or sold to the public in Luxembourg, directly or indirectly, and neither this Base Prospectus nor any other offering circular, prospectus, form of application, advertisement or other material may be distributed, or otherwise made available in, from or published in, Luxembourg, except in circumstances which do not constitute an offer of securities to the public requiring the publication of a prospectus in accordance with the Luxembourg Act of 10 July 2005 on prospectuses for securities, as amended, (the “**Prospectus Act**”) and implementing the Directive 2003/71/EC of 4 November 2003, as amended. Consequently, this Base Prospectus and any other offering circular, prospectus, form of application, advertisement or other material may only be distributed to (i) Luxembourg qualified investors as defined in the Prospectus Act, (ii) no more than 149 prospective investors, which are not qualified investors and/or (iii) in any other circumstance contemplated by the Prospectus Act.

An “offer of notes to the public” in relation to any notes in Luxembourg means the communication in any form and by any means of sufficient information on the terms of the offering and the notes to be offered so as to enable an investor to decide to purchase or subscribe to the notes.

## FRANCE

Each of the Dealers and the Issuer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that:

- (a) offer to the public in France:

it has only made and will only make an offer of Notes to the public (*offre au public*) in France in the period (i) beginning (A) when a prospectus in relation to those Notes has been approved by the *Autorité des marchés financiers* (“**AMF**”), on the date of such publication or (B) when a prospectus has been approved by the competent authority of another Member State of the European Economic Area which has implemented the EU Directive 2003/71/EC, on the date of notification of such approval to the AMF and (ii) ending at the latest on the date which is twelve months after the date of approval of such prospectus – all in accordance with Articles L.412-1 and L.621-8 of the French Code *monétaire et financier* and the *Règlement général* of the AMF; or

- (b) private placement in France:

in connection with their initial distribution, it has not offered or sold, and will not offer or sell, directly or indirectly, Notes to the public in France and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France this Base Prospectus, the relevant Final Terms or any other offering material relating to the Notes and such offers, sales and distributions have been and will be made in France only to (i) provider of investment services relating to portfolio management for the

account of third parties, and/or (ii) qualified investors (*investisseurs qualifiés*), other than individuals, all as defined in, and in accordance with, articles L.411-1, L.411-2 and D.411-1 to D.411-3 of the French Code *monétaire et financier*.

This Base Prospectus has not been submitted to the clearance procedure of the AMF.

## ITALY

To the extent that the offering of the Notes has not been registered pursuant to Italian securities legislation and, therefore, no Notes may be offered, sold or delivered, nor may copies of this Base Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except:

- (a) to qualified investors (*investitori qualificati*) as defined in Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the “**Financial Services Act**”) and Article 34-ter, first paragraph, letter b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time (“**Regulation No. 11971**”); or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of this Base Prospectus or any other document relating to the Notes in the Republic of Italy under (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the “**Banking Act**”); and
- (ii) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and
- (iii) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

Please note that in accordance with Article 100-bis of the Financial Services Act, where no exemption from the rules on public offerings applies under (a) and (b) above, the subsequent distribution of the Notes on the secondary market in Italy must be made in compliance with the public offer and the prospectus requirement rules provided under the Financial Services Act and Regulation No. 11971. Failure to comply with such rules may result in the sale of such Notes being declared null and void and in the liability of the intermediary transferring the financial instruments for any damages suffered by the investors.

## THE NETHERLANDS

Each Dealer has represented and agreed, and each further Dealer will be required to represent and agree, that any Notes with a maturity of less than twelve months and a denomination of less than Euro 50,000 will only be offered in the Netherlands to professional market parties as defined in the Financial Supervision Act and the decrees issued pursuant thereto.

## JAPAN

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended; the “**Financial Instruments and Exchange Act**”) and each Dealer has agreed and each further Dealer appointed under the Program will be required to agree that it has not offered or sold and it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Control Act (Law No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from

the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and ministerial guidelines of Japan.

## HONG KONG

Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or (ii) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”) and any rules made under the SFO; or (iii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the “C(WUMP)O”) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

## SINGAPORE

Each Dealer will be required to acknowledge that this Base Prospectus has not been registered as a Prospectus with the Monetary Authority of Singapore (the “MAS”). Accordingly, each Dealer will be required to represent, warrant and agree that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) (the “SFA”)) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions, specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is: (a) a corporation (which is not an accredited investor as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except: (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA; (ii) where no consideration is or will be given for the transfer; (iii) where the transfer is by operation of law; (iv) as specified in Section 276(7) of the SFA; or (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

## AUSTRALIA

No prospectus or other disclosure document (as defined by the Corporations Act 2001 of Australia (the “Corporations Act”)) in relation to the Program or any Notes has been, or will be, lodged with the Australian Securities and Investments Commission (“ASIC”).

Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that unless the applicable Final Terms (or a supplement to this Base Prospectus) otherwise provides, it:

- (a) has not made offers or invited applications (directly or indirectly), and will not make offers or invite applications, for the issue, sale or purchase of the Notes in Australia (including an offer or invitation which is received by a person in Australia); and
- (b) has not distributed or published, and will not distribute or publish, this Base Prospectus, any Supplement, any other prospectus, any disclosure document, advertisement or other offering material relating to the Notes in Australia,

unless:

- (i) the offeree is a “wholesale client” within the meaning of section 761G(4) of the Corporations Act;
- (ii) the aggregate consideration payable by each offeree is at least A\$500,000 (or its equivalent in any alternative currency but, in either case, disregarding moneys lent by the offeror or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with Parts 6D.2 or 7.9 of the Corporations Act;
- (iii) such action complies with all applicable laws, regulations and directives (including, without limitation, the licensing requirements of Chapter 7 of the Corporations Act); and
- (iv) such action does not require any document to be lodged with ASIC.

Section 708(19) of the Corporations Act provides that an offer of debentures for issue or sale does not need disclosure to investors under Part 6D.2 of the Corporations Act if the Issuer is an Australian ADI (as defined in the Corporations Act). As at the date of this Base Prospectus, Banco Santander-Chile is an Australian ADI for the purposes of the Corporations Act.

## **SWITZERLAND**

The Dealers have agreed, and each further Dealer appointed under the Program will be required to agree, that it will comply with any laws, regulations or guidelines in Switzerland from time to time, including, but not limited to, any regulations made by the Swiss Federal Banking Commission and/or the Swiss National Bank (if any) in relation to the offer, sale, delivery or transfer of the Notes or the distribution of any offering material in Switzerland in respect of such Notes.

## **DUBAI**

This Base Prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (“DFSA”). This Base Prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Base Prospectus nor taken steps to verify the information set forth herein and has no responsibility for the Base Prospectus. The shares to which this Base Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the shares offered should conduct their own due diligence on the shares. If you do not understand the contents of this Base Prospectus you should consult an authorized financial advisor.

## **BRAZIL**

The offer of Notes described in this Base Prospectus will not be carried out by any means that would constitute a public offering in Brazil under Law No. 6,385, of December 7, 1976, as amended, and under CVM Rule (Instrução) No. 400, of December 29, 2003, as amended. The offer and sale of the ADSs have not been and will not be registered with the Comissão de Valores Mobiliários in Brazil. The Notes have not been offered or sold, and will not be offered or sold in Brazil, except in circumstances that do not constitute a public offering or distribution under Brazilian laws and regulations.

## **PERU**

In Peru, this offering will be considered a public offering directed exclusively to institutional investors under CONASEV Resolution No. 079-2008-EF/94.01.1.

The Notes and this Base Prospectus have been registered with the SMV in accordance with the procedure set forth in SMV Resolution No. 004-2011-EF/94.01.1, applicable to international offerings with a placement tranche in Peru executed in reliance with Rule 144A of the Act.

In order to purchase the Notes, institutional investors in Peru must sign a statement representing that they understand (i) differences which exist among the accounting and tax treatment in Peru and the country or countries where the Notes will be traded, and (ii) the terms and conditions of the Notes.

## **CHILE**

The Notes will not be registered under Law 18,045, as amended, of Chile with the Superintendencia de Valores y Seguros (Chilean Securities Commission), and accordingly, they may be not be offered to persons in Chile, except in circumstances that do not constitute a public offering under Chilean law.

## **CANADA**

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Base Prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* ("NI 33-105"), the Dealers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

## **GENERAL**

Each Dealer has represented and agreed and each further Dealer appointed under the Program will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other additional restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

## **GENERAL INFORMATION**

### **USE OF PROCEEDS**

The net proceeds from each issue of Notes will be used for financing the business of the Issuer, as the case may be. A substantial portion of the proceeds from the issue of certain Notes may be used to hedge market risk with respect to such Notes. If in respect of any particular issue there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

### **AUTHORIZATION**

The establishment of the Program and the issue of Notes thereunder have been duly authorized by the Board of Directors of the Issuer.

The establishment of the Program is considered to be in the ordinary course of the Issuer's business and therefore was not authorized by board resolutions.

The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorizations in connection with the issue and performance of its obligations under the Notes.

### **LEGAL, GOVERNMENTAL AND ARBITRATION PROCEEDINGS**

The Issuer is not, or during the last twelve months has not, been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had in the recent past, significant effects on the Issuer's financial position or profitability.

### **STATEMENT OF NO MATERIAL ADVERSE CHANGE**

There has been no material adverse change in the prospects of the Issuer since December 31, 2017.

### **SIGNIFICANT CHANGE IN THE ISSUER'S FINANCIAL POSITION**

There has been no significant change in the financial position of Santander Group since March 31, 2018.

### **CLEARING SYSTEMS**

The relevant Final Terms will specify which clearing system or systems (including CBF, DTC, CBL and/or Euroclear) has/have accepted the relevant Notes for clearance and provide any further appropriate information. The Issuer's Legal Entity Identifier Code is 3YJP8HORPAEXJ80D6368.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium; the address of CBL is Clearstream Banking, 42 Avenue JF Kennedy, L-2967, Luxembourg; the address of CBF is Clearstream Banking AG, Frankfurt, Neue Börsestrasse 1, 60487 Frankfurt, Germany; and the address of DTC is 55 Water Street, New York, NY 10041.

### **LISTING AND ADMISSION TO TRADING INFORMATION**

Application has been made to Euronext Dublin for Notes issued under the Program to be admitted to the Official List and to trading on the Main Securities Market.

The Program provides that Notes may be listed or admitted to trading on other or further stock exchanges, including but not limited to the Luxembourg Stock Exchange, the Frankfurt Stock Exchange and the SIX Swiss Exchange, as may be agreed between the Issuer and the relevant Dealer(s) in relation to each issue. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.



For so long as the Notes are admitted to the Official List and to trading on the Main Securities Market of Euronext Dublin, the Notes will be freely transferable and negotiable in accordance with the rules and requirements of Euronext Dublin.

## PLAN OF DISTRIBUTION

In connection with an offering of the Notes, one or more Dealers designated as Managers in the relevant Final Terms will initially propose to offer the Notes for resale at the issue price that appears in the relevant Final Terms. After the initial offering, the relevant Managers may change the offering price and any other selling terms. Managers may offer and sell Notes through certain of their affiliates.

In connection with any offering of Notes, the Managers may purchase and sell such Notes in the open market. These transactions may include short sales, purchases to cover positions created by short sales and stabilizing transactions.

Short sales involve the sale by a Manager of a greater principal amount of Notes than it is required to purchase in the offering. A Manager may close out any short position by purchasing Notes in the open market. A short position is more likely to be created if a Manager is concerned that there may be downward pressure on the price of the Notes in the open market prior to the completion of the offering.

Stabilizing transactions consist of various bids for or purchases of the Notes made by a Manager in the open market prior to the completion of the offering.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or slowing a decline in the market price of the Notes. Additionally, these purchases may stabilize, maintain or otherwise affect the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market. However, there is no assurance that the Managers will undertake stabilization transactions. If the Managers engage in stabilizing or short-covering transactions, they may discontinue them at any time, and if begun, must be brought to an end after a limited period. Any over-allotment stabilizing and short-covering transaction must be conducted by the relevant managers, or persons acting on their behalf, in accordance with applicable laws. These transactions may be effected in the over-the-counter market or otherwise.

Some of the Dealers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer or its affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. If any of the Managers or their affiliates has a lending relationship with the Issuer, certain of those Managers or their affiliates routinely hedge, and certain other of those Managers or their affiliates may hedge, their credit exposure to the Issuer consistent with customary risk management policies. Typically, such Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's securities, including potentially the Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of any issuance of Notes. The Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

## DOCUMENTS ON DISPLAY

So long as Notes are admitted to the Official List and trading on the Main Securities Market of Euronext Dublin, copies of the following documents will be available for inspection in physical and electronic form from the registered office of the Issuer and from the specified office of the Fiscal Agent for the time being in London:

- (a) the articles of association (with an English translation where applicable) of the Issuer;
- (b) the Issuer's 2017 IFRS Annual Report on Form 20-F for the year ended December 31, 2017, filed on March 28, 2018 with the SEC (which includes the Issuer's audited consolidated financial statements as of December 31, 2017 and 2016 and for the three years ended December 31, 2016, prepared in accordance with IFRS);
- (c) the Issuer's current report on Form 6-K, filed on April 6, 2018 with the SEC (which includes the Issuer's audited consolidated financial statements for the fiscal years ended December 31, 2017 and 2016, prepared in accordance with Chilean Bank GAAP);
- (d) the Issuer's current report on Form 6-K, filed on March 31, 2017 with the SEC (which includes the Issuer's audited consolidated financial statements for the fiscal years ended December 31, 2016 and 2015, prepared in accordance with Chilean Bank GAAP);
- (e) the Issuer's current report on Form 6-K, filed on April 12, 2018 with the SEC (which includes the Issuer's unaudited consolidated financial statements for the three months ended March 31, 2018, prepared in accordance with Chilean Bank GAAP);
- (f) the Issuer's current report on Form 6-K, filed on May 9, 2018 with the SEC (which includes the Issuer's unaudited earnings report for the three months ended March 31, 2018, prepared in accordance with Chilean Bank GAAP).
- (g) the Fourth Amended and Restated Dealer Agreement, the Fiscal Agency Agreement and the forms of the Notes;
- (h) a copy of this Base Prospectus; and
- (i) any future supplements to this Base Prospectus and Final Terms to this Base Prospectus and any other documents incorporated herein or therein by reference.

## DOCUMENTS INCORPORATED BY REFERENCE

### Documents Incorporated by Reference

The following documents, which have previously been published or are published simultaneously with this Base Prospectus and have been filed with the Central Bank of Ireland, shall be deemed to be incorporated in, and to form part of, this Base Prospectus and approved by the Central Bank of Ireland for the purpose of the Prospectus Directive:

- (a) the Issuer's Annual Report on Form 20-F for the year ended December 31, 2017, filed on March 28, 2018 with the SEC (which includes the Issuer's audited consolidated financial statements as of December 31, 2017 and 2016 and for the three years ended December 31, 2017, prepared in accordance with IFRS): [http://phx.corporate-ir.net/phoenix.zhtml?c=71614&p=irol-SECText&TEXT=aHR0cDovL2FwaS50ZW5rd2l6YXJkLmNvbS9maWxpbnmcueG1sP2lwYWdlPTEyMTUzODI0JkRTRVE9MCZTRVE9MCZTUURFU0M9U0VDVEIPTI9FTIRJUKUmc3Vic2lkPTU3](http://phx.corporate-ir.net/phoenix.zhtml?c=71614&p=irol-SECText&TEXT=aHR0cDovL2FwaS50ZW5rd2l6YXJkLmNvbS9maWxpbnmcueG1sP2lwYWdlPTEyMTUzODI0JkRTRVE9MCZTRVE9MCZTUURFU0M9U0VDVEIPTI9FTIRJUKUmc3Vic2lkPTU3;);
- (b) the Issuer's current report on Form 6-K/A, filed on June 26, 2018 with the SEC (which includes the Issuer's audited consolidated financial statements for the fiscal years ended December 31, 2017 and 2016, prepared in accordance with Chilean Bank GAAP): <http://phx.corporate-ir.net/phoenix.zhtml?c=71614&p=irol-SECText&TEXT=aHR0cDovL2FwaS50ZW5rd2l6YXJkLmNvbS9maWxpbnmcueG1sP2lwYWdlPTEyMTUzODI0JkRTRVE9MCZTRVE9MCZTUURFU0M9U0VDVEIPTI9FTIRJUKUmc3Vic2lkPTU3>;
- (c) the Issuer's current report on Form 6-K, filed on March 31, 2017 with the SEC (which includes the Issuer's audited consolidated financial statements for the fiscal years ended December 31, 2016 and 2015, prepared in accordance with Chilean Bank GAAP): <http://phx.corporate-ir.net/phoenix.zhtml?c=71614&p=irol-SECText&TEXT=aHR0cDovL2FwaS50ZW5rd2l6YXJkLmNvbS9maWxpbnmcueG1sP2lwYWdlPTEyNTAxOTI2JkRTRVE9MCZTRVE9MCZTUURFU0M9U0VDVEIPTI9FTIRJUKUmc3Vic2lkPTU3>;
- (d) the Issuer's current report on Form 6-K, filed on April 12, 2018 with the SEC (which includes the Issuer's unaudited consolidated financial statements for the three months ended March 31, 2018, prepared in accordance with Chilean Bank GAAP): <http://phx.corporate-ir.net/phoenix.zhtml?c=71614&p=irol-SECText&TEXT=aHR0cDovL2FwaS50ZW5rd2l6YXJkLmNvbS9maWxpbnmcueG1sP2lwYWdlPTEyMTg0NTk5JkRTRVE9MCZTRVE9MCZTUURFU0M9U0VDVEIPTI9FTIRJUKUmc3Vic2lkPTU3>; and
- (e) the Issuer's current report on Form 6-K, filed on May 9, 2018 with the SEC (which includes the Issuer's unaudited earnings report for the three months ended March 31, 2018, prepared in accordance with Chilean Bank GAAP): <http://phx.corporate-ir.net/phoenix.zhtml?c=71614&p=irol-SECText&TEXT=aHR0cDovL2FwaS50ZW5rd2l6YXJkLmNvbS9maWxpbnmcueG1sP2lwYWdlPTEyMjQwNzUwJkRTRVE9MCZTRVE9MCZTUURFU0M9U0VDVEIPTI9FTIRJUKUmc3Vic2lkPTU3>.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Base Prospectus shall not form part of this Base Prospectus.

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Base Prospectus.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Notes.

### Cross-reference List of Documents Incorporated by Reference

On page 1 above, in "Risk Factors in Respect of the Issuer," reference is made to the section titled "Risk Factors" appearing on pages 12 to 40 of our 2017 IFRS Annual Report filed with the SEC.

(1) *The following information is set forth in the 2017 IFRS Annual Report:*

	Page(s)
PRESENTATION OF FINANCIAL INFORMATION	4
RISK FACTORS	12-40
OPERATING AND FINANCIAL REVIEW AND PROSPECTS	58-127
Legal Proceedings	145
Material Contracts	157
DOCUMENTS ON DISPLAY	
CONSOLIDATED FINANCIAL STATEMENTS	
Report of Independent Registered Public Accounting Firm	F-2 – F-3
Consolidated Statements of Financial Position as of December 31, 2017 and 2016	F-4
Consolidated Statements of Income for the Years Ended December 31, 2017, 2016 and 2015	F-5
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2017, 2016 and 2015	F-6
Consolidated Statements of Changes in Equity for the Years Ended December 31, 2017, 2016 and 2015	F-7
Consolidated Statements of Cash Flow for the Years Ended December 31, 2017, 2016 and 2015	F-8 – F-9
Notes to the Consolidated Financial Statements as of and for the Years Ended December 31, 2017, 2016 and 2015	F-10 – F-157

(2) *The following information is set forth in the 2017 Chilean Bank GAAP Financial Statements:*

	Page(s)
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	6
Consolidated Statements of Income	7
Consolidated Statements of Other Comprehensive Income	8
Consolidated Statements of Changes in Equity	9
Consolidated Statements of Cash Flow	10 – 11
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	12 – 123

(3) *The following information is set forth in the 2016 Audited Consolidated Chilean Bank GAAP Financial Statements 6-K:*

	Page(s)
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	3
Consolidated Statements of Income	4
Consolidated Statements of Other Comprehensive Income	5
Consolidated Statements of Changes in Equity	6
Consolidated Statements of Cash Flow	7 – 8
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	9 – 145

(4) *The following information is set forth in the First Quarter 2018 Unaudited Consolidated Interim Chilean Bank GAAP Financial Statements 6-K:*

	Page(s)
CONSOLIDATED INTERIM FINANCIAL STATEMENTS	
Unaudited Consolidated Interim Statements of Financial Position	3
Unaudited Consolidated Interim Statements of Income for the Period	3
Unaudited Consolidated Interim Statements of Comprehensive Income for the Period	5
Unaudited Consolidated Interim Statements of Changes in Equity for the Period	6

	Page(s)
Unaudited Consolidated Interim Statements of Cash Flow for the Period	7
NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS	9-110

(5) *The following information is set forth in the First Quarter 2018 Chilean Bank GAAP Earnings Report 6-K:*

	Page(s)
Section 1: Key Consolidated Data	1
Section 2: Summary of Results	2
Section 3: YTD Results by Reporting Segment	6
Section 4: Loans, Deposits and Capital	7
Section 5: Analysis of Quarterly Income Statement	10
Section 6: Credit Risk Ratings	20
Section 7: Share Performance	21
Annex 1: Balance Sheet	22
Annex 2: Quarterly Income Statements	23
Annex 3: Quarterly Evolution of Main Ratios and Other Information	24

## NAMES AND ADDRESSES

### Issuer

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

Bandera 140  
Santiago  
Chile

### Arrangers

#### **Deutsche Bank Aktiengesellschaft**

Mainzer Landstr. 11-17  
60329 Frankfurt am Main  
Germany

#### **Santander Investment Securities Inc.**

45 East 53rd Street  
New York, NY 10022  
United States

### Dealers

#### **BNP Paribas, London Branch**

10 Harewood Avenue  
London  
United Kingdom  
NW1 6AA

#### **BNP Paribas Securities Corp.**

787 Seventh Avenue  
New York, NY 10019  
United States

#### **Citigroup Global Markets Inc.**

388 Greenwich Street  
New York, NY 10013  
United States

#### **Citigroup Global Markets Limited**

Citigroup Centre  
Canada Square  
Canary Wharf  
London, E14 5LB  
United Kingdom

#### **Crédit Agricole Corporate and Investment Bank**

Broadwalk House  
5 Appold Street  
London, EC2A 2DA  
United Kingdom

#### **Credit Suisse Securities (USA) LLC**

11 Madison Avenue  
New York, NY 10010  
United States

#### **Daiwa Capital Markets America Inc.**

32 Old Slip  
New York, NY 10005  
United States

#### **Deutsche Bank Aktiengesellschaft**

Mainzer Landstr. 11-17  
60329 Frankfurt am Main  
Germany

#### **Deutsche Bank Securities Inc.**

60 Wall Street  
New York, NY 10005  
United States

#### **Goldman Sachs & Co. LLC**

200 West Street  
New York, NY 10282  
United States

#### **HSBC Bank plc**

Level 2, 8 Canada Square  
London, E14 5HQ  
United Kingdom

#### **HSBC Securities (USA) Inc.**

452 Fifth Avenue  
New York, NY 10018  
United States

#### **J.P. Morgan Securities LLC**

383 Madison Avenue  
New York, NY 10179  
United States

#### **Merrill Lynch, Pierce, Fenner & Smith**

**Incorporated**  
One Bryant Park  
New York, NY 10036

#### **Mizuho International plc**

Mizuho House  
30 Old Bailey  
London, EC4M 7AU  
United Kingdom

#### **Mizuho Securities USA LLC**

320 Park Avenue, 12<sup>th</sup> Floor  
New York, NY 10022  
United States

#### **Santander Investment Securities Inc.**

45 East 53rd Street  
New York, NY 10022  
United States

#### **Scotia Capital (USA) Inc.**

250 Vesey Street  
New York, NY 10281  
United States

#### **Standard Chartered Bank**

1 Basinghall Avenue  
London  
United Kingdom  
EC2V 5DD

#### **UBS Limited**

5 Broadgate  
London, EC2M 2QS  
United Kingdom

#### **UBS Securities LLC**

1285 Avenue of the Americas, 11<sup>th</sup>  
Floor  
New York, NY 10019  
United States

#### **UniCredit Bank AG**

Arabellastrasse 12  
D-81925 Munich  
Germany

#### **Wells Fargo Securities, LLC**

550 S. Tryon St, MAC D1086-051  
Charlotte, NC 28202  
United States

**Fiscal Agent, Paying Agent, Transfer Agent and Exchange Agent**

**Bank of America, National Association, London Branch**

2 King Edward Street  
London EC1A 1HG  
United Kingdom

**Irish Registrar**

**Bank of America Merrill Lynch International Limited, Dublin Branch**

Two Park Place  
Hatch Street  
Dublin 2  
D02NP94  
Ireland

**Irish Listing Agent**

**McCann Fitzgerald Listing Services Limited**

Riverside One  
Sir John Rogerson's Quay  
Dublin 2  
D02 X576  
Ireland

**U.S. Paying Agent, U.S. Registrar and U.S. Transfer Agent**

**Bank of America, National Association**

135 South LaSalle Street  
IL4-135-18-11  
Chicago, Illinois 60603  
United States

**Legal Advisers**

*To the Issuer as to New York law*

*To the Dealers as to New York Law*

**Davis Polk & Wardwell LLP**

450 Lexington Avenue  
New York, NY 10017  
United States

**Shearman & Sterling LLP**

599 Lexington Avenue  
New York, NY 10022  
United States

*Chilean Counsel*

**Philippi, Prietocarrizosa, Ferrero DU & Uría Ltda.**

El Golf 40 piso 20,  
Las Condes, Santiago  
Chile



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First Supplement dated September 11, 2018 to  
the Base Prospectus dated June 27, 2018

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# Banco Santander Chile

(Santiago, Chile)

U.S.\$5,500,000,000  
Medium Term Notes Program

FIRST PROSPECTUS SUPPLEMENT INCORPORATING BY REFERENCE THE EARNINGS  
REPORT DATED JULY 26, 2018 (THE “SECOND QUARTER EARNINGS REPORT”) OF  
BANCO SANTANDER CHILE AND FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND  
2017, THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND AS OF JULY 30,  
2018 (THE “SECOND QUARTER FINANCIAL STATEMENTS”) AND UPDATING THE  
BASE PROSPECTUS

Banco Santander Chile (the “**Issuer**” or with its consolidated subsidiaries “**Santander Chile Group**”) has prepared this first prospectus supplement (the “**First Prospectus Supplement**”) in connection with Medium Term Notes (the “**Notes**”) issued from time to time under the Issuer’s Medium Term Note Program (the “**Program**”). The Issuer has also prepared a prospectus dated June 27, 2018 (the “**Base Prospectus**,” as amended or updated from time to time and including all information incorporated by reference therein) for use in connection with the issue of Notes under the Program. This First Prospectus Supplement amends and updates the Base Prospectus, and should be read in conjunction with the Base Prospectus and constitutes a supplement for the purposes of Article 16 of the Prospectus Directive.

The First Prospectus Supplement has been approved by the Central Bank of Ireland (the Central Bank) as competent authority under the Prospectus Directive. The Central Bank only approves this First Prospectus Supplement as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive.

The Second Quarter Earnings Report has been previously published and has been filed with the Central Bank of Ireland, and shall be deemed to be incorporated by reference in, and to form part of, this First Prospectus Supplement. The Second Quarter Earnings Report will be available for collection and inspection as set out in the section “Documents on Display” on page 124 of the Base Prospectus and is available at the following link:  
<http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9NDA4ODg2fENoaWxkSUQ9LTF8VHlwZT0z&t=1&cb=636679509005145127>.

The Second Quarter Financial Statements have been previously published and have been filed with the Central Bank of Ireland, and shall be deemed to be incorporated by reference in, and to form part of, this First Prospectus Supplement. The Second Quarter Financial Statements will be available for collection and inspection as set out in the section “Documents on Display” on page 124 of the Base Prospectus and are available at the following link:  
<http://phx.corporate-ir.net/phoenix.zhtml?c=71614&p=irol-SECText&TEXT=aHR0cDovL2FwaS>

50ZW5rd2l6YXJkLmNvbS9maWxpbnmcueG1sP2lwYWdlPTEyNDQyMzg5JkRTRVE9MCZTR  
VE9MCZTUURFU0M9U0VDVEIPT19FTIRJUKUmc3Vic2lkPTU3

The Issuer accepts responsibility for the information contained in this First Prospectus Supplement. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure such is the case) the information contained in this First Prospectus Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

This First Prospectus Supplement will be published in electronic form on the website of the Central Bank of Ireland (<http://www.centralbank.ie>) and will be available until the Base Prospectus expires on June 26, 2019.

This First Prospectus Supplement and the Base Prospectus should be read in conjunction with all documents which are deemed to be incorporated by reference, and for a particular issue of Notes in conjunction with any applicable Final Terms. If the document which is incorporated by reference to this First Prospectus Supplement itself incorporates any information or other documents therein, either expressly or implicitly, such information or other documents will not form part of this First Prospectus Supplement except where such information or other documents are specifically incorporated by reference or attached to this First Prospectus Supplement. For information specifically incorporated by reference hereto, please see “Cross-reference List of Documents Incorporated by Reference” below.

To the extent there is any inconsistency between (a) any statement in this First Prospectus Supplement or any statement incorporated by reference into the Base Prospectus by this First Prospectus Supplement and (b) any other statement in or incorporated by reference into the Base Prospectus prior to the date of this First Prospectus Supplement, the statements in (a) will prevail.

Save as disclosed in this First Prospectus Supplement, there has been no other significant new factor, material mistake or inaccuracy relating to information included in the Base Prospectus since the publication of the Base Prospectus.

**See “Risk Factors” in the Base Prospectus for a discussion of certain risks that should be considered in connection with certain types of Notes which may be offered under the Program.**

#### ***Presentation of Financial Information***

The Issuer’s financial information presented in the Second Quarter Earnings Report and the Second Quarter Financial Statements have been prepared in accordance with Chilean accounting principles issued by the Superintendency of Banks and Financial Institutions (“**Chilean Bank GAAP**”). Chilean Bank GAAP principles are substantially similar to International Financial Reporting Standards (“**IFRS**”) but there are some exceptions, and the Issuer has made no attempt to quantify these differences. For further details and a discussion on the main differences between Chilean Bank GAAP and IFRS refer to “Item 4. Information on the Company —B. Business Overview—Differences between IFRS and Chilean Bank GAAP” of the Issuer’s Annual Report on Form 20-F for the year ended December 31, 2017, as filed with the SEC on March 28, 2018 and incorporated by reference in the Base Prospectus.

There has been no significant change in the financial position of Santander Chile Group since June 30, 2018.

***Cross-reference List of Documents Incorporated by Reference***

*The following information is set forth in the Second Quarter Earnings Report:*

SECOND QUARTER 2018 EARNINGS REPORT	Page #
Section 1: Key consolidated data	1
Section 2: Summary of results	2
Section 3: YTD results by reporting segment	6
Section 4: Loans, funding and capital	7
Section 5: Analysis of quarterly income statement	10
Section 6: Credit risk ratings	19
Section 7: Share performance	20
Annex 1: Balance Sheet	21
Annex 2: YTD Income Statement	22
Annex 3: Quarterly Income Statements	23
Annex 4: Quarterly Evolution of Main Ratios and Other Information	24

*The following information is set forth in the Second Quarter Financial Statements:*

SECOND QUARTER 2018 FINANCIAL STATEMENTS	Page #
Consolidated Interim Statements of Financial Position	3
Consolidated Interim Statements of Income for the Period	4
Consolidated Interim Statements of Comprehensive Income for the Period	5
Consolidated Interim Statements of Changes in Equity	6
Consolidated Interim Statements of Cash Flows	7
Notes to the Consolidated Interim Financial Statements	9

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Second Supplement dated March 7, 2019 to  
the Base Prospectus dated June 27, 2018

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## Banco Santander Chile

(Santiago, Chile)

U.S.\$5,500,000,000  
Medium Term Notes Program

SECOND PROSPECTUS SUPPLEMENT INCORPORATING BY REFERENCE THE  
EARNINGS REPORT DATED FEBRUARY 4, 2019 (THE “FOURTH QUARTER EARNINGS  
REPORT”) AND OF BANCO SANTANDER CHILE AND UPDATING THE BASE  
PROSPECTUS

Banco Santander Chile (the “**Issuer**” or with its consolidated subsidiaries “**Santander Chile Group**”) has prepared this second prospectus supplement (the “**Second Prospectus Supplement**”) in connection with Medium Term Notes (the “**Notes**”) issued from time to time under the Issuer’s Medium Term Note Program (the “**Program**”). The Issuer has also prepared a prospectus dated June 27, 2018 (the “**Base Prospectus**,” as amended or updated from time to time and including all information incorporated by reference therein) and a first prospectus supplement dated September 11, 2018 to amend and update the Base Prospectus (the “**First Prospectus Supplement**” and, together with the Base Prospectus, the “**Prospectus**”) for use in connection with the issue of Notes under the Program. This Second Prospectus Supplement amends and updates the Prospectus, and should be read in conjunction with the Prospectus and constitutes a supplement for the purposes of Article 16 of the Prospectus Directive.

The Second Prospectus Supplement has been approved by the Central Bank of Ireland (the Central Bank) as competent authority under the Prospectus Directive. The Central Bank only approves this Second Prospectus Supplement as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive.

The Fourth Quarter Earnings Report has been previously published and has been filed with the Central Bank of Ireland, and shall be deemed to be incorporated by reference in, and to form part of, this Second Prospectus Supplement. The Fourth Quarter Earnings Report will be available for collection and inspection as set out in the section “Documents on Display” on page 124 of the Base Prospectus and is available at the following link:  
<https://santandercl.gcs-web.com/static-files/d22549fc-8a63-4143-a6fb-d60b6a3326ce>.

The Issuer accepts responsibility for the information contained in this Second Prospectus Supplement. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure such is the case) the information contained in this Second Prospectus Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Second Prospectus Supplement will be published in electronic form on the website of the Central Bank of Ireland (<http://www.centralbank.ie>) and will be available until the Base Prospectus expires on June 26, 2019.

This Second Prospectus Supplement, the First Prospectus Supplement and the Base Prospectus should be read in conjunction with all documents which are deemed to be incorporated by reference, and for a particular issue of Notes in conjunction with any applicable Final Terms. If the document which is incorporated by reference in this Second Prospectus Supplement itself incorporates any information or other documents therein, either expressly or implicitly, such information or other documents will not form part of this Second Prospectus Supplement except where such information or other documents are specifically incorporated by reference or attached to this Second Prospectus Supplement. For information specifically incorporated by reference hereto, please see “Cross-reference List of Document Incorporated by Reference” below.

To the extent there is any inconsistency between (a) any statement in this Second Prospectus Supplement or any statement incorporated by reference into the Base Prospectus by this Second Prospectus Supplement and (b) any other statement in or incorporated by reference into the Base Prospectus or the First Prospectus Supplement prior to the date of this Second Prospectus Supplement, the statements in (a) will prevail.

Save as disclosed in this Second Prospectus Supplement, there has been no other significant new factor, material mistake or inaccuracy relating to information included in the First Prospectus Supplement or Base Prospectus since their respective publication dates.

**See “Risk Factors” in the Base Prospectus for a discussion of certain risks that should be considered in connection with certain types of Notes which may be offered under the Program.**

#### ***Presentation of Financial Information***

The Issuer’s financial information presented in the Fourth Quarter Earnings Report has been prepared in accordance with Chilean accounting principles issued by the Superintendency of Banks and Financial Institutions (“**Chilean Bank GAAP**”). Chilean Bank GAAP principles are substantially similar to International Financial Reporting Standards (“**IFRS**”) but there are some exceptions, and the Issuer has made no attempt to quantify these differences. For further details and a discussion on the main differences between Chilean Bank GAAP and IFRS refer to “Item 4. Information on the Company —B. Business Overview—Differences between IFRS and Chilean Bank GAAP” of the Issuer’s Annual Report on Form 20-F for the year ended December 31, 2017, as filed with the SEC on March 28, 2018 and incorporated by reference in the Base Prospectus.

There has been no significant change in the financial position of Santander Chile Group since December 31, 2018.

#### ***Cross-reference List of Document Incorporated by Reference***

*The following information is set forth in the Fourth Quarter Earnings Report:*

FOURTH QUARTER 2018 EARNINGS REPORT	Page #
Section 1: Key consolidated data	2
Section 2: Summary of results	3

Section 3: YTD results by reporting segment	7
Section 4: Loans, funding and capital	8
Section 5: Analysis of quarterly income statement	11
Section 6: Credit risk ratings	21
Section 7: Share performance	22
Annex 1: Balance Sheet	23
Annex 2: YTD Income Statement	24
Annex 3: Quarterly Income Statements	25
Annex 4: Quarterly Evolution of Main Ratios and Other Information	26

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Third Supplement dated March 22, 2019 to the  
Base Prospectus dated June 27, 2018

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## **Banco Santander Chile**

(Santiago, Chile)

U.S.\$5,500,000,000  
Medium Term Notes Program

THIRD PROSPECTUS SUPPLEMENT INCORPORATING THE CONSOLIDATED AUDITED  
FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018  
(THE “AUDITED FINANCIAL STATEMENTS”) AND OF BANCO SANTANDER CHILE  
AND UPDATING THE BASE PROSPECTUS

Banco Santander Chile (the “**Issuer**” or with its consolidated subsidiaries “**Santander Chile Group**”) has prepared this third prospectus supplement (the “**Third Prospectus Supplement**”) in connection with Medium Term Notes (the “**Notes**”) issued from time to time under the Issuer’s Medium Term Note Program (the “**Program**”). The Issuer has also prepared a prospectus dated June 27, 2018 (the “**Base Prospectus**,” as amended or updated from time to time and including all information incorporated by reference therein), a first prospectus supplement dated September 11, 2018 to amend and update the Base Prospectus (the “**First Prospectus Supplement**”) and a second prospectus supplement dated March 7, 2019 to amend and update the Base Prospectus (the “**Second Prospectus Supplement**” and, together with the First Prospectus Supplement and Base Prospectus, the “**Prospectus**”) for use in connection with the issue of Notes under the Program. This Third Prospectus Supplement amends and updates the Prospectus, and should be read in conjunction with the Prospectus and constitutes a supplement for the purposes of Article 16 of the Prospectus Directive.

The Third Prospectus Supplement has been approved by the Central Bank of Ireland (the Central Bank) as competent authority under the Prospectus Directive. The Central Bank only approves this Third Prospectus Supplement as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive.

The Audited Financial Statements are attached hereto as Annex I and have been filed with the Central Bank of Ireland, and shall be deemed to form part of this Third Prospectus Supplement. The Audited Financial Statements will be available for collection and inspection as set out in the section “Documents on Display” on page 124 of the Base Prospectus.

The Issuer accepts responsibility for the information contained in this Third Prospectus Supplement. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure such is the case) the information contained in this Third Prospectus Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Third Prospectus Supplement will be published in electronic form on the website of the Central Bank of Ireland (<http://www.centralbank.ie>) and will be available until the Base Prospectus expires on June 26, 2019.

This Third Prospectus Supplement, the First Prospectus Supplement, the Second Prospectus Supplement and the Base Prospectus should be read in conjunction with all documents which are deemed to be incorporated by reference, and for a particular issue of Notes in conjunction with any applicable Final Terms. If Annex I hereto itself incorporates any information or other documents therein, either expressly or implicitly, such information or other documents will not form part of this Third Prospectus Supplement except where such information or other documents are specifically incorporated by reference or attached to this Third Prospectus Supplement.

To the extent there is any inconsistency between (a) any statement in this Third Prospectus Supplement or any statement incorporated by reference into the Base Prospectus by this Third Prospectus Supplement and (b) any other statement in or incorporated by reference into the Base Prospectus, the First Prospectus Supplement or Second Prospectus Supplement prior to the date of this Third Prospectus Supplement, the statements in (a) will prevail.

Save as disclosed in this Third Prospectus Supplement, there has been no other significant new factor, material mistake or inaccuracy relating to information included in the First Prospectus Supplement, the Second Prospectus Supplement or Base Prospectus since their respective publication dates.

**See “Risk Factors” in the Base Prospectus for a discussion of certain risks that should be considered in connection with certain types of Notes which may be offered under the Program.**

#### ***Presentation of Financial Information***

The Issuer’s financial information presented in the Audited Financial Statements has been prepared in accordance with Chilean accounting principles issued by the Superintendency of Banks and Financial Institutions (“**Chilean Bank GAAP**”). Chilean Bank GAAP principles are substantially similar to International Financial Reporting Standards (“**IFRS**”) but there are some exceptions, and the Issuer has made no attempt to quantify these differences. For further details and a discussion on the main differences between Chilean Bank GAAP and IFRS refer to “Item 4. Information on the Company —B. Business Overview—Differences between IFRS and Chilean Bank GAAP” of the Issuer’s Annual Report on Form 20-F for the year ended December 31, 2017, as filed with the SEC on March 28, 2018 and incorporated by reference in the Base Prospectus.

There has been no significant change in the financial position of Santander Chile Group since December 31, 2018.



## **Annex I**



**CONSOLIDATED  
FINANCIAL  
STATEMENTS 2018**

**Banco Santander Chile**

BANCO SANTANDER CHILE

Consolidated financial statements

At December 31, 2018

CONTENTS

Statements of financial position  
Statements of income  
Statements of other comprehensive income  
Statements of changes in equity  
Statements of cash flows  
Notes to the financial statements

\$ - Chilean pesos  
M\$ - Thousands of Chilean pesos  
US\$ - US Dollars  
MUS\$ - Thousands of US Dollars  
UF - Unidades de fomento





## INDEPENDENT AUDITOR'S REPORT

(A free translation from the original in Spanish)

Santiago, February 28, 2019

To the Shareholders and Directors  
Banco Santander Chile

We have audited the accompanying consolidated financial statements of Banco Santander Chile and its subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, the consolidated statements of income, other comprehensive income, changes in equity and cash flows for the years then ended, and the related notes thereto.

### *Management's Responsibility for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting standards and instructions issued by the Superintendence of Banks and Financial Institutions. This responsibility includes designing, implementing and maintaining internal control relevant for the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conduct our audits in accordance with Chilean generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement

An audit involves performing procedures to obtain audit evidence on the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant for the preparation and fair presentation of the consolidated financial statements of the entity in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express such kind of opinion. An audit also includes evaluating the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Santiago, February 28, 2019  
Banco Santander Chile

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*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Banco Santander Chile and its subsidiaries as of December 31, 2018 and 2017, and the results of its operations, and its cash flows for the years then ended, in conformity with accounting standards and instructions issued by the Superintendencia of Banks and Financial Institutions.



Claudio Gerdtzen S.  
RUT: 12.264.594-0



PricewaterhouseCoopers

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**Banco Santander Chile and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION FOR THE YEAR**

	NOTE	As of December 31,	
		2018	2017
		MCh\$	MCh\$
<b>ASSETS</b>			
Cash and deposits in banks	5	2,065,441	1,452,922
Cash items in process of collection	5	353,757	668,145
Trading investments	6	77,041	485,736
Investments under resale agreements	7	-	-
Financial derivative contracts	8	3,100,635	2,238,647
Interbank loans, net	9	15,065	162,599
Loans and accounts receivables from customers, net	10	29,470,270	26,747,542
Available for sale investments	11	2,394,323	2,574,546
Held to maturity investments		-	-
Investments in associates and other companies	12	32,293	27,585
Intangible assets	13	66,923	63,219
Property, plant, and equipment	14	253,586	242,547
Current taxes	15	-	-
Deferred taxes	15	382,934	385,608
Other assets	16	984,988	755,183
<b>TOTAL ASSETS</b>		<b>39,197,356</b>	<b>35,804,279</b>
<b>LIABILITIES</b>			
Deposits and other demand liabilities	17	8,741,417	7,768,166
Cash items in process of being cleared	5	163,043	486,726
Obligations under repurchase agreements	7	48,545	268,061
Time deposits and other time liabilities	17	13,067,819	11,913,945
Financial derivative contracts	8	2,517,728	2,139,488
Interbank borrowing	18	1,788,626	1,698,357
Issued debt instruments	19	8,115,233	7,093,653
Other financial liabilities	19	215,400	242,030
Current taxes	15	8,093	6,435
Deferred taxes	15	15,395	9,663
Provisions	21	329,940	324,329
Other liabilities	22	900,408	745,363
<b>TOTAL LIABILITIES</b>		<b>35,911,647</b>	<b>32,696,216</b>
<b>EQUITY</b>			
<b>Attributable to the equity holders of the Bank</b>		<b>3,239,546</b>	<b>3,066,180</b>
Capital	24	891,303	891,303
Reserves	24	1,923,022	1,781,818
Valuation adjustments	24	10,890	(2,312)
<b>Retained earnings</b>		<b>414,331</b>	<b>395,371</b>
Retained earnings from prior years		-	-
Income for the year		591,902	564,815
Minus: Provision for mandatory dividends	24	(177,571)	(169,444)
<b>Non-controlling interest</b>	26	<b>46,163</b>	<b>41,883</b>
<b>TOTAL EQUITY</b>		<b>3,285,709</b>	<b>3,108,063</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>39,197,356</b>	<b>35,804,279</b>

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

**Banco Santander Chile and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF INCOME FOR THE YEAR**  
For the year ended

	NOTE	December 31,	
		2018 MCh\$	2017 MCh\$
<b>OPERATING INCOME</b>			
Interest income	27	2,244,317	2,058,446
Interest expense	27	(829,949)	(731,755)
<b>Net interest income</b>		<b>1,414,368</b>	<b>1,326,691</b>
Fee and commission income	28	484,463	455,558
Fee and commission expense	28	(193,578)	(176,495)
<b>Net fee and commission income</b>		<b>290,885</b>	<b>279,063</b>
Net income (expense) from financial operations	29	53,174	2,796
Net foreign exchange gain	30	51,908	126,956
Other operating income	35	39,526	87,163
<b>Net operating profit before provision for loan losses</b>		<b>1,849,861</b>	<b>1,822,669</b>
Provision for loan losses	31	(325,085)	(299,205)
<b>NET OPERATING PROFIT</b>		<b>1,524,776</b>	<b>1,523,464</b>
Personnel salaries and expenses	32	(397,564)	(396,967)
Administrative expenses	33	(245,089)	(230,103)
Depreciation and amortization	34	(79,280)	(77,823)
Impairment of property, plant, and equipment	34	(39)	(5,644)
Other operating expenses	35	(45,740)	(96,014)
<b>Total operating expenses</b>		<b>(767,712)</b>	<b>(806,551)</b>
<b>OPERATING INCOME</b>		<b>757,064</b>	<b>716,913</b>
Income from investments in associates and other companies	12	5,095	3,963
<b>Income before tax</b>		<b>762,159</b>	<b>720,876</b>
Income tax expense	15	(165,897)	(143,613)
<b>NET INCOME FOR THE YEAR</b>		<b>596,262</b>	<b>577,263</b>
Attributable to:			
Equity holders of the Bank		591,902	564,815
Non-controlling interest	26	4,360	12,448
Earnings per share attributable to Equity holders of the Bank:			
(expressed in Chilean pesos)			
Basic earnings	24	3.141	2.997
Diluted earnings	24	3.141	2.997

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.



**Banco Santander Chile and Subsidiaries**
**CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE YEAR**
**For the year ended**

	NOTE	December 31,	
		2018 MCh\$	2017 MCh\$
<b>NET INCOME FOR THE YEAR</b>		<b>596,262</b>	<b>577,263</b>
<b>OTHER COMPREHENSIVE INCOME - ITEMS WHICH MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS</b>			
Availablefor sale investments	24	4,569	(5,520)
Cash flow hedge	24	13,365	(5,850)
<b>Other comprehensive income which may be reclassified subsequently to profit or loss, before tax</b>		<b>17,934</b>	<b>(11,370)</b>
Income tax related to items which may be reclassified subsequently to profit or loss		(4,816)	2,754
<b>Other comprehensive income for the period which may be reclassified subsequently to profit or loss, net of tax</b>		<b>13,118</b>	<b>(8,616)</b>
<b>OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS</b>		<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>609,380</b>	<b>568,647</b>
Attributable to:			
Equity holders of the Bank		605,104	555,863
Non-controlling interest	26	4,276	12,784

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

**Banco Santander Chile and Subsidiaries**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**For the year ended**

	RESERVES			VALUATION ADJUSTMENTS			RETAINED EARNINGS					Total Equity MCh\$
	Capital MCh\$	Reserves and other retained earnings MCh\$	Effects of merger of companies under common control MCh\$	Available for sale investments MCh\$	Cash flow hedge MCh\$	Income tax effects MCh\$	Retained earnings of prior years MCh\$	Income for the year MCh\$	Provision for mandatory dividends MCh\$	Attributable to equity holders of the Bank MCh\$	Non- controlling interest MCh\$	
<b>Equity as of December 31, 2016</b>	<b>891,303</b>	<b>1,642,336</b>	<b>(2,224)</b>	<b>6,449</b>	<b>2,288</b>	<b>(2,097)</b>	-	<b>472,351</b>	<b>(141,700)</b>	<b>2,868,706</b>	<b>29,341</b>	<b>2,898,047</b>
Distribution of income from previous period	-	-	-	-	-	-	472,351	(472,351)	-	-	-	-
<b>Equity as of January 1, 2017</b>	<b>891,303</b>	<b>1,642,336</b>	<b>(2,224)</b>	<b>6,449</b>	<b>2,288</b>	<b>(2,097)</b>	<b>472,351</b>	-	<b>(141,700)</b>	<b>2,868,706</b>	<b>29,341</b>	<b>2,898,047</b>
Increase or decrease of capital and reserves	-	-	-	-	-	-	-	-	-	-	-	-
Dividends distributions/ withdrawals made	-	-	-	-	-	-	(330,645)	-	-	<b>(330,645)</b>	-	<b>(330,645)</b>
Transfer of retained earnings to reserves	-	141,706	-	-	-	-	(141,706)	-	-	-	(242)	<b>(242)</b>
Provision for mandatory dividends	-	-	-	-	-	-	-	(27,744)	-	<b>(27,744)</b>	-	<b>(27,744)</b>
<b>Subtotals</b>	-	<b>141,706</b>	-	-	-	-	<b>(472,351)</b>	-	<b>(27,744)</b>	<b>(358,389)</b>	<b>(242)</b>	<b>(358,631)</b>
Other comprehensive income	-	-	-	(5,990)	(5,850)	2,888	-	-	-	<b>(8,952)</b>	336	<b>(8,616)</b>
Income for the year	-	-	-	-	-	-	-	564,815	-	<b>564,815</b>	12,448	<b>577,263</b>
<b>Subtotals</b>	-	-	-	<b>(5,990)</b>	<b>(5,850)</b>	<b>2,888</b>	-	564,815	-	<b>555,863</b>	<b>12,784</b>	<b>568,647</b>
<b>Equity as of December 31, 2017</b>	<b>891,303</b>	<b>1,784,042</b>	<b>(2,224)</b>	<b>459</b>	<b>(3,562)</b>	<b>791</b>	-	<b>564,815</b>	<b>(169,444)</b>	<b>3,066,180</b>	<b>41,883</b>	<b>3,108,063</b>
<b>Equity as of December 31, 2017</b>	<b>891,303</b>	<b>1,784,042</b>	<b>(2,224)</b>	<b>459</b>	<b>(3,562)</b>	<b>791</b>	-	<b>564,815</b>	<b>(169,444)</b>	<b>3,066,180</b>	<b>41,883</b>	<b>3,108,063</b>
Distribution of income from previous period	-	-	-	-	-	-	564,815	(564,815)	-	-	-	-
<b>Equity as of January 1, 2018</b>	<b>891,303</b>	<b>1,784,042</b>	<b>(2,224)</b>	<b>459</b>	<b>(3,562)</b>	<b>791</b>	-	<b>564,815</b>	<b>(169,444)</b>	<b>3,066,180</b>	<b>41,883</b>	<b>3,108,063</b>
Increase or decrease of capital and reserves	-	-	-	-	-	-	-	-	-	-	-	-
Dividends distributions/ withdrawals made	-	-	-	-	-	-	(423,611)	-	-	(423,611)	-	(423,611)
Transfer of retained earnings to reserves	-	141,204	-	-	-	-	(141,204)	-	-	-	4	4
Provision for mandatory dividends	-	-	-	-	-	-	-	(8,127)	-	(8,127)	-	(8,127)
<b>Subtotals</b>	-	<b>141,204</b>	-	-	-	-	<b>(564,815)</b>	-	<b>(8,127)</b>	<b>(431,738)</b>	<b>4</b>	<b>(431,734)</b>
Other comprehensive income	-	-	-	4,655	13,365	(4,818)	-	-	-	13,202	(84)	13,118
Income for the year	-	-	-	-	-	-	-	591,902	-	591,902	4,360	596,262
<b>Subtotals</b>	-	-	-	<b>4,655</b>	<b>13,365</b>	<b>(4,818)</b>	-	591,902	-	<b>605,104</b>	<b>4,276</b>	<b>609,380</b>
<b>Equity as of December 31, 2018</b>	<b>891,303</b>	<b>1,925,246</b>	<b>(2,224)</b>	<b>5,114</b>	<b>9,803</b>	<b>(4,027)</b>	-	<b>591,902</b>	<b>(177,571)</b>	<b>3,239,546</b>	<b>46,163</b>	<b>3,285,709</b>

**Banco Santander Chile and Subsidiaries**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**For the year ended**

<b>Period</b>	<b>Total attributable to equity holders of the Bank MCh\$</b>	<b>Allocated to reserves MCh\$</b>	<b>Allocated to dividends MCh\$</b>	<b>Percentage distributed %</b>	<b>Number of shares</b>	<b>Dividend per share (in chilean pesos)</b>
Year 2017 (Shareholders Meeting April 2018)	564,815	141,204	423,611	75	188,446,126,794	2.248
Year 2016 (Shareholders Meeting April 2017)	472,351	141,706	330,645	70	188,446,126,794	1.775

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

**Banco Santander Chile and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the years ended

	NOTE	December 31,	
		2018 MCh\$	2017 MCh\$
<b>A – CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
<b>NET INCOME FOR THE YEAR</b>		<b>596,262</b>	<b>577,263</b>
<b>Debits (credits) to income that do not represent cash flows</b>		<b>(1,234,617)</b>	<b>(1,198,140)</b>
Depreciation and amortization	34	79,280	77,823
Impairments of property, plant, and equipment	34	39	5,644
Provision for loan losses	31	413,566	382,520
Mark to market of trading investments		1,438	1,438
Income from investments in associates and other companies	12	(5,095)	(3,963)
Net gain on sale of assets received in lieu of payment	35	(23,503)	(28,477)
Provision on assets received in lieu of payment	35	816	3,912
Profit on sale of participation in other companies		-	-
Utility for sale controlled unities		-	-
Net gain on sale of property, plant, and equipment	35	(2,490)	(23,229)
Charge off of assets received in lieu of payment	35	15,037	30,027
Net interest income	27	(1,414,368)	(1,326,691)
Net fee and commission income	28	(290,885)	(279,063)
Other debits (credits) to income that do not represent cash flows		(8,271)	(29,903)
Changes in deferred taxes	15	(181)	(8,178)
<b>Increase/decrease in operating assets and liabilities</b>		<b>1,660,877</b>	<b>219,661</b>
(Increase) decrease of loans and accounts receivables from customers, net		(2,703,700)	(629,605)
(Increase) decrease of financial investments		588,918	752,611
Decrease (increase) due to resale agreements (assets)		-	6,736
Decrease (increase) of interbank loans		147,534	110,036
(Increase) decrease of assets received or awarded in lieu of payment		3,656	10,243
Increase (decrease) of debits in customers checking accounts		521,476	127,968
Increase (decrease) of time deposits and other time liabilities		1,153,874	(1,237,764)
Increase (decrease) of obligations with domestic banks		(480)	(364,956)
Increase (decrease) of other demand liabilities or time obligations		451,775	110,883
Increase (decrease) of obligations with foreign banks		90,754	146,947
Increase (decrease) of obligations with Central Bank of Chile		(5)	(2)
Increase (decrease) of obligations under repurchase agreements		(219,516)	55,624
Increase (decrease) in other financial liabilities		(26,630)	2,014
Net increase of other assets and liabilities		(903,390)	(166,361)
Redemption of letters of credit		(8,989)	(11,772)
Mortgage bond issuances		-	-
Senior bond issuances		1,156,057	911,581
Redemption mortgage bonds and payments of interest		(5,911)	(5,736)
Redemption and maturity of of senior bonds and payments of interest		(289,837)	(1,167,656)
Interest received		2,244,317	2,058,446
Interest paid		(829,949)	(731,755)
Dividends received from investments in other companies	12	38	116
Fees and commissions received	28	484,463	455,558
Fees and commissions paid	28	(193,578)	(176,495)
<b>Total cash flow provided by (used in) operating activities</b>		<b>1,022,522</b>	<b>(401,216)</b>

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

**Banco Santander Chile and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the years ended

	NOTE	December 31,	
		2018 MCh\$	2017 MCh\$
<b>B – CASH FLOWS FROM INVESTMENT ACTIVITIES:</b>			
Purchases of property, plant, and equipment	14	(68,329)	(58,771)
Sales of property, plant, and equipment	14	6,297	17,939
Purchases of investments in associates and other companies	12	-	(3)
Disposals of investments in companies		-	-
Purchases of intangible assets	13	(29,563)	(32,624)
<b>Total cash flow provided by (used in) investment activities</b>		<b>(91,595)</b>	<b>(73,459)</b>
<b>C – CASH FLOW FROM FINANCING ACTIVITIES:</b>			
<b>From shareholder's financing activities</b>		<b>423,611</b>	<b>(345,544)</b>
Increase in other obligations		-	-
Placement of subordinated bonds		-	-
Redemption of subordinated bonds and payments of interest		-	(14,898)
Dividends paid		(423,611)	(330,645)
<b>From non-controlling interest financing activities</b>		<b>-</b>	<b>(242)</b>
Dividends and/or withdrawals paid		-	(242)
<b>Total cash flow used in financing activities</b>		<b>(423,611)</b>	<b>(345,785)</b>
<b>D – NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b>		<b>507,316</b>	<b>(820,460)</b>
<b>E – EFFECTS OF FOREIGN EXCHANGE RATE FLUCTUATIONS</b>		<b>114,498</b>	<b>(31,398)</b>
<b>F – INITIAL BALANCE OF CASH AND CASH EQUIVALENTS</b>		<b>1,634,341</b>	<b>2,486,199</b>
<b>FINAL BALANCE OF CASH AND CASH EQUIVALENTS</b>	<b>5</b>	<b>2,256,155</b>	<b>1,634,341</b>

		December 31,	
		2018 MCh\$	2017 MCh\$
<b>Reconciliation of provisions for the Consolidated Statements of Cash Flows for the periods</b>			
Provision for loan losses for cash flow purposes		413,566	382,520
Recovery of loans previously charged off		(88,481)	(83,315)
<b>Provision for loan losses - net</b>	<b>31</b>	<b>325,085</b>	<b>299,205</b>

Reconciliation of liabilities arising from financing activities	December, 31 2017 MCh\$	Cash Flow MCh\$	Changes other than cash				Fair Value Changes MCh\$	December, 31 2018 MCh\$
			Acquisition MCh\$	Foreign Currency Movement MCh\$	UF Movement MCh\$			
Subordinated Bonds	773,192	-	-	-	22,765	-	795,957	
Dividends paid	-	(423,611)	-	-	-	-	(423,611)	
Other	-	-	-	-	-	-	-	
<b>Total liabilities from financing activities</b>	<b>773,192</b>	<b>(423,611)</b>	<b>-</b>	<b>-</b>	<b>22,765</b>	<b>-</b>	<b>372,346</b>	

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

## Banco Santander Chile and Subsidiaries

### Notes to the Consolidated Financial Statements

AS OF DECEMBER 31, 2018 AND 2017

#### NOTE 01

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### CORPORATE INFORMATION

Banco Santander Chile is a banking corporation (limited company) operating under the laws of the Republic of Chile, headquartered at Bandera N°140, Santiago. The corporation provides a broad range of general banking services to its customers, ranging from individuals to major corporations. Banco Santander Chile and its subsidiaries (collectively referred to as the "Bank" or "Banco Santander Chile") offers commercial and consumer banking services, including (but not limited to) factoring, collection, leasing, securities and insurance brokering, mutual and investment fund management, and investment banking.

Banco Santander Spain controls Banco Santander Chile through its holdings in Teatinos Siglo XXI Inversiones Ltda. and Santander Chile Holding S.A., which are controlled subsidiaries of Banco Santander Spain. As of December 31, 2018, Banco Santander Spain owns or controls directly and indirectly 99.5% of Santander Chile Holding S.A. and 100% of Teatinos Siglo XXI Inversiones Ltda. This makes Banco Santander Spain have control over 67.18% of the Bank's shares.

##### 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), the Chilean regulatory agency. Article 15 of the General Banking Law states that banks must apply accounting standards established by SBIF. For those issues not covered by the SBIF, the Bank must apply generally accepted standards issued by the Colegio de Contadores de Chile A.G (Association of Chilean Accountants), which conform with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). In the event that any discrepancies exist between IFRS and accounting standards issued by the SBIF (Compendium of Accounting Standards and Instructions), the latter shall prevail.

For purposes of these financial statements the Bank uses certain terms and conventions. References to "US\$", "U.S. dollars" and "dollars" are to United States dollars, references to "EUR" are to European Economic Community Euro, references to "CNY" are to Chinese Yuan, references to "JPY" are to "Japanese Yen", references to "CHF" are to Swiss franc, references to "Chilean pesos", "pesos" or "Ch\$" are to Chilean pesos, and references to "UF" are to Unidades de Fomento. The UF is an inflation-indexed Chilean monetary unit with a value in Chilean pesos that changes daily to reflect changes in the official Consumer Price Index ("CPI") of the Instituto Nacional de Estadísticas (the Chilean National Institute of Statistics) for the previous month.

The Notes to the Consolidated Financial Statements contain additional information to support the figures submitted in the Consolidated Statement of Financial Position, Consolidated Statement of Income, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year. These contain narrative descriptions and details of these statements in a clear, relevant, reliable and comparable manner.

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

The Consolidated Financial Statements as of December 31, 2018 and 2017, incorporate the financial statements of the Bank entities over which the Bank has control (including structured entities); and includes the adjustments, reclassifications and eliminations needed to comply with the accounting and valuation criteria established by IFRS. Control is achieved when the Bank:

- I. Has power over the investee (i.e., it has rights that grant the current capacity of managing the relevant activities of the investee)
- II. is exposed, or has rights, to variable returns from its involvement with the investee; and
- III. has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities over the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- The size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- The potential voting rights held by the Bank, other vote holders or other parties;
- The rights arising from other agreements; and

## Banco Santander Chile and Subsidiaries

### Notes to the Consolidated Financial Statements

AS OF DECEMBER 31, 2018 AND 2017

#### NOTE 01

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control over the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated Statement of Income and in the Consolidated Financial Statement of Comprehensive Income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit in certain circumstances.

When necessary, adjustments are made to the financial statements of the subsidiaries to ensure their accounting policies are consistent with the Bank's accounting policies. All balances and transactions between consolidated entities are eliminated.

Changes in the consolidated entities ownership interests in subsidiaries that do not result in a loss of control over the subsidiaries are accounted for as equity transactions. The carrying values of the Bank's equity and the non-controlling interests' equity are adjusted to reflect the changes to their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Bank.

In addition, third parties' shares in the Bank's consolidated equity are presented as "Non-controlling interests" in the Consolidated Statement of Changes in Equity. Their share in the income for the year is presented as "Attributable to non-controlling interest" in the Consolidated Statement of Income.

The following companies are considered entities controlled by the Bank and are therefore within the scope of consolidation:

#### i. Entities controlled by the Bank through participation in equity

Name of the Subsidiary	Main Activity	Place of Incorporation and operation	Percent ownership share					
			December 31,					
			2018			2017		
Direct	Indirect	Total	Direct	Indirect	Total			
%	%	%	%	%	%			
Santander Corredora de Seguros Limitada	Insurance brokerage	Santiago, Chile	99.75	0.01	99.76	99.75	0.01	99.76
Santander Corredores de Bolsa Limitada	Financial instruments brokerage	Santiago, Chile	50.59	0.41	51.00	50.59	0.41	51.00
Santander Agente de Valores Limitada (*)	Securities brokerage	Santiago, Chile	99.03	-	99.03	99.03	-	99.03
Santander S.A. Sociedad Securitizadora	Purchase of credits and issuance of debt instruments	Santiago, Chile	99.64	-	99.64	99.64	-	99.64

The details of non-controlling interest in all the subsidiaries can be seen in Note 26 – Non-controlling interest (minority).

(\*) On July 25, 2018, the company has stopped conducting foreign currency purchase and sale operations, henceforth this operation is directly in the bank.

#### ii. Entities controlled by the Bank through other considerations

The following companies have been consolidated as of December 31, 2018 and 2017 based on the fact that the activities relevant on them are determined by the Bank (companies complementary to the banking sector) and therefore the Bank exercises control:

- Santander Gestión de Recaudación y Cobranza Limitada (collection services)
- Bansa Santander S.A. (management of repossessed assets and leasing of properties)

**NOTE 01**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**iii. Associates**

An associate is an entity over which the Bank has the ability to exercise significant influence, but not control or joint control. This ability is usually represented by a share equal to or higher than 20% of the voting rights of the Company and is accounted for using the equity method.

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

Associates	Main activity	Place of Incorporation and operation	Percentage of ownership share	
			As of December 31,	
			2018	2017
			%	%
Redbanc S.A.	ATM services	Santiago, Chile	33.43	33.43
Transbank S.A.	Debit and credit card services	Santiago, Chile	25.00	25.00
Centro de Compensación Automatizado S.A.	Electronic fund transfer and compensation services	Santiago, Chile	33.33	33.33
Sociedad Interbancaria de Depósito de Valores S.A.	Repository of publically offered securities	Santiago, Chile	29.29	29.29
Cámara de Compensación de Pagos de Alto Valor S.A.	Payments clearing	Santiago, Chile	15.00	14.23
Administrador Financiero del Transantiago S.A.	Administration of boarding passes to public transportation	Santiago, Chile	20.00	20.00
Sociedad Nexus S.A.	Credit card processor	Santiago, Chile	12.90	12.90
Servicios de Infraestructura de Mercado OTC S.A.	Administration of the infrastructure for the financial market of derivative instruments	Santiago, Chile	12.48	12.48

During the year 2017, the entities Rabobank Chile in Liquidation and Banco París, assigned to Banco Santander a portion of its participation in "Sociedad Operadora de la Cámara de Compensación de pagos de Valores S.A.", with which the Bank's participation increased to 15.00%.

In the case of Nexus S.A. and Compensation Chamber for High-Value Payments S.A., Banco Santander Chile has a representative in the Board of Directors of such companies, which is why the Administration has concluded that it exercises significant influence over the same.

In the case of Market Infrastructure Services OTC S.A. The Bank participates, through its executives, actively in the administration and in the organizational process, which is why the Administration has concluded that it exerts significant influence about it.

**iv. Share or rights in other companies**

Entities over which the Bank has no control or significant influences are presented in this category. These holdings are shown at acquisition value (historical cost) less impairment, if any.

**c) Non-controlling interest**

Non-controlling interest represents the portion of gains or 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 entities controlled by the Bank through other considerations, income and equity are presented in full as non-controlling interest, since the Bank controls them, but does not have any ownership.

**d) Reporting segments**

Operating segments with similar economic characteristics often exhibit similar long-term financial performance. Two or more segments can be combined only if aggregation is consistent with International Financial Reporting Standard 8 "Operating Segments" (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;



## **Banco Santander Chile and Subsidiaries**

### **Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2018 AND 2017

#### **NOTE 01**

##### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

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

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

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

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

Information about other business activities of the segments not separately reported is combined and disclosed in the Corporate Activities ("others") category.

According to the information presented, the Bank's segments were selected based on an operating segment being a component of an entity that:

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

##### **e) Functional and presentation currency**

The Bank, in accordance with IAS 21 "Effects of Variations in Exchange Rates of the Foreign Currency", has defined as functional and presentation currency the Chilean Peso, which is the currency of the primary economic environment in which the Bank operates, it also obeys the currency that influences the structure of costs and revenues.

Therefore, all balances and transactions denominated in currencies other than the Chilean Peso are considered as "Foreign currency".

##### **f) Foreign currency transactions**

The Bank performs transactions in foreign currencies, mainly the U.S. dollar. Assets and liabilities denominated in foreign currencies and held by the Bank are translated to Chilean pesos based on the representative market rate published by Reuters at 1:30 p.m. on the month end date. The rate used was Ch\$697.76 per US\$1 for December, 2018 (Ch\$616,85 per US\$1 for December, 2017).

The amount of net foreign exchange gains 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.

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

###### **i. Definitions**

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

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

**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

A "financial derivative" is a financial instrument whose value changes in response to changes with regard to an observed market variable (such as an interest rate, a foreign exchange rate, a financial instrument's 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. During the year 2018 and 2017, Banco Santander did not keep implicit derivatives in its portfolio.

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

Financial assets are classified into the following specified categories: financial assets trading investments at fair value through profit or loss (FVTPL), 'held to maturity investments', 'available for sale investments' (AFS) financial assets and 'loans and accounts receivable from customers'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Regular way purchases or sales of financial assets require delivery of the asset within the time frame established by regulation or convention in the marketplace.

Financial assets are initially recognized at fair value plus, in the case of financial assets that aren't accounted for at fair value with changes in profit or loss, transaction costs that are directly attributable to the acquisition or issue.

**Effective interest method**

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

Income is recognised on an effective interest basis for loans and accounts receivables other than those financial assets classified at fair value through profit or loss.

**Financial assets FVTPL – (Trading investments)**

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

A financial asset is classified as held for trading if:

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

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

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

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

**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**Held to maturity investments**

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

**Available for sale investments (AFS investments)**

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

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

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

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

**Loans and accounts receivables from customers**

Loans and accounts receivable from customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and accounts receivables from customers (including loans and accounts receivable from customers and owed by banks) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where discounting effects are immaterial.

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

For presentation purposes, the financial assets are classified by their nature into the following line items in the Consolidated Financial Statements:

- Cash and deposits in banks: this line includes cash balances, checking accounts and on-demand deposits with the Central Bank of Chile and other domestic and foreign financial institutions. Amounts invested as overnight deposits are included in this item and in the corresponding items.
- Cash items in process of collection: this item includes values of documents in process of transfer and balances from operations that, as agreed, are not settled the same day, and purchase of currencies not yet received.
- Trading investments: this item includes financial instruments held-for-trading and investments in mutual funds which must be adjusted to their fair value.
- 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 accounted for as derivatives held for hedging, as shown in Note 8.
  - 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 being in a hedging relationship, including the embedded derivatives separated from the hybrid financial instruments.

**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

- Interbank loans: this item includes the balances of transactions with domestic and foreign banks, including the Central Bank of Chile, other than those reflected in certain other financial asset classifications listed above.
- Loans and accounts receivables from placements: 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 rewards incidental to the leased asset, the transaction is presented in loans and accounts receivable from customers while the leased asset is removed from the Bank's financial statements.
- Investment instruments: are classified into two categories: held-to-maturity investments, and available-for-sale investments. The held-to-maturity investment classification includes only those instruments for which the Bank has the ability and intent to hold to maturity. The remaining investments are treated as available for sale.

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

Financial liabilities are classified as either financial liabilities FVTPL or other financial liabilities:

**Financial liabilities FVTPL**

As of December 31, 2018 and 2017, the Bank does not have financial liabilities with changes in results.

**Other financial liabilities**

Other financial liabilities (including loans and accounts payable) are subsequently measured at amortised cost using the effective interest method.

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

Financial liabilities are classified by their nature into the following items in the Consolidated Statement of Financial Position:

- Deposits and other on-demand liabilities: this includes all on-demand obligations except for term savings accounts, which are not considered on-demand instruments in view of their special characteristics. Obligations whose payment may be required during the period are deemed to be on-demand obligations. Operations which become callable the day after the closing date are not treated as on-demand obligations.
- Cash items in process of collection: this item includes balances from asset purchase operations that are not settled the same day, and sale of currencies not yet delivered.
- Obligations under repurchase agreements: this includes the balances of sales of financial instruments under securities repurchase and loan agreements. The Bank does not record as own portfolio instruments acquired under repurchase agreements.
- Time deposits and other time liabilities: this 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 includes financial derivative contracts with negative fair values, whether they are for trading or for hedge accounting, as set forth in Note 8.
  - 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 being in a hedging relationship, including the embedded derivatives separated from the hybrid financial instruments.
- Interbank borrowings: this includes obligations due to other domestic banks, foreign banks, or the Central Bank of Chile, other than those reflected in certain other financial liability classifications listed above.
- Issued debt instruments: there are four types of instruments issued by the Bank: obligations under letters of credit, subordinated bonds, mortgage bonds and senior bonds placed in the local and foreign market.

**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

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

**h) Valuation of financial instruments and recognition of fair value changes**

Generally, financial assets and liabilities are initially recognized at fair value, which, in the absence of evidence against it, is deemed to be the transaction price. Financial instruments, other than those measured at fair value through profit or loss, are initially recognized at fair value plus transaction costs. Subsequently, and at the end of each reporting period, financial instruments are measured with the following criteria:

**i. Valuation of financial instruments**

Financial assets are measured according to their fair value, gross of any transaction costs that may be incurred in the course of a sale, except for credit investments and held to maturity investments.

According to IFRS 13 *Fair Value Measurement*, "fair value" is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When measuring fair value an entity shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either: (a) in the principal market for the asset or liability, or (b) in the absence of a principal market, the most advantageous market for the asset or liability. Even when there is no observable market to provide pricing information in connection with the sale of an asset or the transfer of a liability at the measurement date, the fair value measurement shall assume that the transaction takes place, considered from the perspective of a potential market participant who intends to maximize value associated with the asset or liability.

When using valuation techniques, the Bank shall maximize the use of relevant observable inputs and minimize the use of unobservable inputs as available. If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy (i.e. Level 1, 2 or 3). IFRS 13 establishes a fair value hierarchy that categorizes into three levels the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

Every derivative is recorded in the Consolidated Statements of Financial Position at fair value as previously described. This value is compared to the valuation at the trade date. If the fair value is subsequently measured positive, this is recorded as an asset, if the fair value is subsequently measured negative, this is recorded as a liability. The fair value on 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 (expense) from financial operations" in the Consolidated Statement of Income.

Specifically, the fair value of financial derivatives included in the portfolios of financial assets or liabilities held for trading is deemed to be their daily quoted price. If, for exceptional reasons, the quoted price cannot be determined on a given date, the fair value is determined using similar methods to those used to measure over the counter (OTC) derivatives. The fair value of OTC derivatives is the sum of the future cash flows resulting from the instrument, discounted to present value at the date of valuation ("present value" or "theoretical close") using valuation techniques commonly used by the financial markets: "net present value" (NPV) and option pricing models, among other methods. Also, within the fair value of derivatives are included Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA), all with the objective that the fair value of each instrument includes the credit risk of its counterparty and Bank's own risk. Counterparty Credit Risk (CVA) is a valuation adjustment to derivatives contracted in non-organized markets as a result of exposure to counterparty credit risk. The CVA is calculated considering the potential exposure to each counterparty in future periods. Own-credit risk (DVA) is a valuation adjustment similar to the CVA, but generated by the Bank's credit risk assumed by our counterparties. As of December 31, 2018, the CVA and DVA are Ch \$ 9,702 million and Ch \$ 17,295 million, respectively.

**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

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

The “effective interest rate” is the discount rate that exactly matches the initial amount of a financial instrument to all its estimated cash flows over its remaining life. For fixed-rate financial instruments, the effective interest rate incorporates the contractual interest rate established on the acquisition date. Where applicable, the fees and transaction costs that are a part of the financial return are included. For floating-rate financial instruments, the effective interest rate matches the current rate of return until the date of the next review of interest rates.

The amounts at which the financial assets are recorded represent the Bank’s maximum exposure to credit risk as at the 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 under leasing agreements, assets acquired under repurchase agreements, securities loans and derivatives.

**ii. Valuation techniques**

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

In cases where price quotations cannot be observed in available markets, the Bank’s management determines a 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 however for some valuations of financial instruments, significant inputs are unobservable in the market. To determine a value for those instruments, various techniques are employed to make these estimates, including the extrapolation of observable market data.

The most reliable evidence of the fair value of a financial instrument on initial recognition usually is the transaction price, however due to lack of availability of market information, the value of the instrument may be derived from other market transactions performed with the same or similar instruments or may be measured by using a valuation technique in which the variables used include only observable market data, mainly interest rates.

The main techniques used as of December 31, 2018 and 2017 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 calculated by the aforementioned internal models considers contractual terms and observable market data, which include interest rates, credit risk, exchange rates, quoted market price of shares and raw materials, volatility, prepayments and liquidity. The Bank’s management considers that its 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.

**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**iii. Hedging transactions**

The Bank uses financial derivatives for the following purposes:

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

All financial derivatives that are not held for hedging purposes 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 value of assets and liabilities due to fluctuations, among others, in inflation (UF), 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. For fair value hedges, the gains or losses arising on both hedging instruments and the hedged items (attributable to the type of risk being hedged) are included as "Net income (expense) from financial operations" in the Consolidated Statement of Income.
- b. For fair value hedges of interest rate risk on a portfolio of financial instruments, gains or losses that arise in measuring hedging instruments and other gains or losses due to changes in fair value of the underlying hedged item (attributable to the hedged risk) are recorded in the Consolidated Financial Statement of Income under "Net income (expense) from financial operations".
- c. For cash flow hedges, the change in fair value of the hedging instrument is included as "Cash flow hedge" in "Other comprehensive income", until the hedged transaction occurs, thereafter being reclassified to the Consolidated Statement of Income, unless the hedged transaction results in the recognition of non-financial assets or liabilities, in which case it is included in the cost of the non-financial asset or liability.
- d. The differences in valuation of the hedging instrument corresponding to the ineffective portion of the cash flow hedging transactions are recorded directly in the Consolidated Statement of Income under "Net income (expense) from financial operations".

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

**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

When cash flow hedges are discontinued, any cumulative gain or loss of the hedging instrument recognized under "Other comprehensive income" (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 Statement of Income, unless the transaction is no longer expected to occur, in which case any cumulative gain or loss is recorded immediately in the Consolidated Statement of Income.

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

Derivatives embedded in other financial instruments or in other host contracts are accounted for separately as derivatives if 1) their risks and characteristics are not closely related to the host contracts, 2) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and 3) provided that the host contracts are not classified as "Trading investments" or as other financial assets (liabilities) at fair value through profit or loss.

**v. Offsetting of financial instruments**

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

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

The accounting treatment of transfers of financial assets is determined by the extent and the manner in 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 of ownership to third parties, as in the case of unconditional sales of financial assets, sales under repurchase agreements at fair value at the date of repurchase, sales of financial assets with a purchased call option or written put option deeply out of the money, utilization of assets in which the transferor does not retain subordinated debt nor grants any credit enhancement to the new holders, and other similar cases, the transferred financial asset is derecognized from the Consolidated Statement of Financial Position and any rights or obligations retained or created in the transfer are simultaneously recorded.
- ii. If the Bank retains substantially all the risks and rewards of ownership associated with the transferred financial asset, as in the case of sales of financial assets under repurchase agreements at a fixed price or at the sale price plus interest, securities lending agreements under which the borrower undertakes to return the same or similar assets, and other similar cases, the transferred financial asset is not derecognized from the Consolidated Financial 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:
  - An associated financial liability for an amount equal to the consideration received; this liability is subsequently measured at amortized cost.
  - Both the income from the transferred (but not removed) financial asset as well as any expenses incurred due to the new financial liability.
- iii. If the Bank neither transfers nor substantially retains all the risks and rewards of ownership associated with the transferred financial asset—as in the case of sales of financial assets with a purchased call option or written put option that is not deeply in or out of the money, securitization of assets in which the transferor retains a subordinated debt or other type of credit enhancement for a portion of the transferred asset, and other similar cases, the following distinction is made:
  - a. If the transferor does not retain control of the transferred financial asset: the asset is derecognized from the Consolidated Statement of Financial Position and any rights or obligations retained or created in the transfer are recognized.
  - b. If the transferor retains control of the transferred financial asset: it continues to be recognized in the Consolidated 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.



**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

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

**i) Recognizing income and expenses**

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

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

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

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

This interest and adjustments are generally referred to as "suspended" and are recorded in they are reported as part of the complementary information thereto and as memorandum accounts (Note 27). This interest is recognized as income, when collected.

The resumption of interest income recognition of previously impaired loans only occurs when such loans become current (i.e. payments were received such that the loans are contractually past-due for less than 90 days) or they are no longer classified under the C3, C4, C5, or C6 risk categories (for loans individually evaluated for impairment).

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

Fee and commission income and expenses are recognized in the Consolidated Interim Statement of Income using criteria established in IFRS 15 "Revenue from contracts with customers", using retrospectively with the cumulative effect recognised at the date of initial application method and therefore has not restated the prior comparative information, which continues to be reporting under IAS 18 "Revenue recognition".

Under IFRS 15, the Bank recognize revenue when (or as) satisfied a performance obligations by transferring a service (ie an asset) to a customer; under this definition an asset is transferred when (or as) the customer obtains control of that asset. The Bank considers the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

The Bank transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, and/or the Bank satisfies the performance obligation at a point in time.

Under IAS 18 "Revenue recognition", fees and commission income and expense are recognized in according to their nature. The main criteria are: Fee and commission income and expenses on financial assets and liabilities are recognized when they are earned. Those arising from transactions or services that are performed over a period of time are recognized over the life of these transactions or services. Those relating to services provided in a single transaction are recognized when the single transaction is performed.

The main income arising from commissions, fees and similar items correspond to:

- Fees and commissions for lines of credits and overdrafts: includes accrued fees related to granting lines of credit and overdrafts in checking accounts.
- Fees and commissions for guarantees and letters of credit: includes accrued fees in the period relating to granting of guarantee payment for current and contingent third party obligations.
- Fees and commissions for card services: includes accrued and earned commissions in the period related to use of credit cards, debit cards and other cards
- Fees and commissions for management of accounts: includes accrued commissions for the maintenance of checking, savings and other accounts
- Fees and commissions for collections and payments: includes income arising from collections and payments services provided by the Bank.
- Fees and commissions for intermediation and management of securities: includes income from brokerage, placements, administration and securities custody services.

**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

- Fees and commissions for insurance brokerage fees: includes income arising for insurances distribution.
- Other fees and commissions: includes income arising from currency changes, financial advisory, cashier check issuance, placement of financial products and online banking services.

The main expense arising from commissions, fees and similar items correspond to:

- Compensation for card operation: includes commission expenses for credit and debit card operations related to income commissions card services.
- Fees and commissions for securities transactions: includes commissions expense for deposits, securities custody service and securities' brokerage.
- Other fees and commissions: includes mainly expenses generated from online services.

The Bank has incorporated disaggregated revenue disclosure and reportable segment relationship in Note 25.

Additionally, the Bank maintains certain loyalty programs associated to its credit cards services, for which it has deferred a percentage of the consideration received in the statement of financial position to comply with its related performance obligation, or has liquidated on a monthly basis as far they arise.

**iii. Non-financial income and expenses**

Non-financial income and expenses are recognized for accounting purposes on an accrual basis.

**iv. Commissions in the formalization of loans**

The financial commissions that arise in the formalization of loans, fundamentally the opening or study and information commissions, are periodized and recorded in the consolidated long-term result of the life of the loan.

**j) Impairment**

**i. Financial assets:**

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

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

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

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 the consolidated statement of income in the caption "provisions for credit risk". Any impairment loss related to a financial asset available for sale previously recorded in equity is transferred to income.

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. The reversal of an impairment loss shall not exceed the carrying amount that would have been determined if no impairment loss has been recognized for the asset in prior years. The reversal is recorded in income with the exception of available for sale equity financial assets, in which case it is recorded in other comprehensive income.

**ii. Non-financial assets:**

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

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

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

This category includes the amount of buildings, land, furniture, vehicles, computer hardware and other fixed assets 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 includes but is not limited to 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. These assets are presented at acquisition cost less the related accumulated depreciation and, if applicable, any impairment losses resulting from comparing the net value of each item to the respective recoverable amount.

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

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

<b>ITEM</b>	<b>Useful life (in months)</b>
Land	-
Paintings and works of art	-
Carpets and curtains	36
Computers and hardware	36
Vehicles	36
IT systems and software	36
ATMs	60
Other machines and equipment	60
Office furniture	60
Telephone and communication systems	60
Security systems	60
Rights over telephone lines	60
Air conditioning systems	84
Other installations	120
Buildings	1,200

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

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

Maintenance expenses relating to tangible assets held for own use are recorded as an expense in the period in which they are incurred.

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

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

**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, 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 a consolidated entity is the lessor of an asset, the sum of the present value of the lease payments receivable from the lessee, including the exercise price of the lessee's purchase option at the end of the lease term, which is equivalent to one additional lease payment and so is reasonably certain to be exercised, is recognized as lending to third parties and is therefore included under "Loans and accounts receivable from customers" in the Consolidated Statement of Financial Position.

When a consolidated entity is a lessee, it reports the cost of leased assets in the Consolidated Statement of Financial Position based on the nature of the leased asset, and simultaneously records 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 price of the purchase option). The depreciation policy for these assets is the same as that for property, plant and equipment for own use.

In both cases, the finance income and finance expenses arising from these contracts are credited and debited, respectively, to "Interest income" and "Interest expense" in the Consolidated 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 a consolidated entity is the lessor, it reports the acquisition cost of the leased assets under "Property, plant and equipment". The depreciation policy for these assets is the same as that for similar items of property, plant and equipment held for own use and revenues from operating leases is recorded on a straight line basis under "Other operating income" in the Consolidated Statement of Income.

When a consolidated entity is the lessee, the lease expenses, including any incentives granted by the lessor, are charged on a straight line basis to "Other operating expenses" in the Consolidated Statement of Income.

**iii. Sale and leaseback transactions**

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

**m) Factored receivables**

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

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

**n) Intangible assets**

Intangible assets are identified as non-monetary assets (separately identifiable from other assets) without physical substance which arise as a result of legal or contractual rights. The Bank recognizes an intangible asset, whether purchased or self-created (at cost), when the cost of the asset can be measured reliably and it is probable that the future economic benefits that are attributable to the asset will flow to the Bank.

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

Intangible assets are amortized on a straight-line basis over their estimated useful life; which has been defined as 36 months.

**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

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

**o) Cash and cash equivalents**

The indirect method is used to prepare the consolidated cash flow statement, starting 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 investing or financing activities.

The cash flow statement was prepared considering the following definitions:

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

**p) Allowances for loan losses**

The Bank continuously evaluates the entire loan portfolio and contingent loans, as it is established by the SBIF, to timely provide the necessary and sufficient provisions to cover expected losses associated with the characteristics of the debtors and their loans, which determine payment behavior and recovery.

The Bank has established allowances to cover probable losses on loans and account receivables in accordance with instructions issued by Superintendency of Banks and Financial Institutions (SBIF) and models of credit risk rating and assessment approved by the Board's Committee, including the amendments introduced by Circular No. 3.573 (and its further modifications) applicable as of January 1, 2016 which establishes a standard method for residential mortgage loans and complements and specifies instructions on provisions and loans classified in the impaired portfolio, and subsequent amendments.

The Bank uses the following models established by the SBIF, to evaluate its loan portfolio and credit risk:

- Individual assessment - where the Bank assesses a debtor as individually significant when their loans are significant, or when the debtor cannot be classified within a group of financial assets with similar credit risk characteristics, due to its size, complexity or level of exposure.
- Group assessment - a group assessment is relevant for analyzing a large number of transactions with small individual balances due from individuals or small companies. The Bank groups debtors with similar credit risk characteristics giving to each group a default probability and recovery rate based on a historical analysis. The Bank has implemented standard models for mortgage loans, established in Circular No. 3.573 (modified by Circular No. 3.584), and internal models for commercial and consumer loans.

**I. Allowances for individual assessment**

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

The analysis of the debtor is primarily focused on their credit quality and their risk category classification of the debtor and of their respective contingent loans and loans. These are assigned to one of the following portfolio categories: Normal, Substandard and Impaired. The risk factors considered are: industry or economic sector, owners or managers, financial situation and payment ability, and payment behavior.

The portfolio categories and their definitions are as follows:

- i. Normal Portfolio includes debtors with a payment ability that allows them to meet their obligations and commitments. Evaluations of the current economic and financial environment do not indicate that this will change. The classifications assigned to this portfolio are categories from A1 to A6.

## Banco Santander Chile and Subsidiaries

### Notes to the Consolidated Financial Statements

AS OF DECEMBER 31, 2018 AND 2017

#### NOTE 01

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

- ii. Substandard Portfolio includes debtors with financial difficulties or a significant deterioration of their payment ability. There is reasonable doubt concerning the future reimbursement of the capital and interest within the contractual terms, with limited ability to meet short-term financial obligations. The classifications assigned to this portfolio are categories from B1 to B4.
- iii. Impaired Portfolio includes debtors and their loans where repayment is considered remote, with a reduced or no likelihood of repayment. This portfolio includes debtors who have stopped paying their loans or that indicate that they will stop paying, as well as those who require forced debt restructuring, reducing the obligation or delaying the term of the capital or interest, and any other debtor who is over 90 days overdue in his payment of interest or capital. The classifications assigned to this portfolio are categories from C1 to C6.

#### Normal and Substandard Compliance Portfolio

As part of individual assessment, the Bank classifies debtors into the following categories, assigning them a probability of non-performance (PNP) and severity (SEV), which result in the expected loss percentages.

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

The Bank first determines all credit exposures, which includes the accounting balances of loans and accounts receivable from customers plus contingent loans, less any amount recovered through executing the financial guarantees or collateral covering the operations. The percentages of expected loss are applied to this exposure. In the case of collateral, the Bank must demonstrate that the value assigned reasonably reflects the value obtainable on disposal of the assets or equity instruments. When the credit risk of the debtor is substituted for the credit quality of the collateral or guarantor, this methodology is applicable only when the guarantor or surety is an entity qualified in a assimilable investment grade by a local or international company rating agency recognized by the SBIF. Guaranteed securities cannot be deducted from the exposure amount, only financial guarantees and collateral can be considered.

Notwithstanding the foregoing, the Bank must maintain a minimum provision of 0.5% over loans and contingent loans in the normal portfolio.

#### Impaired Portfolio

The impaired portfolio includes all loans and the entire value of contingent loans of the debtors that are over 90 days overdue on the payment of interest or principal of any loan at the end of the month. It also includes debtors who have been granted a loan to refinance loans over 60 days overdue, as well as debtors who have undergone forced restructuring or partial debt condonation.

The impaired portfolio excludes: a) residential mortgage loans, with payments less than 90 days overdue; and, b) loans to finance higher education according to Law 20.027, provided the breach conditions outlined in Circular No. 3.454 of December 10, 2008 are not fulfilled.

The provision for an impaired portfolio is calculated by determining the expected loss rate for the exposure, adjusting for amounts recoverable through available financial guarantees and deducting the present value of recoveries made through collection services after the related expenses.

Once the expected loss range is determined, the related provision percentage is applied over the exposure amount, which includes loans and contingent loans related to the debtor.

**NOTE 01**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

The allowance rates applied over the calculated exposure are as follows:

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

Loans are maintained in the impaired portfolio until their payment ability is normal, notwithstanding the write off of each particular credit that meets conditions of Title II of Chapter B-2 CNC of the SBIF. Once the circumstances that led to classification in the Impaired Portfolio have been overcome, the debtor can be removed from this portfolio once all the following conditions are met:

- i. the debtor has no obligations of the debtor with the Bank more than 30 days overdue;
- ii. the debtor has not been granted loans to pay its obligations;
- iii. at least one of the payments include the amortization of capital; Asignaciones para evaluaciones grupales
- iv. if the debtor has made partial loan payments in the last six months, two payments have already been made;
- v. if the debtor must pay monthly installments for one or more loans, four consecutive installments have been made;
- vi. the debtor does not appear to have bad debts in the information provided by the SBIF, except for insignificant amounts.

**II. Allowances for group assessments**

Group assessments are used to estimate allowances required for loans with low balances related to individuals or small companies.

Group assessments require the formation of groups of loans with similar characteristics by type of debtor and loan conditions, in order to establish both the group payment behavior and the recoveries of their defaulted loans, using technically substantiated estimates and prudential criteria. The model used is based on the characteristics of the debtor, payment history, outstanding loans and default among other relevant factors.

The Bank uses methodologies to establish credit risk, based on internal models to estimate the allowances for the group-evaluated portfolio. This portfolio includes commercial loans with debtors that are not assessed individually, mortgage and consumer loans (including installment loans, credit cards and overdraft lines). These methods allow the Bank to independently identify the portfolio behavior and establish the provision required to cover losses arising during the year.

The customers are classified according to their internal and external characteristics into profiles, using a customer-portfolio model to differentiate each portfolio's risk in an appropriate manner. This is known as the profile allocation method.

The profile allocation method is based on a statistical construction model that establishes a relationship through logistic regression between variables (for example default, payment behavior outside the Bank, socio-demographic data) and a response variable which determines the client's risk, which in this case is over 90 days overdue. Hence, common profiles are established and assigned a Probability of Non-Performance (PNP) and a recovery rate based on a historical analysis known as Severity (SEV).

Therefore, once the customers have been profiled, and the loan's profile assigned a PNP and a SEV, the exposure at default (EXP) is calculated. This exposure includes the book value of the loans and accounts receivable from the customer, plus contingent loans, less any amount that can be recovered by executing guarantees (for credits other than consumer loans).

Notwithstanding the above, on establishing provisions associated with housing loans, the Bank must recognize minimum provisions according to standard methods established by the SBIF for this type of loan. While this is considered to be a prudent minimum base, it does not relieve the Bank of its responsibility to have its own methodologies of determining adequate provisions to protect the credit risk of the portfolio.

**NOTE 01**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**Standard method of residential mortgage loan provisions**

As of January 1, 2016 and in accordance with Circular No. 3.573 issued by the SBIF, the Bank began applying the standard method of provisions for residential mortgage loans. According to this method, the expected loss factor applicable to residential mortgage loans will depend on the default of each loan and the relationship between the outstanding principal of each loan and the value of the associated mortgage guarantee (Loans to Value, LTV) at the end of each month.

The allowance rates applied according to default and LTV are the following:

<b>LTV Range</b>	<b>Days overdue at month end</b>	<b>0</b>	<b>1-29</b>	<b>30-59</b>	<b>60-89</b>	<b>Impaired portfolio</b>
LTV ≤ 40%	PNP(%)	1.0916	21.3407	46.0536	75.1614	100
	Severity (%)	0.0225	0.0441	0.0482	0.0482	0.0537
	Expected Loss (%)	0.0002	0.0094	0.0222	0.0362	0.0537
40% < LTV ≤ 80%	PNP(%)	1.9158	27.4332	52.0824	78.9511	100
	Severity (%)	2.1955	2.8233	2.9192	2.9192	3.0413
	Expected Loss (%)	0.0421	0.7745	1.5204	2.3047	3.0413
80% < LTV ≤ 90%	PNP(%)	2.5150	27.9300	52.5800	79.6952	100
	Severity (%)	21.5527	21.6600	21.9200	22.1331	22.2310
	Expected Loss (%)	0.5421	6.0496	11.5255	17.6390	22.2310
LTV > 90%	PNP(%)	2.7400	28.4300	53.0800	80.3677	100
	Severity (%)	27.2000	29.0300	29.5900	30.1558	30.2436
	Expected Loss (%)	0.7453	8.2532	15.7064	24.2355	30.2436

LTV = Loan capital/Value of guarantee

If the same debtor has more than one residential mortgage loan with the Bank and one of them over 90 days overdue, all their loans shall be allocated to the impaired portfolio, calculating provisions for each them in accordance with their respective LTV.

For residential mortgage loans related to housing programs and grants from the Chilean government, the allowance rate may be weighted by a factor of loss mitigation (LM), which depends on the LTV percentage and the price of the property in the deed of sale (S), as long as the debtor has contracted auction insurance provided by the Chilean government.

**III. Additional provisions**

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

According to No. 9 of Chapter B-1 from the SBIF Compendium of Accounting Standards, these provisions will be recorded in liabilities, similar to provisions for contingent loans.

The bank has set up additional provisions at the end of the third quarter of 2018 for an amount of MCh \$ 20,000, associated with the Bank's consumer portfolio, which have been approved by the bank's board of directors (Note 31).

**IV. Charge-offs**

As a general rule, charge-offs should be done when the contract rights over cash flow expire. In the case of loans, even if the above does not happen, the Bank will charge-off these amounts in accordance with Title II of Chapter B-2 of the Compendium of Accounting Standards (SBIF).

These charge-offs refer to the derecognition from the Consolidated Statements of Financial Position of the respective loan, including any not yet due future payments in the case of installment loans or leasing transactions (for which partial charge-offs do not exist).

Charge-offs are always recorded as a charge to loan risk allowances according to Chapter B-2 of the Compendium of Accounting Regulations, no matter the reason for the charge-off. Any payment received related to a loan previously charged-off will be recognized as recovery of loan previously charged-off at the Consolidated Statement of Income.



**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Loan and accounts receivable charge-offs are recorded for overdue, past due, and current installments when they exceed the time periods described below since reaching overdue status:

Type of loan	Term
Consumer loans with or without collateral	6 months
Other transactions without collateral	24 months
Commercial loans with collateral	36 months
Mortgage loans	48 months
Consumer leasing	6 months
Other non-mortgage leasing transactions	12 months
Mortgage leasing (household and business)	36 months

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

Any recovery on "Loans and accounts receivable from customers" previously charged-off will be recognized as a reduction in the credit risk provisions in the Consolidated Statement of Income.

Any renegotiation of a loan previously charged-off will not give rise to income, as long as the operation continues being considered as impaired. The cash payments received must be treated as recoveries of charged-off loans.

The renegotiated loan can only be included again in assets if it is no longer considered as impaired, also recognizing the capitalization income as recovery of charged-off loans.

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

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

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

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

The Consolidated Financial Statements reflect all significant provisions for which it is estimated that the probability of having to meet the obligation is more than likely than not. Provisions are quantified using the best available information regarding the consequences of the event giving rise to them and are reviewed and adjusted at the end of accounting period. Provisions are used when the liabilities for which they were originally recognized are settled. Partial or total reversals are recognized when such liabilities cease to exist or are reduced.

Provisions are classified according to the obligation covered as follows:

- Provision for employee salaries and expenses
- Provision for mandatory dividends
- Provision for contingent loan risks
- Provisions for contingencies

**r) Income taxes and deferred taxes**

The Bank records, when appropriate, deferred tax assets and liabilities for the estimated future tax effects attributable to differences between the carrying amount of assets and liabilities and their tax bases. The measurement of deferred tax assets and liabilities is based on the tax rate, in accordance with the applicable tax laws, using the tax rate that applies to the period when the deferred asset and liability will be recovered or settled. The future effects of changes in tax legislation or tax rates are recorded in deferred taxes from the date on which the law is enacted or substantially enacted.

**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**s) Use of estimates**

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

In certain cases, International Financial Reporting Standards (IFRS) require that assets or liabilities be recorded or disclosed at their fair values. The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between informed market participants at the measurement date. When available, quoted market prices in active markets have been used as the basis for measurement. When quoted market prices in active markets are not available, the Bank has estimated such values based on the best information available, including the use of internal modeling and other valuation techniques.

The Bank has established allowances to cover probable losses, to estimate allowances. These allowances must be regularly reviewed taking into consideration factors such as changes in the nature and volume of the loan portfolio, trends in forecasted portfolio quality, credit quality and economic conditions that may adversely affect the borrowers' ability to pay. Increases in the allowances for loan losses are reflected as "Provision for loan losses" in the Consolidated Statement of Income.

Loans are charged-off when the contractual rights for the cash flows expire, however, for loans and accounts receivable from customers the bank will charge-off in accordance with Title II of Chapter B-2 of the Compendium of Accounting Standards issued by the SBIF. Charge-offs are recorded as a reduction of the allowance for loan losses.

The relevant estimates and assumptions made to calculate provisions are regularly reviewed by the Bank's Management to quantify certain assets, liabilities, revenues, expenses, and commitments.

Revised accounting estimates are recorded in the period in which the estimate is revised and in any affected future period.

These estimates are based on the best available information and mainly refer to:

- Allowances for loan losses (Notes 9, 10, and 31)
- Impairment losses of certain assets (Notes 8, 9, 10, 11, and 34)
- The useful lives of tangible and intangible assets (Notes 13, 14 and 34)
- The fair value of assets and liabilities (Notes 6, 7, 8, 11 and 38)
- Commitments and contingencies (Note 23)
- Current and deferred taxes (Note 15)
- 

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

Non-current assets (or a group of assets and liabilities) that expect to be recovered mainly through the sale of these items rather than through their continued use, are classified as held for sale. Immediately prior to this classification, assets (or elements of a disposable group) are valued in accordance with the Bank's policies. The assets (or disposal group) are subsequently valued at the lower of carrying amount and fair value less selling costs.

**u) Assets received or awarded in lieu of payment**

Assets received or awarded in lieu of payment of loans and accounts receivable from clients are recognized at their fair value. A price is agreed upon by the parties through negotiation or, when the parties do not reach an agreement, at the amount at which the Bank is awarded those assets at a judicial auction. In the both cases, an independent appraisal is performed.

Any excess of the outstanding loan balance over the fair value is recognized in the Consolidated Statement of Income under "Provision for loan losses".

These assets are subsequently valued at the lower of the amount initially recorded and the net realizable value, which corresponds to its fair value (liquidity value determined through an independent appraisal) less their respective costs of sale. The difference between both are recognized in the Consolidated Statement under "Other operating expenses".

At the end of each year the Bank performs an analysis to review the "selling costs" of assets received or awarded in lieu of payments which will be applied at this date and during the following year. As of December 31, 2018 the average selling cost has been estimated at 2.2% of the appraisal value (3.4% for December 31, 2017).

Independent appraisals are obtained at least every 18 months and fair values are adjusted accordingly.

**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

In general, it is estimated that these assets will be disposed of within a term of one year from its date of award. As set forth in article 84 of the General Banking Act, those assets that are not sold within that term are charged-off in a single installment.

**v) Earnings per share**

Basic earnings per share are calculated by dividing the net income attributable to the equity holders of the Bank by the weighted average number of shares outstanding during the reported period.

Diluted earnings per share are calculated in a similar manner to basic earnings, but the weighted average number of outstanding shares is adjusted to take into consideration the potential diluting effect of stock options, warrants, and convertible debt.

As of December 31, 2018 and 2017, the Bank did not have any instruments that generated dilution.

**w) Temporary acquisition (assignment) of assets and liabilities**

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

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

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

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

**y) Provision for mandatory dividends**

As of December 31, 2018 and 2017, the Bank recorded a provision for minimum mandatory dividends. This provision is made pursuant to Article 79 of the Corporations Act, which is in accordance with the Bank's internal policy, which requires 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 unanimous vote of the outstanding shares. This provision is recorded as a deduction from "Retained earnings" – "Provision for mandatory dividends" in the Consolidated Statement of Changes in Equity with offset to Provisions.

**z) Employee benefits**

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

According to current collective labor agreements and other agreements, the Bank has an additional benefit available to its principal executives, consisting of a pension plan, whose purpose is to endow them with funds for a better supplementary pension upon their retirement.

Features of the Plan:

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

- I. Aimed at the Bank's management.
- II. The general requirement is that the beneficiary must still be employed by the Bank when reaching 60 years old.
- III. The Bank will mixed collective life and savings insurance policy for each beneficiary in the plan. Regular voluntary installments will be paid into this fund by the beneficiary and matched by the Bank.
- IV. The Bank will be responsible for granting the benefits directly.

The projected unit credit method is used to calculate the present value of the defined benefit obligation and the current service cost.

**NOTE 01**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Components of defined benefit cost include:

- current service cost and any past service cost, which are recognized in profit or loss for the period;
- net interest on the liability (asset) for net defined benefit, which is recognized in profit or loss for the period;
- new liability (asset) remeasurements for net defined benefit include:
  - (a) actuarial gains and losses;
  - (b) the performance of plan assets, and;
  - (c) changes in the effect of the asset ceiling which are recognized in other comprehensive income.

The liability (asset) for net defined benefit is the deficit or surplus, calculated as the difference between the present value of the defined benefit obligation less the fair value of plan assets.

Plan assets comprise the pension fund taken out by the Group with a third party that is not a related party. These assets are held by an entity legally separated from the Bank and exist solely to pay benefits to employees.

The Bank recognizes the present service cost and the net interest of the Personnel wages and expenses on the Consolidated Statement of Income. Given the plan's structure, it does not generate actuarial gains or losses. The plan's performance is established and fixes during the period; consequently, there are no changes in the asset's cap. Accordingly, there are no amounts recognized in other comprehensive income.

The post-employment benefits liability, recognized in the Consolidated Statement of Financial Position, represents the deficit or surplus in the defined benefit plans of the Bank. Any surplus resulting from the calculation is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions.

When employees leave the plan before meeting the requirements to be eligible for the benefit, contributions made by the Bank are reduced.

**ii. Severance provision:**

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

**iii. Cash-settled share based compensation**

The Bank allocates cash-settled share based compensation to executives of the Bank and its Subsidiaries in accordance with IFRS 2. The Bank measures the services received and the obligation incurred at fair value.

Until the obligation is settled, the Bank calculates the fair value at the end of each reporting period, as well as at the date of settlement, recognizing any change in fair value in the income statement for the period.

**aa) New accounting pronouncements**

**i. Adoption of new accounting standards and instructions issued both by the Superintendency of Banks and Financial Institutions and the International Accounting Standards Board:**

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

**1. Accounting Standards issued by the Superintendency of Banks and Financial Institutions**

**Circular No. 3.634** – Risk weighted assets, credit risk and credit limits that apply to derivatives compensated and liquidated by a clearing house- On March 9, 2018, the SBIF published this bulletin with the main objective being that Banks could recognize their own risk mitigation effects for derivatives that are compensated and liquidated by a clearing house, introducing an intermediate category to classify the credit risk equivalent for these derivatives, the risk weight granted for these assets will be 2%.

In order to determine the credit risk equivalent for these derivatives compensated and liquidated by a clearing house, the type of relationship and residual time between the bank and clearing house will have to be taken in consideration, as well as the corresponding safeguards and guarantees.

**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Additionally, the SBIF considers that the derivative operations negotiated by Banks constituted in Chile, including foreign bank branches, this limit is applicable to interbank loans, even when these operations are later compensated and liquidated in a clearing house.

These modifications are applicable from June 30, 2018 onwards. *The administration has carried out the necessary adjustments to comply with this requirement in time and form. No relevant situations exist that indicate the contrary.*

**2. Accounting Standards issued by the International Accounting Standards Board**

**IFRS 15, Income from contracts with clients** - On May 28, 2014, the IASB published IFRS 15, which aims to establish principles for reporting useful information to users of financial information about the nature, amount, timing and uncertainty of The income and cash flows generated from an entity's contracts with its customers. IFRS 15 eliminates IAS 11 Construction Contracts, IAS 18 Income, IFRIC 13 Loyalty Programs with Customers, IFRIC 15 Real Estate Construction Agreements, IFRIC 18 Transfer of Assets from Customers and SIC 31 Revenue - Exchange of Advertising Services.

On April 12, 2016, the IASB issued "Clarifications to IFRS 15 Revenue from contracts with customers", this amendments do not change the underlying principles of the standard, just clarify and offer some additional transition relief. The main topics addressed by this amendment comprise: Identifying performance obligations, Principal versus agent considerations and licensing in addition to transition relief.

This standard was applicable from January 1, 2018, with early application permitted. *Management performed a detailed review of items under the scope and its adaptation to the new five-step model of revenue recognition, and conclude that this standard did not have material impact on the Bank's financial statement.*

**Amendments to IFRS 2 Classification and measurement of share-based payment transactions** – These amendments were published on June 20, 2016, to address issues with:

- The accounting of share-based payment transactions paid in cash that include a performance condition
- The classification of share-based transactions
- Accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

This standard was applicable from January 1, 2018, with early application permitted. *Management evaluation conclude that this amendment did not have material impact on the Bank's financial statement.*

**Amendments to IFRS 4:** Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - The amendments are intended to address concerns about the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard (expected as IFRS 17 within the next six months). The amendments provide two options for entities that issue insurance contracts within the scope of IFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets (the "overlay approach");
- an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (the "deferral approach").

An entity would apply the overlay approach retrospectively to qualifying financial assets when it first applies IFRS 9 while an entity would apply the deferral approach for annual periods beginning on or after January 1, 2018. Management evaluation conclude that this amendment did not have material impact on the Bank's financial statement.

**IFRIC 22 Foreign Currency Transactions and Advance Consideration** – This interpretations issued on December 8, 2016, clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or payed at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. Also, the Interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts.

The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

IFRIC 22 was effective for annual reporting periods beginning on or after 1 January 2018. *Earlier application was permitted. Management evaluation conclude that this amendment did not have material impact on the Bank's financial statement.*

**NOTE 01**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**Annual Improvement 2014-2016**

**IFRS 1 First time adoption of IFRS** - Deletion of short-term exemptions for first-time adopters.

**IAS 28 Investments in Associates and Joint Ventures** - Measuring an associate or joint venture at fair value.

The amendments to IFRS 1 and IAS 28 were effective for annual periods beginning on or after 1 January 2018. *Management concluded that this amendment did not have a material impact on the Bank's financial statement.*

**II. New accounting standards and instructions issued by both the Superintendency of Banks and Financial Institutions and by the International Accounting Standards Board that have not come into effect as of December 31, 2018**

As of the closing date of these financial statements, new International Financial Reporting Standards had been published as well as interpretations of them and SBIF rules, which were not mandatory as of December 31, 2018. Although in some cases the application is permitted by the IASB, the Bank has not made its application on that date.

**1. Accounting Standards issued by the Superintendency of Banks and Financial Institutions**

**Circular No. 3.638**- Establishes the standard provision method for commercial loans on a group portfolio- On July 6, 2018, the SBIF published this bulletin that establishes standard methods that must be utilized by banks for credit risk provisions directed for commercial loans on a group portfolio which are incorporated in Chapter B-1 of the Compendium of Accounting Standards.

- **Method used for the Commercial Leasing Portfolio:** considers as overdue the asset type the lease (real-estate or not) and the current value-to-value relation of the asset (LTV) of the operation.
- **Method used for the Student Portfolio:** considers the type of loan granted (whether it is CAE or not), the required payment and amount overdue, in case the loan has these characteristics.
- **Method used for the Generic Commercial Portfolio:** considers as overdue and the existence of real guarantees that warrant the loan. In case of mediated guarantees, the relation between the loan and real value of the collateral is considered.

The use of the standard method to generate the provisions credits in the group commercial portfolio, will be mandatory starting on July 1, 2019, while the accounting effects of first application must be considered as a change in an accounting response according to IAS 8 , and therefore accounted in profit or loss. *The Administration is evaluating the potential impact for the adoption of this modification.*

**2. Accounting Standards issued by the International Accounting Standards Board**

**IFRS 9, Financial Instruments** - On November 12, 2009, the International Accounting Standards Board (IASB) issued IFRS 9, Financial Instruments. This Standard introduces new requirements for the classification and measurement of financial assets. IFRS 9 specifies how an entity should classify and measure its financial assets. Requires that all financial assets are classified in their entirety on the basis of the entity's business model for the management of financial assets and the characteristics of the contractual cash flows of financial assets.

On October 28, 2010, the IASB published a revised version of IFRS 9, Financial Instruments. The revised Standard retains the requirements for the classification and measurement of financial assets that was published in November 2009, but adds guidelines on the classification and measurement of financial liabilities. Likewise, it has replicated the guidelines on the recognition of financial instruments and the implementation guides related from IAS 39 to IFRS 9. These new guidelines conclude the first phase of the IASB project to replace IAS 39. The other phases, impairment and hedge accounting, have not yet been finalized.

The guidance included in IFRS 9 on the classification and measurement of financial assets has not changed from those established in IAS 39. In other words, financial liabilities will continue to be measured either at amortized cost or at fair value with changes in results. The concept of bifurcation of derivatives incorporated in a contract for a financial asset has not changed. Financial liabilities held for trading will continue to be measured at fair value with changes in results, and all other financial assets will be measured at amortized cost unless the value option is applied reasonable using the criteria currently in IAS 39.

Notwithstanding the foregoing, there are two differences with respect to IAS 39:

- The presentation of the effects of changes in fair value attributable to the credit risk of a liability; and
- The elimination of the cost exemption for liabilities derivatives to be settled through the delivery of non-traded equity instruments.

**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

On December 16, 2011, the IASB issued Mandatory Application Date of IFRS 9 and Disclosures of the Transition, deferring the effective date of both the 2009 and 2010 versions to annual periods beginning on or after January 1, 2015. Prior to the amendments, the application of IFRS 9 was mandatory for annual periods beginning on or after 2013. The amendments change the requirements for the transition from IAS 39 Financial Instruments: Recognition and Measurement to IFRS 9. In addition, they also modify IFRS 7 Financial Instruments: Disclosures to add certain requirements in the reporting period in which the date of application of IFRS 9 is included. Finally, on July 24, 2014, it is established that the date Effective application of this rule will be for annual periods beginning on January 1, 2018.

On November 19, 2013 ASB issued "Amendment to IFRS 9: hedge accounting and amendments to IFRS 9, IFRS 7 and IAS 39", which includes a new general hedge accounting model, which is more closely aligned with risk management, providing more useful information to the users of the financial statements. On the other hand, the requirements relating to the fair value option for financial liabilities were changed to address the credit risk itself, this improvement establishes that the effects of changes in the credit risk of a liability should not affect the result of the period unless the liabilities remain to negotiate; the early adoption of this modification is permitted without the application of the other requirements of IFRS 9. In addition, it conditions the effective date of entry into force upon completion of the IFRS 9 project, allowing its adoption in the same way.

On July 24, 2014, the IASB published the final version of IFRS 9 - Financial Instruments, including the regulations already issued together with a new expected loss model and minor modifications to the classification and measurement requirements for financial assets, adding a new category of financial instruments: assets at fair value with changes in other comprehensive result for certain debt instruments. It also includes an additional guide on how to apply the business model and testing of contractual cash flow characteristics.

On October 12, 2017, "Amendment to IFRS 9: Characteristics of Anticipated Cancellation with Negative Compensation" was published, which clarifies that according to the current requirements of IFRS 9, the conditions established in Test SPPI are not met if the Bank should make a settlement payment when the client decides to terminate the credit. With the introduction of this modification, in relation to termination rights, it is allowed to measure at amortized cost (or FVOCI) in the case of negative compensation.

This regulation was effective as of January 1, 2018. Early application is allowed. *The Administration in accordance with the Superintendency of Banks and Financial Institutions pronouncement, will not apply this standard meantime SBIF does not provide it as a mandatory standard for all Chilean banks.*

**Sale or Contributions of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)** - Issued on September 11, 2014, the IASB has published 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)'. The amendments address a conflict between the requirements of IAS 28 'Investments in Associates and Joint Ventures' and IFRS 10 'Consolidated Financial Statements' and clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:

- requires full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations);
- requires the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognized only to the extent of the unrelated investors' interests in that associate or joint venture.

On December 17, 2015 the IASB has published final amendments to "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture". The amendments defer the effective date of the September 2014 amendments to these standards indefinitely until the research project on the equity method has been concluded. *The Administration will be waiting for the new validity to evaluate the potential effects of this modification.*

**IFRS 16 Leases** - On January 13, 2016, the IASB issued this new regulation which replaces IAS 17 Leases, IFRIC 4 Determination of whether an agreement contains a lease, SIC 15 Operating leases - incentives and SIC 27 Evacuation of the essence of Transactions that take the legal form of a lease. The main effects of this rule apply to tenant accounting, mainly because it eliminates the dual accounting model: operational or financial leasing, this means that tenants must recognize "a right to use an asset" and a liability for Lease (the present value of lease futures payments). In the case of the landlord the current practice is maintained - that is, lessors continue to classify leases as financial and operating leases. This regulation is applicable as of January 1, 2019, with early application permitted if IFRS 15 "Customer Contract Revenue" is applied. The Administration is evaluating the potential impact of the adoption of these regulations.

The bank has established a team that has reviewed the Bank's lease agreements, the new lease accounting guidelines in IFRS 16. The standard mainly affects the accounting of the Bank's operating leases. To date, the Bank has non-cancelable operating lease commitments and short-term leases, which are recognized in the straight line as lease expenses in the results. For lease commitments that are in accordance with the standard, the Bank becomes a right to use a supplier MCh\$ 154,284 as of January 1, 2019 contract the steps for the same amount you are entitled to use the simplified transmission approach,

**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

The Bank intends to apply the simplified transition approach and will not re-express the comparative amounts for the year prior to adoption. The right-of-use assets for property leases are measured in the transition as the new rules would have always applied. All other assets for right of use are measured in the amount of the liability for the lease on adoption (adjusted for any lease expense paid in advance or accrued).

**IFRS 17 Insurance contracts** – This standard issued on May 18, 2017 replaces the current IFRS 4. IFRS 17 will mainly change accounting for all entities that issue insurance contracts and investment contracts with discretionary participation characteristics. The standard applies to annual periods beginning on or after January 1, 2021, with early application permitted provided IFRS 15, "Revenue from contracts with customers" and IFRS 9, "Financial instruments" is applied. *This norm does not apply directly to the bank, but, the Bank participates in the insurance business and will make sure that this norm is correctly applied.*

**IFRIC 23 Uncertainty over Income Tax Treatments** – This standard issued on June 7, 2017, clarifies how the recognition and measurement requirements of IAS 12 apply when there is uncertainty about tax treatments. The standard applies to annual periods beginning on or after January 1, 2019, with early application permitted. The Bank's management has considered that these amendments will not have material impact on the consolidated financial statements of the Bank.

**Amendments to IAS 28 long-term interest in Associates and Joint Ventures** - This standard was issued in October 12, 2017 to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendments are effective for periods beginning on or after January 1, 2019, early application is permitted.

**Annual Improvements to IFRS Standards 2015–2017 Cycle** -This annual improvements issued in December 12, 2017, containing the following amendments:

**IFRS 3 Business Combination and IFRS 11 Joint Arrangements** – The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interest in that business.

**IAS 12 Income taxes** – The amendments clarify that all income tax consequences of dividends should be recognized in profit or loss, regardless of how the tax arises.

**IAS 23 Borrowing cost** – The amendments clarify that if any specific borrowing remain outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

The amendments are effective for periods beginning on or after January 1, 2019, early application is permitted. *The Bank's management has considered that these amendments will not have material impact on the consolidated financial statements of the Bank.*

**Amendments to IAS 19: Plan amendment, curtailment or settlement** - The amendment was issued on February 7, 2018 and include the following changes:

- If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.
- In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

The amendments are effective for periods beginning on or after January 1, 2019, early application is permitted, but must be disclosed. *The Bank's management is evaluating if these amendments will have material impact on the Bank's consolidated financial statements.*

**Conceptual framework for financial reporting** - Issued on March 29, 2018, the purpose of the Conceptual Framework is to:

- (a) assist the International Accounting Standards Board to develop IFRS Standards that are based on consistent concepts;
- (b) assist preparers to develop consistent accounting policies when no Standard applies to a particular transaction or other event, or when a Standard allows a choice of accounting policy; and
- (c) assist all parties to understand and interpret the Standards

The Conceptual Framework is not a Standard and not overrides any Standard or any requirement in a Standard. The revised Conceptual framework introduces the following main improvements:

- Measurement: concepts on measurement, including factors to be considered when selecting a measurement basis.
- Presentation and disclosure: concepts on presentation and disclosure, including when to classify income and expenses in other comprehensive income.
- Derecognition: guidance on when assets and liabilities are removed from financial statements.

This framework is effective for periods beginning on or after January 1, 2020. *The Bank's management is evaluating if this conceptual framework will have material impact on the Bank's consolidated financial statements.*



**NOTE 02**

**ACCOUNTING CHANGES**

As of January 1, 2018, the IFRS 15 regulations have entered into force. Revenue from ordinary activities from contracts with customers, this regulation under the activities carried out by the Bank affects the income from commissions and services.

The Bank has chosen to use the modified retrospective method of the initial application of this standard as an option to transition as an adjustment to the opening balance of the accumulated earnings of the annual presentation period that includes the initial application date, therefore, not it requires the presentation of the immediately previous period according to this new accounting policy.

As part of the process of implementing this standard, the Bank conducted a process of reviewing the income from commissions and services and their associated expenses, and based on the 5-step model established in the regulations, it was concluded that the adoption of this standard it did not have material quantitative impacts, but it did have a revelation, which have been included in Note 1, letter i) Main accounting criteria used and Note No. 28 Commissions.

## **Banco Santander Chile and Subsidiaries**

### **Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2018 AND 2017

#### **NOTE 03**

#### **SIGNIFICANT EVENTS**

I.- As of December 31, 2018, the following significant events have occurred and affected the Bank's operations and Consolidated Financial Statements.

##### **a) The Board**

During the ordinary session of the Board of Directors of Banco Santander-Chile, held on February 27, 2018, the following matters were agreed:

- On the occasion of the resignation of Mr. Vittorio Corbo Lioi from his position as Director, it was held during said session, he was also exercised as Chairman of the Board of Directors, he was appointed in his place as Director and Chairman of the Board of Banco Santander-Chile Mr. Claudio Melandri Hinojosa, who will temporarily hold the position of General Manager until February 28, 2018 inclusive, in accordance with the provisions of Article 49 No. 8 of the General Banking Law.
- The Bank's General Manager has been appointed, as of March 1, 2018, Mr. Miguel Mata Huerta, who served as Deputy General Manager, the latter being charged and agreed to be abolished.

During the ordinary session of the Board of Directors of Banco Santander-Chile, held on March 27, 2018, the following matters were agreed:

- On the occasion of the resignation of the Regular Directors, Mr. Roberto Méndez Torres and Mr. Roberto Zahler Mayanz, made on this date, the Board of Directors has appointed Messrs. Félix de Vicente Mingo and Alfonso Gómez Morales as their regular Directors. independent
- Mr. Orlando Poblete Iturrate has been appointed First Vice President and Oscar Von Chrismar Carvajal as Second Vice President.
- It was agreed to call an Ordinary Meeting of Shareholders for April 24, 2018.

At the Ordinary Shareholders' Meeting of Banco Santander-Chile, held on April 24, 2018, Claudio Melandri Hinojosa, appointed Chairman and the independent directors Alfonso Gómez Morales and José Félix de Vicente Mingo, were appointed as permanent directors. previously designated by the Board.

During the ordinary session of the Board of Directors of Banco Santander-Chile, held on July 12, 2018, the following agreements were adopted:

- On the occasion of the resignation of the substitute director Mr. Raimundo Monge Zegers, the board of directors has appointed Mr. Oscar Von Chrismar Carvajal, who was the titular director.
- Mr. Rodrigo Vergara Montes has been appointed independent director.
- Mr. Rodrigo Vergara Montes and Second Vice President Mr. Orlando Poblete Iturrate have been appointed First Vice President.

##### **b) Use of profits and distribution of dividends**

At the Ordinary Shareholders' Meeting of Banco Santander-Chile held on April 24, 2018, together with approving the Consolidated Financial Statements corresponding to the year 2017, it was agreed to distribute 75% of the net profits for the year (which are denominated in the financial statements). consolidated "Profit attributable to equity holders of the Bank"), which amounted to \$ 564,815 million. These profits correspond to a dividend of \$ 2.24791611 for each share. Likewise, it is approved that the remaining 25% of the profits will be used to increase the Bank's reserves.

##### **c) Appoinment of External auditors**

In the Board indicated above, it was agreed to appoint the firm PricewaterhouseCoopers Consultores, Auditores y Compañía Limited, as external auditors of the Bank and its subsidiaries for the 2018 fiscal year.

**Banco Santander Chile and Subsidiaries****Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2018 AND 2017

**NOTE 03****SIGNIFICANT EVENTS, continued****d) Issuance of bonds – As of December 31, 2018****d.1) Senior bonds year 2018**

In the year ended December 31, 2018 the Bank has issued senior bonds in the amount of AUD 200,000,000, EUR 66,000,000, CHF 115,000,000, JPY 7,000,000,000 and USD 70,000,000 Debt issuance information is included in Note 19.

<b>Serie</b>	<b>Currency</b>	<b>Term</b>	<b>Term Original (anual)</b>	<b>Issuance date</b>	<b>Issuance amount</b>	<b>Maturity date</b>
AUD	AUD	5	3.56%	13-11-2018	20,000,000	13-11-2023
<b>Total</b>	<b>AUD</b>				<b>20,000,000</b>	
CHF	CHF	5	0.44%	21-09-2018	115,000,000	21-12-2023
<b>Total</b>	<b>CHF</b>				<b>115,000,000</b>	
EUR	EUR	7	1.00%	04-05-2018	26,000,000	28-05-2025
EUR	EUR	12	1.78%	07-06-2018	40,000,000	15-06-2030
<b>Total</b>	<b>EUR</b>				<b>66,000,000</b>	
JPY	JPY	10.5	0.65%	13-07-2018	4,000,000,000	13-01-2029
JPY	JPY	5	0.56%	30-10-2018	3,000,000,000	30-10-2023
<b>Total</b>	<b>JPY</b>				<b>7,000,000,000</b>	
USD	USD	10	3.69%	10-10-2018	50,000,000	10-10-2028
USD	USD	2	4.17%	16-11-2018	20,000,000	16-11-2020
<b>Total</b>	<b>USD</b>				<b>70,000,000</b>	

**.d.2) Subordinated bonds year 2018**

As of December 2018, the Bank did not issue subordinated bonds.

**d.3) Mortgage bonds year 2018**

As of December 2018, the Bank did not issue mortgage bonds.

**d.4) Repurchased bonds year 2018**

In the nine months ended December 31, 2018 the Bank has repurchased the following bonds:

<b>Date</b>	<b>Type</b>	<b>Currency</b>	<b>Amount</b>
04-01-2018	Senior	CLP	12,890,000,000
04-01-2018	Senior	CLP	4,600,000,000
22-01-2018	Senior	UF	24,000
05-04-2018	Senior	UF	484,000
06-04-2018	Senior	UF	184,000
23-04-2018	Senior	UF	216,000
24-04-2018	Senior	UF	4,000
25-04-2018	Senior	UF	262,000
10-05-2018	Senior	UF	800,000
07-06-2018	Senior	USD	3,090,000
11-12-2018	Senior	USD	250,000,000

## **Banco Santander Chile and Subsidiaries**

### **Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2018 AND 2017

#### **NOTE 03**

##### **SIGNIFICANT EVENTS, continued**

II.- As of December 31, 2017, the following significant events have occurred and affected the Bank's operations and Consolidated Financial Statements.

##### **a) The board**

On April 5, 2017, the bylaws of Banco Santander Chile, approved at the Extraordinary Shareholders' Meeting held on January 9, 2017, were published in the Official Gazette, whose minutes were reduced to a public deed on February 14, 2017, in Nancy de la Fuente Hernández's Notary of Santiago. Among others, a consolidated text of the bylaws was established and, after the reforms introduced, its essential clauses are the following:

- Name: Banco Santander-Chile
- Purpose: The execution or conclusion of all acts, contracts, businesses or operations that the laws, especially the General Law of Banks, allow the banks to perform without prejudice to extend or restrict their sphere of action in harmony with the legal provisions in force Or that are established in the future, without the need to amend the present statutes.
- Capital: \$ 891,302,881,691, divided into 188,446,126,794 nominative shares, with no par value, of the same and only series.
- Directory: Corresponds to a Board composed of 9 full members and 2 alternates.

At the Ordinary Shareholders' Meeting held on April 26, 2017, the Board of Directors was elected for a period of three years, consisting of nine Principal Directors and two Alternate Directors. The following persons were elected:

Principal Directors: Vittorio Corbo Lioi, Oscar von Chrismar Carvajal, Roberto Méndez Torres, Juan Pedro Santa María Pérez, Ana Dorrego de Carlos, Andreu Plaza López, Lucia Santa Cruz Sutil, Orlando Poblete Iturrate and Roberto Zahler Mayanz.

Alternate Directors: Blanca Bustamante Bravo and Raimundo Monge Zegers

##### **b) Use of Profits and Distribution of Dividends**

At the Ordinary General Shareholders' Meeting held on April 26, 2017, together with approving the Consolidated Financial Statements for 2016, it was agreed to distribute 70% of the net profits for the year (which are denominated in the consolidated financial statements "Profit attributable to holders Of the Bank "), which amounted to Ch \$ 472,351 million. These profits correspond to a dividend of \$ 1,75459102 per share.

Likewise, it was approved that the remaining 30% of the profits be destined to increase the Bank's reserves.

##### **c) Appointment of External Auditors**

At the Board mentioned above, it was agreed to appoint the firm PricewaterhouseCoopers Consultores, Auditores SpA, as external auditors of the Bank and its subsidiaries for 2017.

**Banco Santander Chile and Subsidiaries****Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2018 AND 2017

**NOTE 03****SIGNIFICANT EVENTS, continued****d) Issuance of bank bonds - As of December 31, 2017:****d.1 Senior Bonds as of December 31, 2017**

In the year ended December 31, 2017 the Bank has issued senior bonds in the amount of USD 770,000,000 and AUD 30,000,000. Debt issuance information is included in Note 19.

Serie	Currency	Amount	Term	Issuance rate	Issuance date	Issuance amount	Maturity date
DN	USD	100,000,000	3.0	Libor-USD 3M+0,80%	20-07-2017	100,000,000	27-07-2020
DN	USD	50,000,000	3.0	Libor-USD 3M+0,80%	21-07-2017	50,000,000	27-07-2020
DN	USD	50,000,000	3.0	Libor-USD 3M+0,80%	24-07-2017	50,000,000	27-07-2020
DN	USD	10,000,000	4.0	Libor-USD 3M+0,83%	23-08-2017	10,000,000	23-11-2021
DN	USD	10,000,000	4.0	Libor-USD 3M+0,83%	23-08-2017	10,000,000	23-11-2021
DN	USD	50,000,000	3.0	Libor-USD 3M+0,75%	14-09-2017	50,000,000	15-09-2020
DN	USD	500,000,000	3.0	2.50%	12-12-2017	500,000,000	15-12-2020
<b>Total</b>	<b>USD</b>	<b>770,000,000</b>				<b>770,000,000</b>	
AUD	AUD	30,000,000	10.0	3.96%	05-12-2017	30,000,000	12-12-2027
<b>Total</b>	<b>AUD</b>	<b>30,000,000</b>				<b>30,000,000</b>	

**d.2 Subordinated Bonds as of December 31, 2017**

As of December 2017, the Bank did not issue subordinated bonds.

**d.3 Mortgage bonds as of December 31, 2017**

As of December 2017, the Bank did not issue mortgage bonds.

**d.4 Repurchased bonds**

As of 2017 the Bank has repurchased the following bonds:

Date	Type	Currency	Amount
06-03-2017	Senior	USD	6,900,000
12-05-2017	Senior	UF	1,000,000
16-05-2017	Senior	UF	690,000
17-05-2017	Senior	UF	15,000
26-05-2017	Senior	UF	340,000
01-06-2017	Senior	UF	590,000
02-06-2017	Senior	UF	300,000
05-06-2017	Senior	UF	130,000
19-06-2017	Senior	UF	265,000
10-07-2017	Senior	UF	770,000
21-07-2017	Senior	UF	10,000
28-08-2017	Senior	UF	400,000
29-08-2017	Senior	UF	272,000
03-11-2017	Senior	UF	14,000
29-11-2017	Senior	UF	400,000
06-12-2017	Senior	UF	20,000
12-12-2017	Senior	CLP	10,990,000,000

**NOTE 04  
REPORTING SEGMENTS**

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

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

In order to achieve compliance with the strategic objectives established by senior management and adapt to changing market conditions, from time to time, the Bank makes adjustments in its organization, modifications that in turn impact to a greater or lesser extent, in the way in which it is managed or managed. Thus, the present disclosure provides information on how the Bank is managed as of December 31, 2018. Regarding the information corresponding to the year 2017, it has been prepared with the current criteria at the closing of these financial statements in order to achieve the duecomparability of the figures.

The Bank has the reportable segments noted below:

**Retail Banking**

Consists of individuals and small to middle-sized entities (PYMEs) with annual income less than Ch\$1,200 million. This segment gives customers a variety of services, including consumer loans, credit cards, auto loans, commercial loans, foreign exchange, mortgage loans, debit cards, checking accounts, savings products, mutual funds, stockbrokerage, and insurance brokerage. Additionally the PYMEs clients are offered government-guaranteed loans, leasing and factoring.

**Middle-market**

This segment is made up of companies and large corporations with annual sales exceeding Ch\$1,200 million. It serves institutions such as universities, government entities, local and regional governments and companies engaged in the real estate industry who carry out projects to sell properties to third parties and annual sales exceeding Ch\$800 million with no upper limit. The companies within this segment have access to many products including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, transactional services, treasury services, financial consulting, savings products, mutual funds, and insurance brokerage. Also companies in the real estate industry are offered specialized services to finance residential projects, with the aim of expanding sales of mortgage loans.

**Global Corporate Banking**

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

This segment also consists of a Treasury Division which provides sophisticated financial products, mainly to companies in the Middle-market and Global Corporate Banking segments. These include products such as short-term financing and fund raising, brokerage services, derivatives, securitization, and other tailor-made products. The Treasury area may act as brokers to transactions and also manages the Bank's investment portfolio.

**Corporate Activities ("Other")**

This segment mainly includes the results of our Financial Management Division, which develops global management functions, including managing inflation rate risk, foreign currency gaps, interest rate risk and liquidity risk. Liquidity risk is managed mainly through wholesale deposits, debt issuances and the Bank's available for sale portfolio. This segment also manages capital allocation by unit. These activities usually result in a negative contribution to income.

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

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

**Banco Santander Chile and Subsidiaries**

**Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2018 AND 2017

**NOTE 04**

**REPORTING SEGMENTS, continued**

Below are the tables showing the Bank's results by business segment, for the periods ending as of December 31, 2018 and 2017:

	December 31, 2018						
	Loans and accounts receivable from customers (1)	Net interest income	Net fee and commission income	Financial transactions net (2)	Provision for loan losses	Support expenses (3)	Segment's net contribution
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Retail Banking</b>	20,786,637	949,764	220,532	19,694	(275,351)	(553,157)	<b>361,482</b>
<b>Middle-market</b>	7,690,380	272,912	36,746	16,848	(26,314)	(92,377)	<b>207,815</b>
Commercial Banking	28,477,017	1,222,676	257,278	36,542	(301,665)	(645,534)	<b>569,297</b>
<b>Global Corporate Banking</b>	1,681,697	96,722	35,064	57,340	2,339	(64,913)	<b>126,552</b>
<b>Corporate Activities ("others")</b>	123,309	94,970	(1,457)	11,200	(25,759)	(11,486)	<b>67,468</b>
<b>Total</b>	<b>30,282,023</b>	<b>1,414,368</b>	<b>290,885</b>	<b>105,082</b>	<b>(325,085)</b>	<b>(721,933)</b>	<b>763,317</b>
Other operating income							39,526
Other operating expenses							(45,779)
Income from investments in associates and other companies							5,095
Income tax expense							(165,897)
<b>Net income for the year</b>							<b>596,262</b>

(1) Loans receivable from customers plus the balance indebted by banks, without deducting their allowances for loan losses.

(2) The sum of net income (expense) from financial operations and foreign exchange gains or losses.

(3) The sum of personnel salaries and expenses, administrative expenses, depreciation and amortization.

**Banco Santander Chile and Subsidiaries**

**Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2018 AND 2017

**NOTE 04**

**REPORTING SEGMENTS, continued**

	December 31, 2017						
	Loans and accounts receivable from customers (1)	Net interest income	Net fee and commission income	Financial transactions, net (2)	Provision for loan losses	Support expenses (3)	Segment's net contribution
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Retail Banking</b>	<b>19,233,169</b>	<b>970,332</b>	<b>206,449</b>	<b>20,595</b>	<b>(290,156)</b>	<b>(534,970)</b>	<b>372,250</b>
<b>Middle-market</b>	<b>6,775,734</b>	<b>264,663</b>	<b>36,280</b>	<b>13,751</b>	<b>(19,312)</b>	<b>(91,882)</b>	<b>203,500</b>
Commercial Banking	26,008,903	1,234,995	242,729	34,346	(309,468)	(626,852)	575,750
<b>Global Corporate Banking</b>	<b>1,633,796</b>	<b>100,808</b>	<b>27,626</b>	<b>50,714</b>	<b>4,008</b>	<b>(62,685)</b>	<b>120,471</b>
<b>Corporate Activities ("others")</b>	<b>83,215</b>	<b>(9,112)</b>	<b>8,708</b>	<b>44,692</b>	<b>6,255</b>	<b>(15,356)</b>	<b>35,187</b>
<b>Total</b>	<b>27,725,914</b>	<b>1,326,691</b>	<b>279,063</b>	<b>129,752</b>	<b>(299,205)</b>	<b>(704,893)</b>	<b>731,408</b>
Other operating income							87,163
Other operating expenses							(101,658)
Income from investments in associates and other companies							3,963
Income tax expense							(143,613)
<b>Net income for the period</b>							<b>577,263</b>

(1) Loans receivable from customers plus the balance indebted by banks, without deducting their allowances for loan losses.

(2) The sum of net income (expense) from financial operations and foreign exchange gains or losses.

(3) The sum of personnel salaries and expenses, administrative expenses, depreciation and amortization.



**Banco Santander Chile and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2018 AND 2017

**NOTE 05**  
**CASH AND CASH EQUIVALENTS**

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

<b>As of December 31,</b>		
	<b>2018</b>	<b>2017</b>
	<b>MCh\$</b>	<b>MCh\$</b>
<b>Cash and deposit in banks</b>		
Cash	824,863	613,361
Deposit in the Central Bank of Chile	953,016	441,683
Deposit in domestic banks	664	393
Deposit in foreign banks	286,898	397,485
<b>Subtotal</b>	<b>2,065,441</b>	<b>1,452,922</b>
Cash in process of collection, net	190,714	181,419
<b>Cash and cash equivalents</b>	<b>2,256,155</b>	<b>1,634,341</b>

The balance of funds held in cash and deposits in the Central Bank of Chile reflects the reserves that the Bank must maintain on average each month.

b) **Operations in process of settlement:**

Operations in process of settlement are transactions with only settlement pending, which will increase or decrease the funds of the Central Bank of Chile or of banks abroad, usually within the next 24 or 48 working hours to each end of period. These operations are as follows:

<b>As of December 31,</b>		
	<b>2018</b>	<b>2017</b>
	<b>MCh\$</b>	<b>MCh\$</b>
<b>Assets</b>		
Documents held by other banks (document to be cleared)	210,546	199,619
Funds receivable	143,211	468,526
<b>Subtotal</b>	<b>353,757</b>	<b>668,145</b>
<b>Liabilities</b>		
Funds payable	163,043	486,726
<b>Subtotal</b>	<b>163,043</b>	<b>486,726</b>
<b>Cash in process of collection, net</b>	<b>190,714</b>	<b>181,419</b>

**Banco Santander Chile and Subsidiaries****Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2018 AND 2017

**NOTE 06****TRADING INVESTMENTS**

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

	As of December 31,	
	2018	2017
	MCh\$	MCh\$
<b>Chilean Central Bank and Government securities</b>		
Chilean Central Bank Bonds	22,947	272,272
Chilean Central Bank Notes	-	-
Other Chilean Central Bank and Government securities	48,211	209,370
<b>Subtotal</b>	<b>71,158</b>	<b>481,642</b>
<b>Other Chilean securities</b>		
Time deposits in Chilean financial institutions	-	-
Mortgage finance bonds of Chilean financial institutions	-	-
Chilean financial institutions bonds	-	-
Chilean corporate bonds	-	-
Other Chilean securities	-	-
<b>Subtotal</b>	<b>-</b>	<b>-</b>
<b>Foreign financial securities</b>		
Foreign Central Banks and Government securities	-	-
Other foreign financial instruments	5,883	-
<b>Subtotal</b>	<b>5,883</b>	<b>-</b>
<b>Investments in mutual funds</b>		
Funds managed by related entities	-	4,094
Funds managed by third parties	-	-
<b>Subtotal</b>	<b>-</b>	<b>4,094</b>
<b>Total</b>	<b>77,041</b>	<b>485,736</b>

As of December 31, 2018 and 2017, there were no trading investments sold under contracts to resell to clients and financial institutions.

**Banco Santander Chile and Subsidiaries**

**Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2018 AND 2017

**NOTE 07**

**INVESTMENTS UNDER RESALE AGREEMENTS AND OBLIGATIONS UNDER REPURCHASE AGREEMENTS**

**a) Rights arising from agreements**

The Bank purchases financial instruments agreeing to resell them at a future date, As December 31, 2018 and 2017, rights associated with instruments acquired under contracts to resell are as follows.

	As December 31,							
	2018				2017			
	From 1 day and less than 3 month MCh\$	More than 3 months and less than 1 year MCh\$	More than 1year MCh\$	Total MCh\$	From 1 day and less than 3 month MCh\$	More than 3 months and less than 1 year MCh\$	More than 1 year MCh\$	Total MCh\$
<b>Securities from the Chilean Government and the Chilean Central Bank:</b>								
Chilean Central Bank Bonds	-	-	-	-	-	-	-	-
Chilean Central Bank Notes	-	-	-	-	-	-	-	-
Other securities from the Government and the Chilean Central Bank	-	-	-	-	-	-	-	-
<b>Subtotal</b>	-	-	-	-	-	-	-	-
<b>Instruments from other domestic institutions:</b>								
Time deposits in Chilean financial institutions	-	-	-	-	-	-	-	-
Mortgage finance bonds of Chilean financial institutions	-	-	-	-	-	-	-	-
Chilean financial institutions bonds	-	-	-	-	-	-	-	-
Chilean corporate bonds	-	-	-	-	-	-	-	-
Other Chilean securities	-	-	-	-	-	-	-	-
<b>Subtotal</b>	-	-	-	-	-	-	-	-
<b>Foreign financial securities:</b>								
Foreign government or central bank securities	-	-	-	-	-	-	-	-
Other Chilean securities	-	-	-	-	-	-	-	-
<b>Subtotal</b>	-	-	-	-	-	-	-	-
<b>Investments in mutual funds:</b>								
Funds managed by related entities	-	-	-	-	-	-	-	-
Funds managed by other	-	-	-	-	-	-	-	-
<b>Subtotal</b>	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	-	-

**NOTE 07**

**INVESTMENTS UNDER RESALE AGREEMENTS AND OBLIGATION UNDER REPURCHASE AGREEMENTS, continued**

**b) Obligations arising from repurchase agreements**

The bank raises funds by selling financial instruments and committing its self to buy them back at future dates, plus interest at a predetermined rate. As of December 31, 2018 and 2017, obligation related to instrument sold under repurchase agreements are as follow:

	As of December 31,							
	2018				2017			
	From 1 day and less than 3 month MCh\$	More than 3 months and less than 1 year MCh\$	More than 1 year MCh\$	Total MCh\$	From 1 day and less than 3 month MCh\$	More than 3 months and less than 1 year MCh\$	More than 1 year MCh\$	Total MCh\$
<b>Securities from the Chilean Government and the Chilean Central Bank:</b>								
Chilean Central Bank Bonds	48,307	-	-	48,307	-	-	-	-
Chilean Central Bank Notes	-	-	-	-	-	-	-	-
Other securities from the Government and the Chilean Central Bank	110	-	-	110	241,995	-	-	241,995
<b>Subtotal</b>	<b>48,417</b>	-	-	<b>48,417</b>	<b>241,995</b>	-	-	<b>241,995</b>
<b>Instruments from other domestic institutions:</b>								
Time deposits in Chilean financial institutions	128	-	-	128	1,118	38	-	1,156
Mortgage finance bonds of Chilean financial institutions	-	-	-	-	-	-	-	-
Chilean financial institutions bonds	-	-	-	-	-	-	-	-
Chilean corporate bonds	-	-	-	-	-	-	-	-
Other Chilean securities	-	-	-	-	-	-	-	-
<b>Subtotal</b>	<b>128</b>	-	-	<b>128</b>	<b>1,118</b>	<b>38</b>	-	<b>1,156</b>
<b>Foreign financial securities:</b>								
Foreign government or central bank securities	-	-	-	-	24,910	-	-	24,910
Other foreign Chilean securities	-	-	-	-	-	-	-	-
<b>Subtotal</b>	-	-	-	-	<b>24,910</b>	-	-	<b>24,910</b>
<b>Investments in mutual funds:</b>								
Funds managed by related entities	-	-	-	-	-	-	-	-
Funds managed by other	-	-	-	-	-	-	-	-
<b>Subtotal</b>	-	-	-	-	-	-	-	-
<b>Total</b>	<b>48,545</b>	-	-	<b>48,545</b>	<b>268,023</b>	<b>38</b>	-	<b>268,061</b>

**Banco Santander Chile and Subsidiaries**

**Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2018 AND 2017

**NOTE 07**

**INVESTMENTS UNDER RESALE AGREEMENTS AND OBLIGATION UNDER REPURCHASE AGREEMENTS, continued**

- c) Below is the detail by portfolio of collateral associated with repurchase agreements as of December 31, 2018 and 2017, value at fair value:

	As of December 31,					
	2018			2017		
	Available for sale portfolio MCh\$	Trading portfolio MCh\$	Total MCh\$	Available for sale portfolio MCh\$	Trading for sale portfolio MCh\$	Total MCh\$
<b>Securities from the Chilean Government and the Chilean Central Bank:</b>						
Chilean Central Bank Bonds	49,040	-	49,040	-	-	-
Chilean Central Bank Notes	-	-	-	-	-	-
Other securities from the Government and the Chilean Central Bank	109	-	109	241,995	-	241,995
<b>Subtotal</b>	<b>49,149</b>	<b>-</b>	<b>49,109</b>	<b>241,995</b>	<b>-</b>	<b>241,995</b>
<b>Other Chilean securities:</b>						
Time deposits in Chilean financial institutions mortgage finance bond of Chilean financial institutions	131	-	131	1,156	-	1,156
Chilean financial institution bonds	1	-	1	-	-	-
Chilean corporate bonds	-	-	-	-	-	-
Other Chilean securities	-	-	-	-	-	-
<b>Subtotal</b>	<b>132</b>	<b>-</b>	<b>132</b>	<b>1,156</b>	<b>-</b>	<b>1,156</b>
<b>Foreign financial securities:</b>						
Foreign Central Bank and Government securities	-	-	-	24,910	-	24,910
Other Foreign financial instruments	-	-	-	-	-	-
<b>Subtotal</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24,910</b>	<b>-</b>	<b>24,910</b>
<b>Investment in mutual funds:</b>						
Fondos administrados por entidades relacionadas	-	-	-	-	-	-
Fondos administrados por terceros	-	-	-	-	-	-
<b>Subtotal</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>49,281</b>	<b>-</b>	<b>49,281</b>	<b>268,061</b>	<b>-</b>	<b>268,061</b>

**NOTE 08**

**DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING**

a) As of December 31, 2018 and 2017, the Bank holds the following portfolio of derivative instruments:

	As of December 31, 2018					
	Notional amount				Fair value	
	Up to 3 Months MCh\$	More than 3 months to 1 year MCh\$	More than 1 year MCh\$	Total MCh\$	Assets MCh\$	Liabilities MCh\$
<b>Fair value hedge derivatives</b>						
Currency forwards	-	-	-	-	-	-
Interest rate swaps	80,000	491,600	1,191,012	<b>1,762,612</b>	14,789	9,188
Cross currency swaps	-	1,276,909	6,706,197	<b>7,983,106</b>	96,357	36,708
Call currency options	-	-	-	-	-	-
Call interest rate options	-	-	-	-	-	-
Put currency options	-	-	-	-	-	-
Put interest rate options	-	-	-	-	-	-
Interest rate futures	-	-	-	-	-	-
Other derivatives	-	-	-	-	-	-
<b>Subtotal</b>	<b>80,000</b>	<b>1,768,509</b>	<b>7,897,209</b>	<b>9,745,718</b>	<b>111,146</b>	<b>45,896</b>
<b>Cash flow hedge derivatives</b>						
Currency forwards	205,750	168,151	-	<b>373,901</b>	-	8,013
Interest rate swaps	-	-	-	-	-	-
Cross currency swaps	1,920,900	1,970,412	9,191,209	<b>13,082,521</b>	79,859	32,712
Call currency options	-	-	-	-	-	-
Call interest rate options	-	-	-	-	-	-
Put currency options	-	-	-	-	-	-
Put interest rate options	-	-	-	-	-	-
Interest rate futures	-	-	-	-	-	-
Other derivatives	-	-	-	-	-	-
<b>Subtotal</b>	<b>2,126,650</b>	<b>2,138,563</b>	<b>9,191,209</b>	<b>13,456,422</b>	<b>79,859</b>	<b>40,725</b>
<b>Trading derivatives</b>						
Currency forwards	15,301,943	13,080,875	6,062,183	<b>34,445,001</b>	613,063	466,741
Interest rate swaps	12,024,095	22,064,681	69,453,618	<b>103,542,394</b>	723,870	577,835
Cross currency swaps	2,173,111	8,853,306	68,976,339	<b>80,002,756</b>	1,568,365	1,385,314
Call currency options	26,731	60,235	57,579	<b>144,545</b>	4,332	854
Call interest rate options	-	-	-	-	-	-
Put currency options	23,411	50,445	56,392	<b>130,248</b>	-	363
Put interest rate options	-	-	-	-	-	-
Interest rate futures	-	-	-	-	-	-
Other derivatives	-	-	-	-	-	-
<b>Subtotal</b>	<b>29,549,291</b>	<b>44,109,542</b>	<b>144,606,111</b>	<b>218,264,944</b>	<b>2,909,630</b>	<b>2,431,107</b>
<b>Total</b>	<b>31,755,941</b>	<b>48,016,614</b>	<b>161,694,529</b>	<b>241,467,084</b>	<b>3,100,635</b>	<b>2,517,728</b>

**Banco Santander Chile and Subsidiaries**

**Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2018 AND 2017

**NOTE 08**

**DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING, continued**

	As of December 31, 2017					
	Notional amount				Fair value	
	Up to 3 months MCh\$	More than 3 months to 1 year MCh\$	More than 1 year MCh\$	Total MCh\$	Assets MCh\$	Liabilities MCh\$
<b>Fair value hedge derivatives</b>						
Currency forwards	-	-	-	-	-	-
Interest rate swaps	-	162,985	1,554,171	<b>1,717,156</b>	23,003	1,424
Cross currency swaps	-	715,701	5,362,772	<b>6,078,473</b>	15,085	65,724
Call currency options	-	-	-	-	-	-
Call interest rate options	-	-	-	-	-	-
Put currency options	-	-	-	-	-	-
Put interest rate options	-	-	-	-	-	-
Interest rate futures	-	-	-	-	-	-
Other derivatives	-	-	-	-	-	-
<b>Subtotal</b>	-	<b>878,686</b>	<b>6,916,943</b>	<b>7,795,629</b>	<b>38,088</b>	<b>67,148</b>
<b>Cash flow hedge derivatives</b>						
Currency forwards	801,093	218,982	-	<b>1,020,075</b>	39,233	59
Interest rate swaps	-	-	-	-	-	-
Cross currency swaps	421,428	1,637,604	6,672,566	<b>8,731,598</b>	36,403	128,355
Call currency options	-	-	-	-	-	-
Call interest rate options	-	-	-	-	-	-
Put currency options	-	-	-	-	-	-
Put interest rate options	-	-	-	-	-	-
Interest rate futures	-	-	-	-	-	-
Other derivatives	-	-	-	-	-	-
<b>Subtotal</b>	<b>1,222,521</b>	<b>1,856,586</b>	<b>6,672,566</b>	<b>9,751,673</b>	<b>75,636</b>	<b>128,414</b>
<b>Trading derivatives</b>						
Currency forwards	17,976,683	10,679,327	3,091,393	<b>31,747,403</b>	412,994	502,555
Interest rate swaps	9,069,964	14,389,389	46,342,779	<b>69,802,132</b>	467,188	392,366
Cross currency swaps	2,963,641	7,503,144	47,111,371	<b>57,578,156</b>	1,241,632	1,042,120
Call currency options	190,386	37,099	49,853	<b>277,338</b>	1,322	1,950
Call interest rate options	-	-	-	-	-	-
Put currency options	192,722	28,616	50,470	<b>271,808</b>	1,787	4,935
Put interest rate options	-	-	-	-	-	-
Interest rate futures	-	-	-	-	-	-
Other derivatives	-	-	-	-	-	-
<b>Subtotal</b>	<b>30,393,396</b>	<b>32,637,575</b>	<b>96,645,866</b>	<b>159,676,837</b>	<b>2,124,923</b>	<b>1,943,926</b>
<b>Total</b>	<b>31,615,917</b>	<b>35,372,847</b>	<b>110,235,375</b>	<b>177,224,139</b>	<b>2,238,647</b>	<b>2,139,488</b>

**Banco Santander Chile and Subsidiaries**

**Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2018 AND 2017

**NOTE 08**

**DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING, continued**

**b) Hedge accounting**

**Fair value hedge**

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

The hedged items and hedge instruments under fair value hedges as of December 31, 2018 and 2017, classified by term to maturity are as follows:

As of December 31, 2018	Notional Amount				Total MCh\$
	Within 1 year	Between 1 and 3 years	Between 3 and 6 years	Over 6 years	
	MCh\$	MCh\$	MCh\$	MCh\$	
<b>Hedged item</b>					
<b>Credits and accounts receivable from customers</b>					
Mortgage loan	653,872	1,272,382	276,590	603,818	<b>2,806,662</b>
<b>Available for sale investments</b>					
Yankee bonds	-	-	-	172,072	<b>172,072</b>
Mortgage financing bonds	-	-	3,779	-	<b>3,779</b>
American treasury bonds	-	-	-	174,440	<b>174,440</b>
Chilean General treasury bonds	-	304,818	-	220,041	<b>524,859</b>
Central bank bonds (BCP)	-	449,730	-	-	<b>449,730</b>
<b>Time deposits and other demand liabilities</b>					
Time deposits	486,013	-	-	-	<b>486,013</b>
<b>Issued debt instruments</b>					
Senior bonds	708,624	1,117,779	1,298,471	2,003,289	<b>5,128,163</b>
Subordinated bonds	-	-	-	-	<b>-</b>
<b>Obligations with Banks:</b>					
Interbank loans	-	-	-	-	<b>-</b>
<b>Total</b>	<b>1,848,509</b>	<b>3,144,709</b>	<b>1,578,840</b>	<b>3,173,660</b>	<b>9,745,718</b>
<b>Hedging instrument</b>					
Cross currency swaps	1,276,909	2,794,709	1,228,840	2,682,648	<b>7,983,106</b>
Interest rate swaps	571,600	350,000	350,000	491,012	<b>1,762,612</b>
<b>Total</b>	<b>1,848,509</b>	<b>3,144,709</b>	<b>1,578,840</b>	<b>3,173,660</b>	<b>9,745,718</b>

As of December 31, 2017	Notional Amount				Total MCh\$
	Within 1 year	Between 1 and 3 years	Between 3 and 6 years	Over 6 years	
	MCh\$	MCh\$	MCh\$	MCh\$	
<b>Hedged item</b>					
<b>Credits and accounts receivable from customers</b>					
Mortgage loan	587,412	801,230	106,910	-	<b>1,495,552</b>
<b>Available for sale investments</b>					
Yankee bond	-	-	6,169	64,769	<b>70,938</b>
Mortgage finance bonds	-	-	4,738	-	<b>4,738</b>
American treasury bonds	-	-	-	129,539	<b>129,539</b>
Chilean General treasury bonds	-	21,377	762,727	-	<b>784,104</b>
Central bank bonds (BCP)	128,289	218,640	443,357	-	<b>790,286</b>
<b>Time deposits and other demand liabilities</b>					
Time deposits	137,985	-	-	-	<b>137,985</b>
<b>Issued debt instruments</b>					
Senior bonds	25,000	1,399,686	670,488	2,287,313	<b>4,382,487</b>
Subordinated bonds	-	-	-	-	<b>-</b>
<b>Obligations with Banks:</b>					
Interbank loans	-	-	-	-	<b>-</b>
<b>Total</b>	<b>878,686</b>	<b>2,440,933</b>	<b>1,994,389</b>	<b>2,481,621</b>	<b>7,795,629</b>
<b>Hedging instrument</b>					
Cross currency swaps	715,701	1,512,238	1,813,221	2,037,313	<b>6,078,473</b>
Interest rate swaps	162,985	928,695	181,168	444,308	<b>1,717,156</b>
<b>Total</b>	<b>878,686</b>	<b>2,440,933</b>	<b>1,994,389</b>	<b>2,481,621</b>	<b>7,795,629</b>



**Banco Santander Chile and Subsidiaries**

**Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2018 AND 2017

**NOTE 08**

**DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING, continued**

**Cash flow hedges**

The Bank uses cross currency swaps to hedge the risk from variability of cash flows attributable to changes in the interest rates of mortgages, bonds and interbank loans at a variable rate. To cover the inflation risk in some items, both forwards as well as currency swaps are used.

The notional values of the hedged items as of December 31, 2018 and 2017, and the period when the cash flows will be generated are as follows:

	As of December 31, 2018				
	Within 1 year	Between 1 and 3	Between 3 and 6	Over 6 years	Total
	MCh\$	years MCh\$	years MCh\$	MCh\$	MCh\$
<b>Hedged item</b>					
<b>Loans and accounts receivables from customers</b>					
Mortgage loan	1,890,696	3,026,824	1,459,389	2,467,090	<b>8,843,999</b>
Commercial loans	109,585	-	-	-	<b>109,585</b>
<b>Available for sale investments</b>					
Time deposits (ASI)	-	-	-	-	-
Yankee bond	-	-	246,306	-	<b>246,306</b>
Chilean Central Bank bonds	-	-	166,628	-	<b>166,628</b>
<b>Time deposits and other time liabilities</b>					
Time deposits	-	-	-	-	-
<b>Issued debt instruments</b>					
Senior bonds (variable rate)	-	666,823	-	-	<b>666,823</b>
Senior bonds (fixed rate)	500,583	52,790	601,639	503,721	<b>1,658,733</b>
<b>Interbank borrowings</b>					
Interbank loans	1,764,348	-	-	-	<b>1,764,348</b>
<b>Total</b>	<b>4,265,212</b>	<b>3,746,437</b>	<b>2,473,962</b>	<b>2,970,811</b>	<b>13,456,422</b>
<b>Hedging instrument</b>					
Cross currency swaps	3,891,311	3,746,437	2,473,962	2,970,811	<b>13,082,521</b>
Currency forwards	373,901	-	-	-	<b>373,901</b>
<b>Total</b>	<b>4,265,212</b>	<b>3,746,437</b>	<b>2,473,962</b>	<b>2,970,811</b>	<b>13,456,422</b>

	As of December 31, 2017				
	Within 1 year	Between 1 and 3	Between 3 and 6	Over 6 years	Total
	MCh\$	years MCh\$	years MCh\$	MCh\$	MCh\$
<b>Hedged item</b>					
<b>Loans and accounts receivables from customers</b>					
Mortgage loan	1,153,348	583,061	1,335,141	2,353,871	<b>5,425,421</b>
Commercial loans	644,608	-	-	-	<b>644,608</b>
<b>Available for sale investments</b>					
Time deposits (ASI)	-	-	25,290	132,572	<b>157,862</b>
Yankee bond	-	-	242,819	-	<b>242,819</b>
Chilean Central Bank bonds	-	-	-	-	-
<b>Time deposits and other time liabilities</b>					
Time deposits	-	-	-	-	-
<b>Issued debt instruments</b>					
Senior bonds (variable rate)	120,520	647,550	302,454	-	<b>1,070,524</b>
Senior bonds (fixed rate)	241,183	121,619	224,401	300,874	<b>888,077</b>
<b>Interbank borrowings</b>					
Interbank loans	919,448	402,914	-	-	<b>1,322,362</b>
<b>Total</b>	<b>3,079,107</b>	<b>1,755,144</b>	<b>2,130,105</b>	<b>2,787,317</b>	<b>9,751,673</b>
<b>Hedging instrument</b>					
Cross currency swaps	2,059,032	1,755,144	2,130,105	2,787,317	<b>8,731,598</b>
Currency forwards	1,020,075	-	-	-	<b>1,020,075</b>
<b>Total</b>	<b>3,079,107</b>	<b>1,755,144</b>	<b>2,130,105</b>	<b>2,787,317</b>	<b>9,751,673</b>

**NOTE 08**  
**DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING, continued**

An estimate of the periods in which flows are expected to be produced is as follows:

**b.1) Forecasted cash flows for interest rate risk:**

	As of December 31, 2018				
	Within 1 year MCh\$	Between 1 and 3 years MCh\$	Between 3 and 6 years MCh\$	Over 6 years MCh\$	Total MCh\$
<b>Hedged item</b>					
Inflows	76,736	35,994	3,062	2,401	<b>118,193</b>
Outflows	(125,747)	(46,372)	(13,311)	(4,701)	<b>(190,131)</b>
<b>Net flows</b>	<b>(49,011)</b>	<b>(10,378)</b>	<b>(10,249)</b>	<b>(2,300)</b>	<b>(71,938)</b>
<b>Hedging instrument</b>					
Inflows	(76,736)	(35,994)	(3,062)	(2,401)	<b>(118,193)</b>
Outflows (*)	125,747	46,372	13,311	4,701	<b>190,131</b>
<b>Net flows</b>	<b>49,011</b>	<b>10,378</b>	<b>10,249</b>	<b>2,300</b>	<b>71,938</b>

(\*) Only includes cash flow forecast portion of the hedge instruments used to cover interest rate risk.

	As of December 31, 2017				
	Within 1 year MCh\$	Between 1 and 3 years MCh\$	Between 3 and 6 years MCh\$	Over 6 years MCh\$	Total MCh\$
<b>Hedged item</b>					
Inflows	308,737	60,515	13,780	2,594	<b>385,626</b>
Outflows	(60,733)	(43,507)	(7,757)	(878)	<b>(112,875)</b>
<b>Net flows</b>	<b>248,004</b>	<b>17,008</b>	<b>6,023</b>	<b>1,716</b>	<b>272,751</b>
<b>Hedging instrument</b>					
Inflows	60,733	43,507	7,757	878	<b>112,875</b>
Outflows (*)	(308,737)	(60,515)	(13,780)	(2,594)	<b>(385,626)</b>
<b>Net flows</b>	<b>(248,004)</b>	<b>(17,008)</b>	<b>(6,023)</b>	<b>(1,716)</b>	<b>(272,751)</b>

(\*) Only includes cash flow forecast portion of the hedge instruments used to cover interest rate risk.

**NOTE 08**

**DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING, continued**

**b.2) Forecasted cash flows for inflation risk:**

	As of December 31, 2018				
	Within 1 year MCh\$	Between 1 and 3 years MCh\$	Between 3 and 6 years MCh\$	Over 6 years MCh\$	Total MCh\$
<b>Hedged item</b>					
Inflows	37,086	73,576	166,516	310,293	<b>587,471</b>
Outflows	(14,036)	-	-	-	<b>(14,036)</b>
<b>Net flows</b>	<b>23,050</b>	<b>73,576</b>	<b>166,516</b>	<b>310,293</b>	<b>573,435</b>
<b>Hedging instrument</b>					
Inflows	14,036	-	-	-	<b>14,036</b>
Outflows	(37,086)	(73,576)	(166,516)	(310,293)	<b>(587,471)</b>
<b>Net flows</b>	<b>(23,050)</b>	<b>(73,576)</b>	<b>(166,516)</b>	<b>(310,293)</b>	<b>(573,435)</b>
<b>As of December 31, 2017</b>					
	Within 1 year MCh\$	Between 1 and 3 years MCh\$	Between 3 and 6 years MCh\$	Over 6 years MCh\$	Total MCh\$
<b>Hedged item</b>					
Inflows	20,300	29,008	103,544	286,471	<b>439,323</b>
Outflows	(1,645)	-	-	-	<b>(1,645)</b>
<b>Net flows</b>	<b>18,655</b>	<b>29,008</b>	<b>103,544</b>	<b>286,471</b>	<b>437,678</b>
<b>Hedging instrument</b>					
Inflows	1,645	-	-	-	<b>1,645</b>
Outflows	(20,300)	(29,008)	(103,544)	(286,471)	<b>(439,323)</b>
<b>Net flows</b>	<b>(18,655)</b>	<b>(29,008)</b>	<b>(103,544)</b>	<b>(286,471)</b>	<b>(437,678)</b>

**b.3) Forecasted cash flows for exchange rate risk:**

As of December 31, 2018 and 2017, the Bank did not have cash flow hedges for exchange rate risk.

**NOTE 08**

**DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING, continued**

- c) The accumulated effect of the mark to market adjustment of cash flow hedges produced by hedge instruments used in hedged cash flow was recorded in the Consolidated Statement of Changes in Equity, specifically within the account of valuation accounts, Cash flow hedge, as of December 31, 2018 and 2017, and is as follows:

Hedged item	As of December 31,	
	2018	2017
	MCh\$	MCh\$
Interbank loans	309	(4,779)
Time deposits and other time liabilities	-	-
Issued debt instruments	(10,893)	(8,683)
Available for sale investments	(1,392)	(364)
Loans and accounts receivable from customers	21,779	10,264
<b>Net flows</b>	<b>9,803</b>	<b>(3,562)</b>

Since the inflows and outflows for both the hedged element and the hedging instrument mirror each other, the hedges are nearly 100% effective, which means that the fluctuations of fair value attributable to risk components are almost completely offset. During the year, the bank did not have any cash flow hedges of forecast transactions.

As of December 31, 2018 and 2017, \$ 2,912 million and \$ 1,187 million, respectively, resulted from inefficiency.

During the period, the bank did not record anticipated future transactions within its portfolio of cash flow accounting hedges.

- d) Below is a presentation of income generated by cash flow hedges amount that were reclassified from other comprehensive income to income for the year:

	As of December 31,	
	2018	2017
	MCh\$	MCh\$
Bond hedging derivatives	-	-
Interbank loans hedging derivatives	(683)	-
<b>Cash flow hedge net income</b>	<b>(683)</b>	<b>-</b>

See Note 24- Equity, letter e).

- e) Net investment hedges in Foreign operation:

As of December 31, 2018 and 2017, the Bank does not have any Foreign net investment hedges in its hedge accounting portfolio.

**NOTE 09**

**INTERBANK LOANS**

a) As of December 31, 2018 and 2017, balances of "Interbank loans" are as follows:

	As of December 31,	
	2018 MCh\$	2017 MCh\$
<b>Domestic banks</b>		
Loans and advances to banks	-	-
Deposits in the Central Bank of Chile - not available	-	-
Non-transferable Chilean Central Bank Bonds	-	-
Other Central Bank of Chile loans	-	-
Interbank loans	-	-
Overdrafts in checking accounts	-	-
Non-transferable domestic bank loans	-	-
Other domestic bank loans	1	-
Allowances and impairment for domestic bank loans	-	-
<b>Foreign interbank loans</b>		
Interbank loans – Foreign	15,093	162,685
Overdrafts in checking accounts	-	-
Non-transferable foreign bank deposits	-	-
Other foreign bank loans	-	-
Provisions and impairment for foreign bank loans	(29)	(86)
<b>Total</b>	<b>15,065</b>	<b>162,599</b>

b) The amount of provisions and impairment of interbank loans in each period is shown below:

	As of December 31,					
	2018			2017		
	Domestic banks MCh\$	Foreign banks MCh\$	Total MCh\$	Domestic banks MCh\$	Foreign banks MCh\$	Total MCh\$
<b>Balance as of January 1</b>	-	86	86	-	172	172
Charge-offs	-	-	-	-	-	-
Provisions established	-	45	45	251	56	307
Provisions released	-	(102)	(102)	(251)	(142)	(393)
<b>Total</b>	-	29	29	-	86	86

**Banco Santander Chile and Subsidiaries**

**Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2018 AND 2017

**NOTE 10**

**LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS**

**a) Loans and accounts receivable from customers**

As of December 31, 2018 and 2017, the composition of the loan portfolio is as follows:

As of December 31, 2018	Assets before allowances				Allowances established			Assets net balance MCh\$
	Normal portfolio MCh\$	Substandard portfolio MCh\$	Impaired portfolio MCh\$	Total MCh\$	Individual allowances MCh\$	Group allowances MCh\$	Total MCh\$	
<b>Commercial loans</b>								
Commercial loans	9,988,841	552,460	661,073	<b>11,202,374</b>	151,769	179,318	<b>331,087</b>	10,871,287
Foreign trade loans	1,648,616	53,127	50,694	<b>1,752,437</b>	52,696	1,668	<b>54,364</b>	1,698,073
Checking accounts debtors	187,273	11,984	15,905	<b>215,162</b>	3,566	13,375	<b>16,941</b>	198,221
Factoring transactions	370,851	5,532	4,600	<b>380,983</b>	5,843	834	<b>6,677</b>	374,306
Student Loans	69,599	-	10,317	<b>79,916</b>	-	5,835	<b>5,835</b>	74,081
Leasing transactions	1,240,081	113,313	90,330	<b>1,443,724</b>	17,339	10,833	<b>28,172</b>	1,415,552
	126,643	1,635	36,785	<b>165,063</b>	11,384	18,416	<b>29,800</b>	135,263
Other loans and account receivable								
<b>Subtotal</b>	<b>13,631,904</b>	<b>738,051</b>	<b>869,704</b>	<b>15,239,659</b>	<b>242,597</b>	<b>230,279</b>	<b>472,876</b>	<b>14,766,783</b>
<b>Mortgage loans</b>								
Loans with mortgage finance bonds	16,153	-	1,273	<b>17,426</b>	-	97	<b>97</b>	17,329
Mortgage mutual loans	104,131	-	4,405	<b>108,536</b>	-	498	<b>498</b>	108,038
Other mortgage mutual loans	9,558,032	-	466,987	<b>10,025,019</b>	-	63,646	<b>63,646</b>	9,961,373
<b>Subtotal</b>	<b>9,678,316</b>	<b>-</b>	<b>472,665</b>	<b>10,150,981</b>	<b>-</b>	<b>64,241</b>	<b>64,241</b>	<b>10,086,740</b>
<b>Consumer loans</b>								
Installment consumer loans	2,937,309	-	252,361	<b>3,189,670</b>	-	223,948	<b>223,948</b>	2,965,722
Credit card balances	1,399,112	-	18,040	<b>1,417,152</b>	-	26,673	<b>26,673</b>	1,390,479
Leasing transactions	4,071	-	86	<b>4,157</b>	-	72	<b>72</b>	4,085
Other consumer loans	261,202	-	4,108	<b>265,310</b>	-	8,749	<b>8,749</b>	256,561
<b>Subtotal</b>	<b>4,601,694</b>	<b>-</b>	<b>274,595</b>	<b>4,876,289</b>	<b>-</b>	<b>259,442</b>	<b>259,442</b>	<b>4,616,847</b>
<b>Total</b>	<b>27,911,914</b>	<b>738,051</b>	<b>1,616,964</b>	<b>30,266,929</b>	<b>242,597</b>	<b>553,962</b>	<b>796,559</b>	<b>29,470,370</b>

**Banco Santander Chile and Subsidiaries**

**Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2018 AND 2017

**NOTE 10**

**LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS, continued**

As of December 31, 2017	Assets before allowances				Allowances established			Assets net balance MCh\$
	Normal portfolio MCh\$	Substandard Portfolio MCh\$	Impaired portfolio MCh\$	Total MCh\$	Individual allowances MCh\$	Group allowances MCh\$	Total MCh\$	
<b>Commercial loans</b>								
Commercial loans	8,998,957	369,830	621,869	<b>9,990,656</b>	148,482	168,736	<b>317,218</b>	9,673,438
Foreign trade loans	1,464,754	44,830	64,929	<b>1,574,513</b>	54,628	1,444	<b>56,072</b>	1,518,441
Checking accounts debtors	174,162	6,189	15,345	<b>195,696</b>	3,037	11,740	<b>14,777</b>	180,919
Factoring transactions	441,437	3,279	5,174	<b>449,890</b>	5,335	1,207	<b>6,542</b>	443,348
Student Loans	77,226	-	11,064	<b>88,290</b>	-	5,922	<b>5,922</b>	82,368
Leasing transactions	1,242,713	113,629	100,662	<b>1,457,004</b>	19,532	12,793	<b>32,325</b>	1,424,679
Other loans and account receivable	113,672	1,318	37,603	<b>152,593</b>	12,778	17,231	<b>30,009</b>	122,584
<b>Subtotal</b>	<b>12,512,921</b>	<b>539,075</b>	<b>856,646</b>	<b>13,908,642</b>	<b>243,792</b>	<b>219,073</b>	<b>462,865</b>	<b>13,445,777</b>
<b>Mortgage loans</b>								
Loans with mortgage finance bonds	22,620	-	1,440	<b>24,060</b>	-	123	<b>123</b>	23,937
Mortgage mutual loans	110,659	-	4,419	<b>115,078</b>	-	594	<b>594</b>	114,484
Other mortgage mutual loans	8,501,072	-	456,685	<b>8,957,757</b>	-	68,349	<b>68,349</b>	8,889,408
<b>Subtotal</b>	<b>8,634,351</b>	<b>-</b>	<b>462,544</b>	<b>9,096,895</b>	<b>-</b>	<b>69,066</b>	<b>69,066</b>	<b>9,027,829</b>
<b>Consumer loans</b>								
Installment consumer loans	2,613,041	-	297,701	<b>2,910,742</b>	-	240,962	<b>240,962</b>	2,669,780
Credit card balances	1,341,098	-	23,882	<b>1,364,980</b>	-	33,401	<b>33,401</b>	1,331,579
Leasing transactions	4,638	-	77	<b>4,715</b>	-	62	<b>62</b>	4,653
Other consumer loans	271,790	-	5,465	<b>277,255</b>	-	9,331	<b>9,331</b>	267,924
<b>Subtotal</b>	<b>4,230,567</b>	<b>-</b>	<b>327,125</b>	<b>4,557,692</b>	<b>-</b>	<b>283,756</b>	<b>283,756</b>	<b>4,273,936</b>
<b>Total</b>	<b>25,377,839</b>	<b>539,075</b>	<b>1,646,315</b>	<b>27,563,229</b>	<b>243,792</b>	<b>571,895</b>	<b>815,687</b>	<b>26,747,542</b>

**Banco Santander Chile and Subsidiaries**

**Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2018 AND 2017

**NOTE 10**

**LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS, continued**

**b) Portfolio characteristics**

As of December 31, 2018 and 2017, the portfolio before allowances is as follows, by customer's economic activity:

	Domestic loans (*)		Foreign interbank loans (**)		Total loans		Distribution percentage	
	2018 MCh\$	2017 MCh\$	2018 MCh\$	2017 MCh\$	2018 MCh\$	2017 MCh\$	2018 %	2017 %
<b>Commercial loans</b>								
Manufacturing	1,139,766	1,218,232	-	-	1,139,766	1,218,232	<b>3.76</b>	<b>4.39</b>
Mining	208,748	302,037	-	-	208,748	302,037	<b>0.69</b>	<b>1.09</b>
Electricity, gas, and water	408,932	336,048	-	-	408,932	336,048	<b>1.35</b>	<b>1.21</b>
Agriculture and livestock	1,206,197	1,114,597	-	-	1,206,197	1,114,597	<b>3.98</b>	<b>4.02</b>
Forest	143,888	98,941	-	-	143,888	98,941	<b>0.48</b>	<b>0.36</b>
Fishing	253,021	215,994	-	-	253,021	215,994	<b>0.84</b>	<b>0.78</b>
Transport	809,306	697,948	-	-	809,306	697,948	<b>2.67</b>	<b>2.52</b>
Communications	215,844	168,744	-	-	215,844	168,744	<b>0.71</b>	<b>0.61</b>
Construction	906,038	1,977,417	-	-	906,038	1,977,417	<b>2.99</b>	<b>7.13</b>
Commerce	3,386,806	3,131,870	15,093	162,685	3,401,899	3,294,555	<b>11.23</b>	<b>11.88</b>
Services	1,865,669	467,747	-	-	1,865,669	467,747	<b>6.16</b>	<b>1.69</b>
Other	4,695,445	4,179,067	-	-	4,695,445	4,179,067	<b>15.52</b>	<b>15.07</b>
<b>Subtotal</b>	<b>15,239,660</b>	<b>13,908,642</b>	<b>15,093</b>	<b>162,685</b>	<b>15,254,753</b>	<b>14,071,327</b>	<b>50.38</b>	<b>50.75</b>
<b>Mortgage loans</b>	<b>10,150,981</b>	<b>9,096,895</b>	-	-	10,150,981	<b>9,096,895</b>	<b>33.52</b>	<b>32.81</b>
<b>Consumer loans</b>	<b>4,876,289</b>	<b>4,557,692</b>	-	-	4,876,289	<b>4,557,692</b>	<b>16.10</b>	<b>16.43</b>
<b>Total</b>	<b>30,266,930</b>	<b>27,563,229</b>	<b>15,093</b>	<b>162,685</b>	<b>30,282,023</b>	<b>27,725,914</b>	<b>100.0</b>	<b>100.00</b>

(\*) Includes domestic interbank loans for Ch\$1 million as of December 31, 2018 (Ch\$0 million as of December 31, 2017), see Note 9.

(\*\*) Includes foreign interbank loans for Ch\$15,093 million as of December 31, 2018 (Ch\$162,685 million as of December 31, 2017), see Note 9.



**Banco Santander Chile and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
AS OF DECEMBER 31, 2018 AND 2017

**NOTE 10**  
**LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS, continued**

**c) Impaired portfolio (\*)**

i. As of Diciembre 31, 2018 and 2017, the impaired portfolio is as follows:

	As of December 31,							
	2018				2017			
	Commercial I MCh\$	Mortgage MCh\$	Consumer MCh\$	Total MCh\$	Commercial I MCh\$	Mortgage MCh\$	Consumer MCh\$	Total MCh\$
Individually impaired portfolio	397,978	-	-	<b>397,978</b>	427,890	-	-	<b>427,890</b>
Non-performing loans (collectively evaluated)	409,451	133,880	88,318	<b>631,649</b>	368,522	161,768	103,171	<b>633,461</b>
Other impaired portfolio	224,750	338,785	186,277	<b>749,812</b>	217,091	300,776	223,954	<b>741,821</b>
<b>Total</b>	<b>1,032,179</b>	<b>472,665</b>	<b>274,595</b>	<b>1,779,439</b>	<b>1,013,503</b>	<b>462,544</b>	<b>327,125</b>	<b>1,803,172</b>

(\*) The impaired portfolio corresponds to the sum of the loans classified as substandard in categories B3 and B4, and the portfolio in default, (C1-C6).

ii) The impaired portfolio with or without guarantee as of December 31, 2018 and 2017 is as follows:

	As of December 31,							
	2018				2017			
	Commercial MCh\$	Mortgage MCh\$	Consumer MCh\$	Total MCh\$	Commercial MCh\$	Mortgage MCh\$	Consumer MCh\$	Total MCh\$
Secured debt	604,545	430,011	29,201	<b>1,063,757</b>	582,557	413,716	34,260	<b>1,030,533</b>
Unsecured debt	427,634	42,654	245,394	<b>715,682</b>	430,946	48,828	292,865	<b>772,639</b>
<b>Total</b>	<b>1,032,179</b>	<b>472,665</b>	<b>274,595</b>	<b>1,779,439</b>	<b>1,013,503</b>	<b>462,544</b>	<b>327,125</b>	<b>1,803,172</b>

iii) The portfolio of non-performing loans (due for 90 days or longer) with or without a guarantee as of December 31, 2018 and 2017 is as follows:

	As of December 31,							
	2018				2017			
	Commercial MCh\$	Mortgage MCh\$	Consumer MCh\$	Total MCh\$	Commercial MCh\$	Mortgage MCh\$	Consumer MCh\$	Total MCh\$
Secured debt	192,889	121,690	8,516	<b>323,095</b>	167,909	141,413	8,896	<b>318,218</b>
Unsecured debt	216,562	12,190	79,802	<b>308,554</b>	200,613	20,355	94,275	<b>315,243</b>
<b>Total</b>	<b>409,451</b>	<b>133,880</b>	<b>88,318</b>	<b>631,649</b>	<b>368,522</b>	<b>161,768</b>	<b>103,171</b>	<b>633,461</b>

**Banco Santander Chile and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2018 AND 2017

**NOTE 10**  
**LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS, continued**

iv) Reconciliation of non-performing loans, with past due loans as of December 31, 2018 and 2017, is as follows:

	As of December 31,							
	2018		2017		2018		2017	
	Commercial MCh\$	Mortgage MCh\$	Consumer MCh\$	Total MCh\$	Commercial MCh\$	Mortgage MCh\$	Consumer MCh\$	Total MCh\$
with arrears equal to or greater than 90 days	399,382	130,716	85,137	615,235	362,968	159,265	92,541	614,774
with arrears up to 89 days, classified in past due portfolio	10,069	3,164	3,181	16,414	5,554	2,503	10,630	18,687
<b>Total</b>	<b>409,451</b>	<b>133,880</b>	<b>88,318</b>	<b>631,649</b>	<b>368,522</b>	<b>161,768</b>	<b>103,171</b>	<b>633,461</b>

**d) Allowances**

The changes in allowances balances during 2018 and 2017 are as follows:

Activity during 2018	Commercial loans		Mortgage loans	Consumer loans	Total MCh\$
	Individual MCh\$	Group MCh\$	Group MCh\$	Group MCh\$	
<b>Balance as of January , 2018</b>	<b>243,792</b>	<b>219,073</b>	<b>69,066</b>	<b>283,756</b>	<b>815,687</b>
Allowances established	68,302	83,979	22,683	190,868	365,832
Allowances released	(35,301)	(8,764)	(8,446)	(45,031)	(97,542)
Allowances released due to charge-off	(34,196)	(64,009)	(19,062)	(170,151)	(287,418)
<b>Balance as of December 31, 2018</b>	<b>242,597</b>	<b>230,279</b>	<b>64,241</b>	<b>259,442</b>	<b>796,559</b>

Activity during 2017	Commercial loans		Mortgage loans	Consumer loans	Total MCh\$
	Individual MCh\$	Group MCh\$	Group MCh\$	Group MCh\$	
<b>Balance as of January, 2017</b>	<b>275,973</b>	<b>183,106</b>	<b>61,041</b>	<b>300,019</b>	<b>820,139</b>
Allowances established	60,023	99,407	22,163	157,595	339,188
Allowances released	(55,925)	(20,491)	(11,427)	(46,089)	(133,932)
Allowances released due to charge-off	(36,279)	(42,949)	(2,711)	(127,769)	(209,708)
<b>Balance as of December 31, 2017</b>	<b>243,792</b>	<b>219,073</b>	<b>69,066</b>	<b>283,756</b>	<b>815,687</b>

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

- i) Country risk to cover the risk taken when holding or committing resources with any foreign country, These allowances are established according to country risk classifications as set forth in Chapter 7-13 of the Updated Compilation of Rules, issued by the SBIF. The balances of allowances as of December 31, 2018 and 2017 are Ch\$620 million and Ch\$599 million, respectively, which are presented in liabilities of the Consolidated Statement of Financial Position.

**Banco Santander Chile and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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**NOTE 10**  
**LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS, continued**

- ii) According to SBIF's regulations (compendium of Accounting Standards), the Bank has established allowances related to the undrawn available credit lines and contingent loans. The balances of allowances as of December 31, 2018 and 2017 are Ch\$14,666 million and Ch\$15,103 million, respectively, and are presented in liabilities of the Consolidated Statement of Financial Position.

**Allowances established**

The following chart shows the balance of provisions established, associated with loans and accounts receivable from costumers and Interbanks loans:

	As of	
	December 31,	
	2018	2017
	MCh\$	MCh\$
Loans and accounts receivable from	365,832	339,188
Interbanks loans	45	307
<b>Total</b>	<b>365,877</b>	<b>339,495</b>

**Banco Santander Chile and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
AS OF DECEMBER 31, 2018 AND 2017

**NOTE 10**  
**LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS, continued**

**e) Portfolio by its impaired and non-impaired status**

	As of December 31, 2018											
	Non-impaired				Impaired				Total portfolio			
	Commercial MCh\$	Mortgage MCh\$	Consumer MCh\$	Total non- impaired MCh\$	Commercial MCh\$	Mortgage MCh\$	Consumer MCh\$	Total impaired MCh\$	Commercial MCh\$	Mortgage MCh\$	Consumer MCh\$	Total portfolio MCh\$
Current portfolio	14,016,945	9,360,102	4,379,507	<b>27,756,554</b>	446,423	156,546	95,220	<b>698,189</b>	14,463,368	9,516,648	4,474,727	<b>28,454,743</b>
Overdue for 1-29 days	120,376	194,334	131,550	<b>446,260</b>	72,964	78,537	34,501	<b>186,002</b>	193,340	272,871	166,051	<b>632,262</b>
Overdue for 30-89 days	70,159	123,880	90,637	<b>284,676</b>	113,410	106,866	59,737	<b>280,013</b>	183,569	230,746	150,374	<b>564,689</b>
Overdue for 90 days or more	-	-	-	-	399,382	130,716	85,137	<b>615,235</b>	399,382	130,716	85,137	<b>615,235</b>
<b>Total portfolio before allowances</b>	<b>14,207,480</b>	<b>9,678,316</b>	<b>4,601,694</b>	<b>28,487,490</b>	<b>1,032,179</b>	<b>472,665</b>	<b>274,595</b>	<b>1,779,439</b>	<b>15,239,659</b>	<b>10,150,981</b>	<b>4,876,289</b>	<b>30,266,929</b>
Overdue loans (less than 90 days) presented as portfolio percentage	1.34%	3.29%	4.83%	<b>2.57%</b>	18.06%	39.23%	34.32%	<b>26.19%</b>	2.47%	4.96%	6.49%	<b>3.95%</b>
Overdue loans (90 days or more) presented as portfolio percentage	-	-	-	-	38.69%	27.66%	31.00%	<b>34.57%</b>	2.62%	1.29%	1.75%	<b>2.03%</b>

**Banco Santander Chile and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
AS OF DECEMBER 31, 2018 AND 2017

**NOTE 10**  
**LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS, continued**

**e) Portfolio by its impaired and non-impaired status, continuation.**

	As of December 31, 2017											
	Non-impaired				Impaired				Total portfolio			
	Commercial MCh\$	Mortgage MCh\$	Consumer MCh\$	Total non- impaired MCh\$	Commercial MCh\$	Mortgage MCh\$	Consumer MCh\$	Total impaired MCh\$	Commercial MCh\$	Mortgage MCh\$	Consumer MCh\$	Total portfolio MCh\$
Current portfolio	12,737,508	8,357,733	4,012,490	<b>25,107,731</b>	449,895	158,770	110,183	<b>718,848</b>	13,187,403	8,516,503	4,122,673	<b>25,826,579</b>
Overdue for 1-29 days	103,908	180,294	132,136	<b>416,338</b>	110,834	74,072	46,283	<b>231,189</b>	214,742	254,366	178,419	<b>647,527</b>
Overdue for 30-89 days	53,723	96,324	85,941	<b>235,988</b>	89,806	70,437	78,118	<b>238,361</b>	143,529	166,761	164,059	<b>474,349</b>
Overdue for 90 days or more	-	-	-	-	362,968	159,265	92,541	<b>614,774</b>	362,968	159,265	92,541	<b>614,774</b>
<b>Total portfolio before allowances</b>	<b>12,895,139</b>	<b>8,634,351</b>	<b>4,230,567</b>	<b>25,760,057</b>	<b>1,013,503</b>	<b>462,544</b>	<b>327,125</b>	<b>1,803,172</b>	<b>13,908,642</b>	<b>9,096,895</b>	<b>4,557,692</b>	<b>27,563,229</b>
Overdue loans (less than 90 days) presented as portfolio percentage	1.22%	3.20%	5.15%	<b>2.53%</b>	19.80%	31.24%	38.03%	<b>26.04%</b>	2.58%	4.63%	7.51%	<b>4.07%</b>
Overdue loans (90 days or more) presented as portfolio percentage	-	-	-	-	35.81%	34.43%	28.29%	<b>34.09%</b>	2.61%	1.75%	2.03%	<b>2.23%</b>

**NOTE 11**  
**AVAILABLE FOR SALE INVESTMENTS**

As of December 31, 2018 and 2017, details of instruments defined as available for sale investments are as follows:

	As of December 31	
	2018	2017
	MCh\$	MCh\$
<b>Chilean Central Bank and Government securities</b>		
Chilean Central Bank Bonds	657,096	816,331
Chilean Central Bank Notes	56,719	330,952
Other Chilean Central Bank and Government securities	1,207,221	1,115,518
<b>Subtotal</b>	<b>1,921,036</b>	<b>2,262,801</b>
<b>Other Chilean securities</b>		
Time deposits in Chilean financial institutions	2,693	2,361
Mortgage finance bonds of Chilean financial institutions	19,227	22,312
Chilean financial institution bonds	-	-
Chilean corporate bonds	-	-
Other Chilean securities	2,907	3,000
<b>Subtotal</b>	<b>24,827</b>	<b>27,673</b>
<b>Foreign financial securities</b>		
Foreign Central Banks and Government securities	280,622	132,822
Other foreign financial securities	167,838	151,250
<b>Subtotal</b>	<b>448,460</b>	<b>284,072</b>
<b>Total</b>	<b>2,394,323</b>	<b>2,574,546</b>

As of December 31, 2018 and 2017, the item *Chilean Central Bank and Government securities* item includes securities sold under repurchase agreements to clients and financial institutions for Ch\$16,109 million and Ch\$241,995 million, respectively. Under the same line, there are instruments that guarantee margins for operations of derivatives through Comder Contraparte Central S,A, for an amount of \$48,081 million and \$ 42,910 million as of December 31 of 2018 and 2017, respectively.

As of December 31, 2018 and 2017, the item *Other Chilean Securities* includes securities sold to customers and financial institutions under repurchase agreements totaling Ch\$32,436 million and Ch\$1,156 million, respectively.

The instruments of Foreign Institutions include instruments sold under repurchase agreements with customers and financial institutions for a total of \$0 and \$ 24,910 million as of December 31, 2018 and 2017, respectively. Under the same line, there are instruments that guarantee margins for derivative transactions through the London Clearing House (LCH) for an amount of \$58,892 million and \$48,106 million as of December 31, 2018 and 2017, respectively, In order to comply with the initial margin specified in the European EMIR standard, instruments in guarantee with Euroclear are maintained for an amount of \$98,832 million and \$ 33,711 million as of December 31, 2018 and 2017, respectively.

As of December 31, 2018 available for sale investments included a net unrealized profit of Ch\$6,424 million, recorded as a "Valuation adjustment" in Equity, distributed between a profit of Ch\$5,144 million attributable to equity holders of the Bank and a profit of Ch\$1,310 million attributable to non-controlling interest.

As of December 31, 2017 available for sale investments included a net unrealized loss of Ch\$1,855 million, recorded as a "Valuation adjustment" in Equity, distributed between a profit of Ch\$459 million attributable to equity holders of the Bank and a profit of Ch\$1,396 million attributable to non-controlling interest.

**NOTE N°11**

**AVAILABLE FOR SALE INVESTMENTS, continued**

Gross profits and losses realized on the sale of available for sale investments as of december 31, 2018 and 2017, are as follow,

	<b>As of December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>MCh\$</b>	<b>MCh\$</b>
Sale of available for sale investments generating realized profits	3,505,266	6,469,344
Realized profits	8,902	4,867
Sale of available for sale investments generating realized losses	709,371	466,732
Realized losses	6,004	3

The Bank evaluated those instruments with unrealized losses as of December 31, 2018 and 2017 and concluded they were not impaired. This review consisted of evaluation the economic reason for any declines, the credit rating of the securities issuers and the bank's intention and ability to hold the securities until the unrealized loss was recovered. Based on this analysis, the Bank believes that there were no significant or prolonged declines nor changes in credit risk which would cause impairment in its investment portfolio, since most of the decline in fair value of these instruments was caused by market conditions which the Bank considers to be temporary. All of the instruments that have unrealized losses as of December 31, 2018 and 2017, were not in a continuous unrealized loss position for more than one year.

**NOTE N°11**  
**AVAILABLE FOR SALE INVESTMENTS, continued**

The following charts show the available for sale investments cumulative unrealized profit and loss, as of December 31, 2018 and 2017:

**As of December 31, 2018:**

	Less than 12 month				More than 12 month				Total			
	Amortized cost MCh\$	Fair value MCh\$	Unrealized profit MCh\$	Unrealized loss MCh\$	Amortized cost MCh\$	Fair value MCh\$	Unrealized profit MCh\$	Unrealized loss MCh\$	Amortized cost MCh\$	Fair value MCh\$	Unrealized profit MCh\$	Unrealized loss MCh\$
<b>Chilean central bank and government securities</b>												
Chilean central bank bond	658,013	657,096	3,698	(4,615)	-	-	-	-	658,013	657,096	3,698	(4,615)
Chilean central bank notes	56,737	56,719	10	(27)	-	-	-	-	56,737	56,719	10	(27)
Other Chilean central bank and government securities	1,196,819	1.207,220	10.689	(262)	-	-	-	-	1,196,819	1.207,220	10,689	(262)
<b>Subtotal</b>	<b>1,911,569</b>	<b>1,921,035</b>	<b>14,397</b>	<b>(4,904)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,911,569</b>	<b>1,921,035</b>	<b>14,397</b>	<b>(4,904)</b>
<b>Other Chilean securities</b>												
	2,692	2,694	1	-	-	-	-	-	2,692	2,694	1	-
Time deposits in Chilean financial institutions	19,010	19,227	426	(209)	-	-	-	-	19,010	19,227	426	(209)
Mortgage finance bonds of Chilean financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Chilean financial institution bonds	-	-	-	-	-	-	-	-	-	-	-	-
Chilean corporate bonds	220	2,907	2,687	-	-	-	-	-	220	2,907	2,687	-
Other Chilean securities	-	-	-	-	-	-	-	-	-	-	-	-
<b>Subtotal</b>	<b>21,922</b>	<b>24,828</b>	<b>3,114</b>	<b>(209)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,922</b>	<b>24,828</b>	<b>3,114</b>	<b>(209)</b>
<b>Foreign financial securities</b>												
Foreign central bank and government securities	280,021	280,622	602	-	-	-	-	-	280,021	280,622	602	-
Other Foreign securities	174,387	167,838	-	(6,575)	-	-	-	-	174,387	167,838	-	(6,575)
<b>Subtotal</b>	<b>454,408</b>	<b>448,460</b>	<b>602</b>	<b>(6,575)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>454,408</b>	<b>448,460</b>	<b>602</b>	<b>(6,575)</b>
<b>Total</b>	<b>2,387,899</b>	<b>2,394,323</b>	<b>18,112</b>	<b>(11,688)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,387,899</b>	<b>2,394,323</b>	<b>18,112</b>	<b>(11,688)</b>



**NOTE N°11**  
**AVAILABLE FOR SALE INVESTMENTS, continued**

The following tables show the availability for sale of accumulated unrealized gains and losses as of December 31, 2017:

**As of December 31, 2017**

	Menor a 12 meses				Mayor a 12 meses				Total			
	Amortized cost	Fair value	Unrealized profit	Unrealized loss	Amortized cost	Fair value	Unrealized profit	Unrealized loss	Amortized cost	Fair value	Unrealized profit	Unrealized loss
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Chilean central bank and government securities</b>												
Chilean central bank fond	816,164	816,331	5,513	(5,346)	-	-	-	-	816,164	816,331	5,513	(5,346)
Chilean central bank notes	330,923	330,952	30	(1)	-	-	-	-	330,923	330,952	30	(1)
Other Chilean central bank and government securities	1,117,447	1,115,518	2,960	(4,888)	-	-	-	-	1,117,447	1,115,518	2,960	(4,888)
<b>Subtotal</b>	<b>2,264,534</b>	<b>2,262,801</b>	<b>8,503</b>	<b>(10,235)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,264,534</b>	<b>2,262,801</b>	<b>8,503</b>	<b>(10,235)</b>
<b>Other Chilean securities</b>												
Time deposits in Chilean financial institutions	2,361	2,361	-	-	-	-	-	-	2,361	2,361	-	-
Mortgage finance bonds of Chilean financial institutions	21,867	22,312	445	-	-	-	-	-	21,867	22,312	445	-
Chilean financial institution bonds	-	-	-	-	-	-	-	-	-	-	-	-
Chilean corporate bonds	-	-	-	-	-	-	-	-	-	-	-	-
Other Chilean securities	220	3,000	2,780	-	-	-	-	-	220	3,000	2,780	-
<b>Subtotal</b>	<b>24,448</b>	<b>27,673</b>	<b>3,225</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24,448</b>	<b>27,673</b>	<b>3,225</b>	<b>-</b>
<b>Foreign financial securities</b>												
Foreign central bank and government securities	133,301	132,822	847	(1,326)	-	-	-	-	133,301	132,822	847	(1,326)
Other Foreign securities	150,408	151,250	1,097	(256)	-	-	-	-	150,408	151,250	1,097	(256)
<b>Subtotal</b>	<b>283,709</b>	<b>284,072</b>	<b>1,944</b>	<b>(1,582)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>283,709</b>	<b>284,072</b>	<b>1,944</b>	<b>(1,582)</b>
<b>Total</b>	<b>2,572,691</b>	<b>2,574,546</b>	<b>13,672</b>	<b>(11,817)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,572,691</b>	<b>2,574,546</b>	<b>13,672</b>	<b>(11,817)</b>

**NOTE 12**

**INVESTMENTS IN ASSOCIATES AND OTHER COMPANIES**

- a) The Consolidated Statements of Financial Position reflect investments in associates and other companies amounting to Ch\$32,293 million as of December 31, 2018, Ch\$ 27,585 million as of December 2017, as show in the following table:

Company	Ownership interest		Investment			
	As of December 31,		Investment value		Profit and loss	
	2018	2017	2018	2017	2018	2017
	%	%	MCh\$	MCh\$	MCh\$	MCh\$
Redbanc S.A.	33,43	33,43	2,822	2,537	285	353
Transbank S.A.	25,00	25,00	17,651	14,534	3,118	2,024
Centro de Compensación Automatizado S.A.	33,33	33,33	1,894	1,589	305	236
Sociedad Interbancaria de Depósito de Valores S.A.	29,29	29,29	1,233	1,087	223	235
Cámara de Compensación de Pagos de Alto Valor S.A. (1)	15,00	15,00	945	909	58	66
Administrador Financiero del Transantiago S.A.	20,00	20,00	3,680	3,098	582	317
Sociedad Nexus S.A.	12,90	12,90	2,279	1,911	368	442
Servicios de Infraestructura de Mercado OTC S.A.	12,48	12,48	1,491	1,489	57	115
<b>Subtotal</b>			<b>31,995</b>	<b>27,154</b>	<b>4,996</b>	<b>3,788</b>
<b>Shares or rights in other companies</b>						
Bladex			136	136	19	25
Stock Exchanges			154	287	148	150
Otras			8	8	(68)	-
<b>Total</b>			<b>32,293</b>	<b>27,585</b>	<b>5,095</b>	<b>3,963</b>

- (1) During the year 2017, the entities Rabobank Chile in Liquidation and Banco París, assigned to Banco Santander a portion of its participation in "Sociedad Operadora de la Cámara de Compensación de Pagos de Alto Valor S,A," at 0.01% and 0,06% respectively, with which the Bank's participation increased to 15.00%.

- b) Investments in associates and other companies do not have market prices.  
c) Summary of financial information of the partners between exercises 2018 and 2017:

	As of December 31,							
	2018				2017			
	Assets MCh\$	Liabilities MCh\$	Equity MCh\$	Net Income MCh\$	Assets MCh\$	Liabilities MCh\$	Equity MCh\$	Net Income MCh\$
Centro de Compensación Automatizado S.A.	7,073	1,480	4,677	916	6,871	2,174	3,989	708
Redbanc S.A.	20,825	12,469	7,505	851	21,235	13,751	6,428	1,056
Transbank S.A.	904,558	835,200	56,888	12,470	822,487	765,683	48,709	8,095
Sociedad Interbancaria de Depósito de Valores S.A.	4,392	230	3,400	762	3,720	60	2,858	802
Sociedad Nexus S.A.	35,139	18,335	13,995	2,849	32,669	18,888	10,354	3,427
Servicios de Infraestructura de Mercado OTC S.A.	25,273	13,313	11,506	454	17,913	6,414	10,963	536
Administrador Financiero del Transantiago S.A.	55,818	37,419	15,490	2,909	51,304	35,814	13,907	1,583
Cámara de Compensación de Pagos de Alto Valor S.A.	6,728	622	5,722	384	6,338	500	5,399	439
<b>Totales</b>	<b>1,059,806</b>	<b>919,068</b>	<b>119,143</b>	<b>21,595</b>	<b>962,537</b>	<b>843,284</b>	<b>102,607</b>	<b>16,646</b>

**NOTE 12**

**INVESTMENTS IN ASSOCIATES AND OTHER COMPANIES, continued**

- d) Restriction on the ability of partners to transfer funds to investors,

There are no significant restriction in relation to the ability of the associates to transfer funds in the form of dividends in Cash or reimbursements of loans or advances, to the bank,

- e) Activity with respect to investments in other companies during 2018 and 2017, is as follow:

	<b>As of December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>MCh\$</b>	<b>MCh\$</b>
<b>Opening balance as of January 1,</b>	<b>27,585</b>	<b>23,780</b>
Acquisition of investments (*)	-	3
Sale of investments	-	-
Participation in income (*)	5,095	3,963
Dividends received	(38)	(116)
Other equity adjustment	(349)	(45)
<b>Total</b>	<b>32,293</b>	<b>27,585</b>

(\*) See letter a), reference (1).

**NOTE 13**  
**INTANGIBLE ASSETS**

a) As of December 31, 2018 and 2017 the composition of intangible assets is as follows:

	Years of useful life	Average remaining useful life	Net opening balance as of January 1, 2018 MCh\$	As of December 31, 2018		
				Gross balance MCh\$	Accumulated amortization MCh\$	Net balance MCh\$
Licenses	3	1	1,200	10,932	(9,956)	976
Software development	3	2	62,019	342,112	(276,165)	65,947
<b>Subtotal</b>			<b>63,219</b>	<b>353,044</b>	<b>(286,121)</b>	<b>66,923</b>
Fully amortized assets			-	(245,242)	245,242	-
<b>Total</b>			<b>63,219</b>	<b>107,802</b>	<b>(40,879)</b>	<b>66,923</b>

	Years of useful life	Average remaining useful life	Net opening balance as of January 1, 2017 MCh\$	As of December 31, 2017		
				Gross balance MCh\$	Accumulated amortization MCh\$	Net balance MCh\$
Licenses	3	1	1,656	10,932	(9,732)	1,200
Software development	3	2	56,429	314,115	(252,096)	62,019
<b>Subtotal</b>			<b>58,085</b>	<b>325,047</b>	<b>(261,828)</b>	<b>63,219</b>
Fully amortized assets			-	(200,774)	200,774	-
<b>Total</b>			<b>58,085</b>	<b>124,273</b>	<b>(61,054)</b>	<b>63,219</b>

b) The changes in the value of intangible assets during the periods December 31, 2018 and 2017 is as follows:

b.1) Gross balance

Gross balances	Licenses MCh\$	Software development MCh\$	Fully amortized assets MCh\$	Total MCh\$
<b>Balances as of January 1, 2018</b>	<b>10,932</b>	<b>314,115</b>	<b>(200,774)</b>	<b>124,273</b>
Acquisitions	-	29,563	-	29,563
Disposals and impairment	-	-	-	-
Other	-	(1,566)	(44,468)	(46,034)
<b>Balances as of December 31, 2018</b>	<b>10,932</b>	<b>342,112</b>	<b>(245,242)</b>	<b>107,802</b>
<b>Balances as of January 1, 2017</b>	<b>10,932</b>	<b>286,781</b>	<b>(200,774)</b>	<b>96,939</b>
Acquisitions	-	32,624	-	32,624
Disposals and impairment	-	(5,290)	-	(5,290)
Other	-	-	-	-
<b>Balances as of December 31, 2017</b>	<b>10,932</b>	<b>314,115</b>	<b>(200,774)</b>	<b>124,273</b>

(\*)See Note No. 34, letter a).

**NOTE 13**  
**INTANGIBLE ASSETS, continued**

**b.2) Accumulated amortization**

Accumulated amortization	Licenses MCh\$	Software development MCh\$	Fully amortized assets MCh\$	Total MCh\$
<b>Balances as of January 1, 2018</b>	<b>(9,732)</b>	<b>(252,096)</b>	<b>200,774</b>	<b>(61,054)</b>
Amortization for the period	(224)	(24,069)	-	<b>(24,293)</b>
Other changes	-	-	44,468	<b>44,468</b>
<b>Balances as of December 31, 2018</b>	<b>(9,956)</b>	<b>(276,165)</b>	<b>245,242</b>	<b>(40,879)</b>
<b>Balances as of January 1, 2017</b>	<b>(9,276)</b>	<b>(230,352)</b>	<b>200,774</b>	<b>(38,854)</b>
Amortization for the period	(456)	(21,744)	-	<b>(22,200)</b>
Other changes	-	-	-	-
<b>Balances as of December 31, 2017</b>	<b>(9,732)</b>	<b>(252,096)</b>	<b>200,774</b>	<b>(61,054)</b>

- c) The Bank has no restriction on intangible assets as of December 31, 2018 and 2017, Additionally, the intangible assets have not been pledged as guarantee to secure compliance with financial liabilities. Also, the Bank has no debt related to Intangible assets as of those dates.

**NOTE 14**  
**PROPERTY, PLANT, AND EQUIPMENT**

a) As of December 31, 2018 and 2017 the property, plant and equipment balances is as follows:

	Net opening balance as of January 1, 2018 MCh\$	As of December 31, 2018		
		Gross balance MCh\$	Accumulated depreciation MCh\$	Net balance MCh\$
Land and building	159,352	309,385	(132,428)	176,957
Equipment	63,516	217,958	(159,756)	58,202
Ceded under operating leases	4,221	4,888	(667)	4,221
Other	15,458	67,197	(52,991)	14,206
<b>Subtotal</b>	<b>242,547</b>	<b>599,428</b>	<b>(345,842)</b>	<b>253,586</b>
Fully depreciated assets	-	(55,374)	55,374	-
<b>Total</b>	<b>242,547</b>	<b>544,054</b>	<b>(290,468)</b>	<b>253,586</b>

	Net opening balance as of January 1, 2017 MCh\$	As of December 31, 2017		
		Gross balance MCh\$	Accumulated depreciation MCh\$	Net balance MCh\$
Land and building	169,809	274,079	(114,727)	159,352
Equipment	66,506	193,689	(130,173)	63,516
Ceded under operating leases	4,230	4,888	(667)	4,221
Other	16,834	60,822	(45,364)	15,458
<b>Subtotal</b>	<b>257,379</b>	<b>533,478</b>	<b>(290,931)</b>	<b>242,547</b>
Fully depreciated assets	-	(59,045)	59,045	-
<b>Total</b>	<b>257,379</b>	<b>474,433</b>	<b>(231,886)</b>	<b>242,547</b>

b) The changes in the value of property, plant and equipment during 2018 and 2017 is as follows:

b.1) Gross balance

2018	Land and buildings MCh\$	Equipment MCh\$	Operating leases MCh\$	Other MCh\$	Fully depreciated assets MCh\$	Total MCh\$
<b>Balances as of January 1, 2018</b>	<b>274,079</b>	<b>193,689</b>	<b>4,888</b>	<b>60,823</b>	<b>(59,045)</b>	<b>474,43</b>
Additions	35,369	28,438	-	4,522	-	<b>68,329</b>
Disposals	(63)	(4,130)	-	(2,104)	-	<b>(6,297)</b>
Impairment due to damage (*)	-	(39)	-	-	-	<b>(39)</b>
Other	-	-	-	3,956	3,671	<b>7,627</b>
<b>Balances as of December 31, 2018</b>	<b>309,385</b>	<b>217,958</b>	<b>4,888</b>	<b>67,197</b>	<b>(55,374)</b>	<b>544,054</b>

(\*) Banco Santander Chile has had to recognize in its financial statements as of December 31, 2018 deterioration by \$39 Millions, corresponding to ATM claims. Compensation charged for insurance concepts involved, amounted to \$----- million, which are presented within the heading "Other income and operational expenses" (note 35).

**NOTE 14**  
**PROPERTY, PLANT, AND EQUIPMENT, continued**

2017	Land and buildings MCh\$	Equipment MCh\$	Operating leases MCh\$	Other MCh\$	Fully depreciated assets MCh\$	Total MCh\$
<b>Balances as of January 1, 2017</b>	<b>264,016</b>	<b>168,124</b>	<b>4,888</b>	<b>55,973</b>	<b>(39,958)</b>	<b>453,043</b>
Additions	27,592	26,278	-	4,901	-	<b>58,771</b>
Disposals	(17,529)	(359)	-	(51)	-	<b>(17,939)</b>
Impairment due to damage (*)	-	(354)	-	-	-	<b>(354)</b>
Other	-	-	-	-	(19,087)	<b>(19,087)</b>
<b>Balances as of December 31, 2017</b>	<b>274,079</b>	<b>193,689</b>	<b>4,888</b>	<b>60,823</b>	<b>(59,045)</b>	<b>474,434</b>

(\*)Banco Santander Chile has had to recognize in its consolidated financial statements as of December 31, 2017 deterioration by \$354 Millions, corresponding to ATM claims. Compensation charged for insurance concepts involved, amounted to \$ 1,238 billion, which are presented within the heading "Other income and operational expenses" (note 35).

**b.2) Accumulated depreciation**

2018	Land and buildings MCh\$	Equipment MCh\$	Operating leases MCh\$	Other MCh\$	Fully depreciated assets MCh\$	Total MCh\$
<b>Balances as of January 1, 2018</b>	<b>(114,727)</b>	<b>(130,173)</b>	<b>(667)</b>	<b>(45,365)</b>	<b>59,045</b>	<b>(231,887)</b>
Depreciation in the period	(17,704)	(29,623)	-	(7,660)	-	<b>(54,987)</b>
Sales and disposals in the period	3	40	-	34	-	<b>77</b>
Transfers	-	-	-	-	-	-
Others	-	-	-	-	(3,671)	<b>(3,671)</b>
<b>Balances as of December 31, 2018</b>	<b>(132,428)</b>	<b>(159,756)</b>	<b>(667)</b>	<b>(52,991)</b>	<b>55,374</b>	<b>(290,468)</b>

2017	Land and buildings MCh\$	Equipment MCh\$	Operating leases MCh\$	Other MCh\$	Fully depreciated assets MCh\$	Total MCh\$
<b>Balances as of January 1, 2017</b>	<b>(94,207)</b>	<b>(101,618)</b>	<b>(658)</b>	<b>(39,139)</b>	<b>39,958</b>	<b>(195,664)</b>
Depreciation in the period	(20,744)	(28,593)	(9)	(6,277)	-	<b>(55,623)</b>
Sales and disposals in the period	224	38	-	51	-	<b>313</b>
Transfers	-	-	-	-	-	-
Others	-	-	-	-	19,087	<b>19,087</b>
<b>Balances as of December 31, 2017</b>	<b>(114,727)</b>	<b>(130,173)</b>	<b>(667)</b>	<b>(45,365)</b>	<b>59,045</b>	<b>(231,887)</b>

**NOTE 14**  
**PROPERTY, PLANT, AND EQUIPMENT, continued**

**c) Operational leases - Lessor**

As of December 31, 2018 and 2017, the future minimum lease cash inflows under non-cancellable operating leases are as follows:

	As of December 31,	
	2018	2017
	MCh\$	MCh\$
Due within 1 year	469	567
Due after 1 year but within 2 years	882	749
Due after 2 years but within 3 years	469	480
Due after 3 years but within 4 years	460	348
Due after 4 years but within 5 years	428	308
Due after 5 years	2,242	1,792
<b>Total</b>	<b>4,950</b>	<b>4,244</b>

**d) Operational leases - Lessee**

Some of the Bank's premises and equipment are under operating leases, Future minimum rental payments under non-cancellable leases are as follows:

	As of December 31,	
	2018	2017
	MCh\$	MCh\$
Due within 1 year	25,702	26,059
Due after 1 year but within 2 years	24,692	21,343
Due after 2 years but within 3 years	22,439	18,091
Due after 3 years but within 4 years	19,574	15,736
Due after 4 years but within 5 years	17,250	12,734
Due after 5 years	63,945	51,502
<b>Total</b>	<b>173,602</b>	<b>145,465</b>

**e)** As of December 31, 2018 and 2017 the Bank has no finance leases which cannot be unilaterally cancelled,

**f)** The Bank has no restriction on property, plant and equipment as of December 31, 2018 and 2017, Additionally, the property, plant, and equipment have not been provided as guarantees to secure compliance with financial liabilities. The Bank has no debt in connection with property, plant and equipment.



**NOTE 15**  
**CURRENT AND DEFERRED TAXES**

**a) Current taxes**

As of December 31, 2018 and 2017, the Bank recognizes taxes payable (recoverable), which is determined based on the currently applicable tax legislation. This amount is recorded net of recoverable taxes, and is shown as follows:

	<b>As of December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>MCh\$</b>	<b>MCh\$</b>
<b>Summary of current tax liabilities (assets)</b>		
Current tax (assets)	-	-
Current tax liabilities	8,093	6,435
<b>Total tax payable (recoverable)</b>	<b>8,093</b>	<b>6,435</b>
<b>(Assets) liabilities current taxes detail (net)</b>		
Income tax (*)	166,173	145,112
Less:		
Provisional monthly payments	(155,706)	(136,562)
Credit for training expenses	(1,937)	(1,768)
Land taxes leasing	-	-
Grant credits	(1,320)	(968)
Other	883	621
<b>Total tax payable (recoverable)</b>	<b>8,093</b>	<b>6,435</b>

(\*) As of December 31, 2018 and 2017 the tax rates were 27.0% and 25.5%.

**b) Effect on income**

The effect tax expense has on income for the years ended December 31, 2018 and 2017 is comprised of the following items:

	<b>As of December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>MCh\$</b>	<b>MCh\$</b>
<b>Income tax expense</b>		
Current tax	166,173	145,112
<b>Credits (debits) for deferred taxes</b>		
Origination and reversal of temporary differences	3,590	(8,178)
Valuation provision	(56)	5,955
<b>Subtotal</b>	<b>169,707</b>	<b>142,889</b>
Tax for rejected expenses (Article No,21)	1,110	610
Other	(4,920)	114
<b>Net income tax expense</b>	<b>165,897</b>	<b>143,613</b>

**NOTE 15**  
**CURRENT AND DEFERRED TAXES, continued**

**c) Effective tax rate reconciliation**

The reconciliation between the income tax rate and the effective rate in calculating the tax expense as of December 31, 2018 and 2017 is as follows:

	As of December 31,			
	2018		2017	
	Tax rate %	Amount MCh\$	Tax rate %	Amount MCh\$
Tax calculated over profit before tax	27.00	205,784	25.50	183,823
Permanent differences (1)	(5.18)	(39,494)	(3.25)	(23,399)
Penalty tax (rejected expenses)	0.15	1,110	0.08	610
Rate change effect (2)	0.00	-	(2.86)	(20,600)
Other	(0.20)	(1,503)	0.44	3,179
<b>Effective rates and expenses for income tax</b>	<b>21.77</b>	<b>165,897</b>	<b>19.91</b>	<b>143,613</b>

(1) It mainly corresponds to the permanent differences originated by the Monetary Correction of the Tax Own Capital.

(2) The publication of law 20,780 of September 29, 2014 increased the tax rate from the current 25.5% in the year 2017 to 27% for the year 2018 and onwards permanently.

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

A summary of the separate effect of deferred tax on other comprehensive income, showing the asset and liability balances, for the periods ended December 31, 2018 and 2017 follows:

	As of December 31,	
	2018 MCh\$	2017 MCh\$
<b>Deferred tax assets</b>		
Available for sale investments	1,071	368
Cash flow hedges	65	908
<b>Total deferred tax assets recognized through other comprehensive income</b>	<b>1,136</b>	<b>1,276</b>
<b>Deferred tax liabilities</b>		
Available for sale investments	(2,806)	(841)
Cash flow hedges	(2,711)	-
<b>Total deferred tax liabilities recognized through other comprehensive income</b>	<b>(5,517)</b>	<b>(841)</b>
<b>Net deferred tax balances in equity</b>	<b>(4,381)</b>	<b>435</b>
Deferred taxes in equity attributable to equity holders of the bank	(4,027)	791
Deferred tax in equity attributable to non-controlling interests	(354)	(356)

**NOTE 15**  
**CURRENT AND DEFERRED TAXES, continued**

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

Below are effects of deferred taxes on assets, liabilities and income allocated for differences:

	As of December 31,	
	2018	2017
	MCh\$	MCh\$
<b>Deferred tax assets</b>		
Interests and adjustments	9,384	8,645
Non-recurring charge-offs	13,389	11,651
Assets received in lieu of payment	2,467	4,073
Exchange rate adjustment	1,675	882
Property, plant and equipment	6,138	4,410
Provision for loan losses	168,320	172,386
Provision for expenses	63,134	73,518
Derivatives	3,924	5,249
Leased assets	107,897	98,090
Subsidiaries tax losses	5,314	5,277
Prepaid Expenses	156	151
Investment valuation	-	-
<b>Total deferred tax assets</b>	<b>381,798</b>	<b>384,332</b>
<b>Deferred tax liabilities</b>		
Valuation of investments	(42)	(1,911)
Depreciation	-	(532)
Anticipated Expenses	(349)	-
Provision for evaluation	(6,084)	(5,955)
Derivatives	(3,383)	-
Exchange rate adjustments	-	-
Other	(20)	(424)
<b>Total deferred tax liabilities</b>	<b>(9,878)</b>	<b>(8,822)</b>

(\*)They include deferred tax assets due to temporary differences in derivative contracts.

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

A summary of the effect of deferred taxes on equity and income follows:

	As of December 31,	
	2018	2017
	MCh\$	MCh\$
<b>Deferred tax assets</b>		
Recognized through other comprehensive income	1,136	1,276
Recognized through profit or loss	381,798	384,332
<b>Total deferred tax assets</b>	<b>382,934</b>	<b>385,608</b>
<b>Deferred tax liabilities</b>		
Recognized through other comprehensive income	(5,517)	(841)
Recognized through profit or loss	(9,878)	(8,822)
<b>Total deferred tax liabilities</b>	<b>(15,395)</b>	<b>(9,663)</b>

**NOTE 15**  
**CURRENT AND DEFERRED TAXES, continued**

g) Supplementary information related to the circular issued by internal tax service and the superintendency of bank and financial institutions.

g.1) Receivables and accounts receivable

	As of December 31,							
	2018				2017			
	Assets at tax value				Assets at tax value			
	Assets at financial value MCh\$	Total MCh\$	Overdue Wallet		Assets at financial value MCh\$	Total MCh\$	Overdue Wallet	
with Warranty MCh\$			without Warranty MCh\$	with Warranty MCh\$			without Warranty MCh\$	
Owed by banks	15,094	15,094	-	-	162,685	162,684	-	-
Comercial Placements	13,414,955	13,441,810	119,558	177,971	12,001,748	12,024,895	88,495	157,106
Consume Placements	4,872,131	4,878,008	1,372	22,127	4,552,977	4,592,105	1,327	20,041
Home mortgage Placements	10,150,981	10,200,415	63,121	1,031	9,096,895	9,106,216	64,525	1,245
<b>Total</b>	<b>28,453,161</b>	<b>28,535,327</b>	<b>184,051</b>	<b>201,129</b>	<b>25,814,305</b>	<b>25,885,900</b>	<b>154,347</b>	<b>178,392</b>

g.2) Provision on overdue portfolio without guarantees

	Balance as of January 1, 2018 MCh\$	Punishment against provisions MCh\$	Provisions constituted MCh\$	Provisions free MCh\$	Balance as of December 31, 2018 MCh\$
Comercial Placements	157,106	(70,181)	487,325	(396,280)	177,971
Consume Placements	20,041	(198,534)	204,703	(4,082)	22,127
Home mortgage Placements	1,245	(9,128)	35,605	(26,693)	1,031
<b>Total</b>	<b>178,392</b>	<b>(277,843)</b>	<b>727,633</b>	<b>(427,055)</b>	<b>201,129</b>

	Balance as of January 1, 2017 MCh\$	Punishment against provisions MCh\$	Provisions constituted MCh\$	Provisions free MCh\$	Balance as of December 31, 2017 MCh\$
Comercial Placements	133,424	(92,904)	581,141	(464,555)	157,106
Consume Placements	24,924	(235,208)	237,298	(6,973)	20,041
Home mortgage Placements	1,401	(9,740)	41,657	(32,073)	1,245
<b>Total</b>	<b>159,749</b>	<b>(337,852)</b>	<b>860,096</b>	<b>(503,601)</b>	<b>178,392</b>

**NOTE 15**  
**CURRENT AND DEFERRED TAXES, continued**

**g.3) Direct punishments and recoveries**

	As of December 31,	
	2018 MCh\$	2017 MCh\$
Direct Punishment Art, 31 No, 4, second paragraph	(38,549)	(42,713)
Condonations that originated liberation of provisions	-	-
Recoveries or renegotiations of credits written off	88,481	83,315
<b>Total</b>	<b>49,932</b>	<b>40,602</b>

**g.4) Application Article 31 No, 4 paragraphs I and II**

	As of December 31,	
	2018 MCh\$	2017 MCh\$
Punishment according to first paragraph	-	-
Condonations according to third paragraph	5,974	(6,362)
<b>Total</b>	<b>5,974</b>	<b>(6,362)</b>

**NOTE 16**  
**OTHER ASSETS**

Other assets include the following:

	<b>As of December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>MCh\$</b>	<b>MCh\$</b>
<b>Assets for leasing (1)</b>	<b>47,486</b>	<b>48,099</b>
<b>Assets received or awarded in lieu of payment (2)</b>		
Assets received in lieu of payment	11,297	11,677
Assets awarded at judicial sale	21,524	24,800
Provision on assets received in lieu of payment or awarded	(723)	(1,440)
<b>Subtotal</b>	<b>32,098</b>	<b>35,037</b>
<b>Other assets</b>		
Guarantee deposits (margin accounts) (3)	170,232	323,767
Gold investments	522	478
VAT credit	9,097	9,570
Income tax recoverable	1,756	1,381
Prepaid expenses (4)	477,819	116,512
Active assets Fixed for Sale	-	663
Assets recovered from leasing for sale	6,848	4,235
Valuation Adjustments by macrohedge	9,414	160
Pension plan assets	846	921
Accounts and notes receivable	59,511	59,574
Notes receivable through brokerage and simultaneous transactions	78,330	68,272
Other receivable assets	48,612	53,500
Other assets	42,417	33,014
<b>Subtotal</b>	<b>905,404</b>	<b>672,047</b>
<b>Total</b>	<b>984,988</b>	<b>755,183</b>

(1) Correspondence to the assets available to be delivered under the financial lease modality.

(2) The goods received in payment correspond to the goods received as payment of debts due from the customers, The set of goods that remain acquired in this way must not exceed 20% of the Bank's effective equity at any time. These assets currently represent 0.28% (0,30% as of December 31, 2017) of the Bank's effective equity.

The assets awarded in judicial auction, correspond to assets that have been acquired at judicial auction in payment of debts previously contracted with the Bank. The assets acquired at judicial auction are not subject to the above mentioned margin, These properties are assets available for sale, For most assets, the sale can be completed within one year from the date the asset is received or acquired, In case the good is not sold within a year, it must be punished.

Additionally, a provision is recorded for the difference between the initial award value plus the additions and their estimated realizable value, when the former is higher.

(3) Corresponds to a guarantee threshold associated with a specific derivative contract. These guarantees operate when the valuation of the derivatives exceeds thresholds defined in the contract values and may be for or against the Bank.

(4) Corresponds to the renewal of the "Santander Latam Pass" program.

**NOTE 17**

**DEPOSITS AND OTHER LIABILITIES**

As of December 31, 2018 and 2017, the composition of the item time deposits and other liabilities is as follows:

	<b>As of December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>MCh\$</b>	<b>MCh\$</b>
<b>Deposits and other demand liabilities</b>		
Checking accounts	6,794,132	6,272,656
Other deposits and demand accounts	709,711	590,221
Other demand liabilities	1,237,574	905,289
<b>Total</b>	<b>8,741,417</b>	<b>7,768,166</b>
<b>Time deposits and other time liabilities</b>		
Time deposits	12,944,846	11,792,466
Time savings account	118,587	116,179
Other time liabilities	4,386	5,300
<b>Total</b>	<b>13,067,819</b>	<b>11,913,945</b>

**Banco Santander Chile and Subsidiaries**

**Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2018 AND 2017

**NOTE 18**

**INTERBANK BORROWINGS**

As of December 31, 2018 and 2017 the line item interbank borrowings is as follow:

	As of December 31	
	2018	2017
	MCh\$	MCh\$
<b>Loans obtained from the Central Bank of Chile</b>		
Other obligations with the Central Bank of Chile	-	5
<b>Loans from financial institutions in the country</b>	-	480
<b>Loans from financial institutions abroad</b>		
Bank Of America N.A. Us Foreign	338,906	228,309
Sumitomo Mitsui Banking Corporation	278,761	259,199
Citibank N.A.	241,041	191,494
Mizuho Bank Ltd. NY.	223,829	215,967
Wells Fargo Bank N.A.	216,749	235,058
The Bank of Nova Scotia	163,927	86,419
The Bank of New York Mellon	69,921	30,839
Corporación Andina De Fomento	52,371	-
Standard Chartered Bank	50,960	225,966
Barclays Bank PLC London	34,965	30,886
Hsbc Bank Plc Ny	34,936	30,875
Wachovia Bank, NA	33,499	-
Banco Santander Brasil S.A	8,040	5,225
Bank of China	7,777	831
Banco Santander – Hong Kong	6,047	8,341
Deutsche Bank A.G.	5,558	157
Bnp Paribas, Hong Kong Branch	3,554	-
Keb Hana Bank	2,318	396
Rabobank, Hong Kong Branch	1,548	-
Hong Kong and Shanghai Banking	1,300	222
Banco Santander Central Hispano	1,295	312
Unicredito Italiano	1,117	264
Bank of Tokio Mitsubishi	1,032	453
Banco Bilbao Vizcaya Argentaria	888	-
Standard Chartered Bank Malays	843	-
Daxia Bank S.A.	789	-
Banque Bruxelles Lambert S.A.	509	-
Hsbc Bank Usa	394	38
Shinhan Bank	380	394
United Bank of India	378	-
Woori Bank	356	105
State Bank of India	331	110
Banca Commerciale Italiana S.P.	288	31
Canara Bank	237	224
Shanghai Pudong Develkonebt Ba	237	-
Banco de Galicia Y Buenos Aires	231	-
Bank of East Asia, Limited	205	241
First Union National Bank	201	35
Industrial Bank of Korea	195	-
Banca Monte dei Paschi di Siena	179	162
Metropolitan Bank Limited	170	87
Hua Nan Commercial Bank Ltd.	164	349
Credit Lyonnais	139	-
Bank of Shanghai	134	-
Bank of Taiwan	127	136
Agricultural Bank of China	106	295
Akbank T.A.S.	106	-
Credit Agricole	106	-
Banco Bradesco S.A.	89	-
Oriental Bank Of Commerce	87	-
Kookmin Bank	78	201
Banca Nazionale Del Lavoro S.P	77	-
Hsbc Bank Middle East	77	-
International Commercial Bank	70	221
Taiwan Cooperative Bank	66	159
Banca Lombarda E Piemontese S.	60	-
Hanvit Bank	58	55
Bank of India	51	-
Caixabank S.A.	44	-
Fortis Bank S.A./N.V. Brussels	42	15
<b>Subtotal</b>	<b>1,787,943</b>	<b>1,554,071</b>



**Banco Santander Chile and Subsidiaries**

**Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2018 AND 2017

**NOTE 18**

**INTERBANK BORROWINGS, continued**

	As of December 31	
	2018	2017
	MCh\$	MCh\$
<b>Loans from financial institutions in the country</b>		
Banco de la Republica Oriental	41	-
Bank of Baroda	37	-
China Construcción Bank	35	90
Banco Internacional S.A.	33	-
Joint Stock Commercial Bank Fo.	33	-
Shanghai Commercial and Saving	33	-
Banistmo S.A.	32	-
Banca Popolare Dell'Emilia Rom	31	53
Bank of Montreal	31	30
Raiffeissen Bank Polska S.A	31	-
Casa Di Risparmio De Padova E.R.	30	56
Industrial And Commercial Bank	30	119
Hdfc Bank Limited	28	-
Bankinter S.A.	24	-
Kbc Bank Nv	23	-
Banco bpm SPA	21	-
Cassa Di Risparmio In Bologna	21	-
Banco De Sabadell S.A.	20	-
Banco Commerzbank	19	-
Taiwan Business Bank	19	19
Cajas Rurales Unidas	18	-
Chang Hwa Commercial Bank Ltd.	18	14
U.S. Bank (Formerly First Bank	18	-
United World Chinese Commercia	15	-
Banco Itau S.A.	14	-
Mega International Commercial	9	-
Banca Popolare Di Milano S.C.A	6	-
Hang Seng Bank (China) Limited	6	-
Sumitono Mitsui	4	-
Development Bank Of Singapore	3	-
Abanca corporation Bancaria S.A.	-	60
Australia And New Zealand Bank	-	62
Banca Delle Marche SPA	-	76
Banco Bradesco S.A.	-	50
Banco Caixa Geral	-	33
Banco Commerzbank	-	145
Banco de Occidente	-	282
Banco Sabadell S.A.	-	10
Banco Do Brasil S.A.	-	268
Banco Internacional S.A.	-	33
Banco Popolare Soc Coop	-	6
Banco Popular Español S.A.	-	19
Bancolombia S.A.	-	94
Bank Austria A.G.	-	2,317
Bank of Communications	-	93
Bank Of nova Scotia	-	112
Banque Generale Du Luxembourg	-	207
Cassa Di Risparmio Di Parma E	-	93
Citic Industrial Bank	-	39
Corporación andina De Fomento	-	31,075
European Investment Bank	-	12,629
Habib Bank Limited.	-	34
Hang Seng Bank Ltd.	-	39
Hsbc Bank Plc	-	30,838
Icici Bank Limited	-	8
J.P Mogan Chase Bank N.A.	-	154
Kasikornbank Public Company Li.	-	25
Liu Chong Hing Bank Limited	-	21
Mizuho Corporate Bank	-	331
Punjab Natinal Bank	-	47
Shanghai Pudong Development	-	714
Societe Generale	-	56
Thai Military Bank Public comp	-	377
The Toronto-Dominion Bank	-	62,743
Yapi Ve Kredi Bankasi A.S.	-	155
Zhenjiang Commercial Bank Ltd.	-	175
<b>Subtotal</b>	<b>683</b>	<b>143,801</b>
<b>Total</b>	<b>1,788,626</b>	<b>1,698,357</b>

**NOTE 18**  
**INTERBANK BORROWINGS, continued**

**a) Obligation with Central Bank of Chile**

Debts to the Central Bank of Chile include credit lines for renegotiation of loans and other borrowings. These credit lines were provided by the Central Bank of Chile for renegotiation of loans due to the need to refinance debt as a result of the economic recession and crisis of the banking system in the early 1980s.

The outstanding amounts owed to the Central Bank of Chile under these credit lines are as follows:

	As of December 31,	
	2018	2017
	MCh\$	MCh\$
Totals Line of credit for renegotiation with Central Bank of Chile	-	5

**b) Loans from domestic financial institutions**

these obligations maturities are as follows:

	As of December,	
	2018	2017
	MCh\$	MCh\$
Due Within 1 year	-	480
Due Within 1 y 2 years	-	-
Due Within 2 y 3 years	-	-
Due Within 3 y 4 years	-	-
Due Within 5 years	-	-
<b>Total loans from domestic financial institutions</b>	<b>-</b>	<b>480</b>

**c) Foreign obligations**

	As of December	
	2018	2017
	MCh\$	MCh\$
Due Within 1 year	1,648,955	1,477,318
Due Within 1 y 2 years	139,671	185,519
Due Within 2 y 3 years	-	35,035
Due Within 3 y 4 years	-	-
Due Within 5 years	-	-
<b>Total loans from foreign financial institutions</b>	<b>1,788,626</b>	<b>1,697,872</b>

**NOTE 19**  
**ISSUED DEBT INSTRUMENTS AND OTHER FINANCIAL LIABILITIES**

As of December 31, 2018 and 2017, the composition of this item is as follows:

	As of December 31,	
	2018	2017
	MCh\$	MCh\$
<b>Other financial liabilities</b>		
Obligations to public sector	32,449	59,470
Other domestic obligations	175,210	175,389
Foreign obligations	7,741	7,171
<b>Subtotal</b>	<b>215,400</b>	<b>242,030</b>
<b>Issued debt instruments</b>		
Mortgage finance bonds	25,490	34,479
Senior bonds	7,198,865	6,186,760
Mortgage Bonds	94,921	99,222
Subordinated bonds	795,957	773,192
<b>Subtotal</b>	<b>8,115,233</b>	<b>7,093,653</b>
<b>Total</b>	<b>8,330,633</b>	<b>7,335,683</b>

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

	As of December 31, 2018		
	Current MCh\$	Non-current MCh\$	Total MCh\$
Mortgage finance bonds	6,830	18,660	25,490
Senior bonds	844,898	6,353,967	7,198,865
Mortgage Bonds	4,833	90,088	94,921
Subordinated bonds	1	795,956	795,957
<b>Issued debt instruments</b>	<b>856,562</b>	<b>7,258,671</b>	<b>8,115,233</b>
<b>Other financial liabilities</b>	<b>205,871</b>	<b>9,529</b>	<b>215,400</b>
<b>Total</b>	<b>1,062,433</b>	<b>7,268,200</b>	<b>8,330,633</b>
	As of December 31, 2017		
	Current MCh\$	Non-current MCh\$	Total MCh\$
Mortgage finance bonds	8,691	25,788	34,479
Senior bonds	337,166	5,849,594	6,186,760
Mortgage Bonds	4,541	94,681	99,222
Subordinated bonds	3	773,189	773,192
<b>Issued debt instruments</b>	<b>350,401</b>	<b>6,743,252</b>	<b>7,093,653</b>
<b>Other financial liabilities</b>	<b>212,825</b>	<b>29,205</b>	<b>242,030</b>
<b>Total</b>	<b>563,226</b>	<b>6,772,457</b>	<b>7,335,683</b>

**NOTE 19**  
**ISSUED DEBT INSTRUMENTS AND OTHER FINANCIAL LIABILITIES, continued**

**a) Mortgage finance bonds**

These bonds are used to finance mortgage loans, Their principal amounts are amortized on a quarterly basis. The range of maturities of these bonds is between five and twenty years, Loans are indexed to UF and create a yearly interest rate of -----% as of December 31, 2018 (5.39% as of December 31, 2017).

	As of December 31,	
	2018	2017
	MCh\$	MCh\$
Due within 1 year	6,830	8,691
Due after 1 year but within 2 years	5,946	6,744
Due after 2 years but within 3 years	5,034	6,096
Due after 3 years but within 4 years	3,997	5,155
Due after 4 years but within 5 years	2,480	4,101
Due after 5 years	1,203	3,692
<b>Total mortgage finance bonds</b>	<b>25,490</b>	<b>34,479</b>

**b) Senior bonds**

The following table shows senior bonds by currency:

	As of December 31,	
	2018	2017
	MCh\$	MCh\$
Santander bonds in UF	4,095,741	3,542,006
Santander bonds in USD	1,094,267	1,045,465
Santander bonds in CHF	386,979	268,281
Santander bonds in Ch\$	1,291,900	1,135,527
Santander bonds in AUD	24,954	14,534
Santander bonds in JPY	191,598	126,059
Santander bonds in EUR	113,426	54,888
<b>Total senior bonds</b>	<b>7,198,865</b>	<b>6,186,760</b>

**NOTE 19**

**ISSUED DEBT INSTRUMENTS AND OTHER FINANCIAL LIABILITIES, continued**

**i. Placement of senior bonds:**

During 2018 the Bank has placed bonds for UF 23,000,000, CLP 225,000,000,000, USD 70,000,000, EUR 66,000,000, AUD 20,000,000, CHF 115,000,000 y JPY 7,000,000,000, detailed as follows:

Series	Currency	Amount placed	Term (years)	Issuance rate	Issue date	Series Maximum amount	Maturity date
T1	UF	4,000,000	2	2.20%	01-02-2016	7,000,000	01-02-2020
T4	UF	4,000,000	3	2.35%	01-02-2016	8,000,000	01-08-2021
T11	UF	5,000,000	7	2.65%	01-02-2016	5,000,000	01-02-2025
T12	UF	5,000,000	7	2.70%	01-02-2016	5,000,000	01-08-2025
T15	UF	5,000,000	11	3.00%	01-02-2016	5,000,000	01-08-2028
<b>Total</b>	<b>UF</b>	<b>23,000,000</b>				<b>30,000,000</b>	
P5	CLP	75,000,000,000	4	5.30%	05-03-2015	150,000,000,000	01-03-2022
U4	CLP	75,000,000,000	3 y 4 months	ICP + 1.00%	10-01-2017	75,000,000,000	10-01-2022
U3	CLP	75,000,000,000	2 y 7 months	ICP + 1.00%	11-06-2018	75,000,000,000	11-06-2021
<b>Total</b>	<b>CLP</b>	<b>225,000,000,000</b>				<b>300,000,000,000</b>	
USD	USD	50,000,000	10	4.17%	10-10-2018	50,000,000	10-10-2028
USD	USD	20,000,000	2	0.0369%	16-11-2018	20,000,000	16-11-2020
<b>Total</b>	<b>USD</b>	<b>70,000,000</b>				<b>70,000,000</b>	
EUR	EUR	26,000,000	7	1.00%	04-05-2018	26,000,000	28-05-2025
EUR	EUR	40,000,000	12	1.78%	07-06-2018	40,000,000	15-06-2030
<b>Total</b>	<b>EUR</b>	<b>66,000,000</b>				<b>66,000,000</b>	
AUD	AUD	20,000,000	5	3.56%	13-11-2018	20,000,000	13-11-2023
<b>Total</b>	<b>AUD</b>	<b>20,000,000</b>				<b>20,000,000</b>	
CHF	CHF	115,000,000	5 y 3 months	0.441%	21-09-2018	115,000,000	21-12-2023
<b>Total</b>	<b>CHF</b>	<b>115,000,000</b>				<b>115,000,000</b>	
JPY	JPY	4,000,000,000	10 y 6 months	0.65%	13-07-2018	4,000,000,000	13-01-2029
JPY	JPY	3,000,000,000	5	56%	30-10-2018	3,000,000,000	30-10-2023
<b>Total</b>	<b>JPY</b>	<b>7,000,000,000</b>				<b>7,000,000,000</b>	

**NOTE 19**  
**ISSUED DEBT INSTRUMENTS AND OTHER FINANCIAL LIABILITIES, continued**

During 2018 the Bank repurchased the following bonds:

Date	Type	Currency	Amount
04-01-2018	Senior	CLP	12,890,000,000
04-01-2018	Senior	CLP	4,600,000,000
22-01-2018	Senior	UF	24,000
05-04-2018	Senior	UF	484,000
06-04-2018	Senior	UF	184,000
23-04-2018	Senior	UF	216,000
24-04-2018	Senior	UF	4,000
25-04-2018	Senior	UF	262,000
10-05-2018	Senior	UF	800,000
07-06-2018	Senior	USD	3,090,000
11-12-2018	Senior	USD	250,000,000

During 2017 the Bank has placed bonds for UF 10,000,000, CLP 160,000,000,000, AUD 30,000,000 y USD 770,000,000, detailed as follows:

Series	Currency	Amount Placed	Term	Issuance rate	Issue date	Maximum amount	Maturity date
<b>T9</b>	<b>UF</b>	5,000,000	7	2.60%	01-02-2016	5,000,000	01-03-2024
<b>T13</b>	<b>UF</b>	5,000,000	9	2.75%	01-02-2016	5,000,000	01-03-2026
<b>Total</b>		<b>10,000,000</b>				<b>10,000,000</b>	
<b>SD</b>	<b>CLP</b>	60,000,000,000	5	5.50%	01-06-2014	200,000,000,000	01-12-2019
<b>T16</b>	<b>CLP</b>	100,000,000,000	6	5.20%	01-02-2016	100,000,000,000	01-12-2021
<b>Total</b>		<b>160,000,000,000</b>				<b>300,000,000,000</b>	
<b>DN</b>	<b>USD</b>	100,000,000	3	Libor-USD 3M+0.80%	20-07-2017	100,000,000	27-07-2020
<b>DN</b>	<b>USD</b>	50,000,000	3	Libor-USD 3M+0.80%	21-07-2017	50,000,000	27-07-2020
<b>DN</b>	<b>USD</b>	50,000,000	3	Libor-USD 3M+0.80%	24-07-2017	50,000,000	27-07-2020
<b>DN</b>	<b>USD</b>	10,000,000	4	Libor-USD 3M+0.80%	23-08-2017	10,000,000	23-11-2021
<b>DN</b>	<b>USD</b>	10,000,000	4	Libor-USD 3M+0.83%	23-08-2017	10,000,000	23-11-2021
<b>DN</b>	<b>USD</b>	50,000,000	3	Libor-USD 3M+0.83%	14-09-2017	50,000,000	15-09-2020
<b>DN</b>	<b>USD</b>	500,000,000	3	Libor-USD 3M+0.75%	12-12-2017	500,000,000	15-12-2020
<b>Total</b>		<b>770,000,000</b>				<b>770,000,000</b>	
<b>AUD</b>	<b>AUD</b>	30,000,000	10	3.96%	05-12-2017	30,000,000	12-12-2027
<b>Total</b>		<b>30,000,000</b>				<b>30,000,000</b>	

**NOTE 19**  
**ISSUED DEBT INSTRUMENTS AND OTHER FINANCIAL LIABILITIES, continued**

During 2017, the Bank repurchased the following bonds:

<b>Date</b>	<b>Type</b>	<b>Currency</b>	<b>Amount</b>
06-03-2017	Senior	USD	6,900,000
12-05-2017	Senior	UF	1,000,000
16-05-2017	Senior	UF	690,000
17-05-2017	Senior	UF	15,000
26-06-2017	Senior	UF	340,000
01-06-2017	Senior	UF	590,000
02-06-2017	Senior	UF	300,000
05-06-2017	Senior	UF	130,000
19-06-2017	Senior	UF	265,000
10-07-2017	Senior	UF	770,000
21-07-2017	Senior	UF	10,000
28-08-2017	Senior	UF	200,000
28-08-2017	Senior	UF	200,000
29-08-2017	Senior	UF	2,000
29-08-2017	Senior	UF	270,000
03-11-2017	Senior	UF	14,000
29-11-2017	Senior	UF	400,000
06-12-2017	Senior	UF	20,000
12-12-2017	Senior	CLP	10,990,000,000

**ii. Maturities of senior bonds are as follows:**

	<b>As of December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>MCh\$</b>	<b>MCh\$</b>
Due within 1 year	844,898	337,166
Due after 1 year but within 2 years	1,331,255	866,936
Due after 2 years but within 3 years	1,073,847	832,978
Due after 3 years but within 4 years	1,104,547	1,177,081
Due after 4 years but within 5 years	421,918	902,647
Due after 5 years	2,422,400	2,069,952
<b>Total senior bonds</b>	<b>7,198,865</b>	<b>6,186,760</b>

**c) Mortgage bonds**

Detail of mortgage bonds per currency is as follows:

	<b>As of December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>MCh\$</b>	<b>MCh\$</b>
Mortgage bonds in UF	94,921	99,222
<b>Total mortgage bonds</b>	<b>94,921</b>	<b>99,222</b>

**i. Placement of Mortgage bonds**

During 2018 and 2017, the Bank has not placed any mortgage bonds.

**NOTE 19**  
**ISSUED DEBT INSTRUMENTS AND OTHER FINANCIAL LIABILITIES, continued**

**ii. Maturities of mortgage bonds is as follows:**

	As of December 31,	
	2018 MCh\$	2017 MCh\$
Due within 1 year	4,833	4,541
Due after 1 year but within 2 years	7,758	7,291
Due after 2 years but within 3 years	8,008	7,526
Due after 3 years but within 4 years	8,267	7,769
Due after 4 years but within 5 years	8,534	8,019
Due after 5 years	57,521	64,076
<b>Total mortgage bonds</b>	<b>94,921</b>	<b>99,222</b>

**d) Subordinated bonds**

Detail of subordinated bonds per currency is as follows:

	As of December 31,	
	2018 MCh\$	2017 MCh\$
Subordinated bonds denominated in Ch\$	1	3
Subordinated bonds denominated in USD	-	-
Subordinated bonds denominated in UF	795,956	773,189
<b>Total subordinated bonds</b>	<b>795,957</b>	<b>773,192</b>

**i. Placement of subordinated bonds**

During 2018 and 2017, the Bank has not placed any mortgage bonds.

The maturity of subordinated bonds considered long-term is as follows:

	As of December 31,	
	2018 MCh\$	2017 MCh\$
Due within 1 year	1	3
Due after 1 year but within 2 years	-	-
Due after 2 years but within 3 years	-	-
Due after 3 years but within 4 years	-	-
Due after 4 years but within 5 years	-	-
Due after 5 years	795,956	773,189
<b>Total subordinated bonds</b>	<b>795,957</b>	<b>773,192</b>



**NOTE 19**  
**ISSUED DEBT INSTRUMENTS AND OTHER FINANCIAL LIABILITIES, continued**

**e) Other financial liabilities**

The composition of other financial liabilities, by maturity, is detailed below:

	As of December 31	
	2018	2017
	MCh\$	MCh\$
Non-current portion:		
Due after 1 year but within 2 years	9,221	23,401
Due after 2 year but within 3 years	40	4,181
Due after 3 year but within 4 years	44	194
Due after 4 year but within 5 years	48	210
Due after 5 years	176	1,219
<b>Non-current portion subtotal</b>	<b>9,529</b>	<b>29,205</b>
Current portion:		
Amounts due to credit card operators	172,425	173,271
Acceptance of letters of credit	2,894	2,780
Other long-term financial obligations, short-term portion	30,552	36,774
<b>Current portion subtotal</b>	<b>205,871</b>	<b>212,825</b>
<b>Total other financial liabilities</b>	<b>215,400</b>	<b>242,030</b>

**NOTE 20**  
**MATURITY OF FINANCIAL ASSETS AND LIABILITIES**

As of December 31, 2018 and 2017, the detail of the maturities of assets and liabilities is as follows:

<b>As of December 31, 2018</b>	<b>Demand MCh\$</b>	<b>Up to 1 month MCh\$</b>	<b>Between 1 and 3 months MCh\$</b>	<b>Between 3 and 12 months MCh\$</b>	<b>Subtotal up to 1 year MCh\$</b>	<b>Between 1 and 3 years MCh\$</b>	<b>Between 3 and 5 years MCh\$</b>	<b>More than 5 years MCh\$</b>	<b>Subtotal More than 1 year MCh\$</b>	<b>Total MCh\$</b>
<b>Financial Assets</b>										
Cash and deposits in banks	2,065,441	-	-	-	<b>2,065,441</b>	-	-	-	-	<b>2,065,441</b>
Cash items in process of collection	353,757	-	-	-	<b>353,757</b>	-	-	-	-	<b>353,757</b>
Trading investments	-	1,064	-	11,642	<b>12,706</b>	16,331	20,080	27,924	<b>64,335</b>	<b>77,041</b>
Investments under resale agreements	-	-	-	-	-	-	-	-	-	-
Financial derivatives contracts	-	111,268	128,024	543,722	<b>783,014</b>	723,622	552,133	1,041,866	<b>2,317,621</b>	<b>3,100,635</b>
Interbank loans (1)	-	9,427	3,220	2,447	<b>15,094</b>	-	-	-	-	<b>15,094</b>
Loans and accounts receivables from customers (2)	238,213	3,285,576	2,320,222	4,946,887	<b>10,790,898</b>	5,474,289	3,236,349	10,765,393	<b>19,476,031</b>	<b>30,266,929</b>
Available for sale investments	-	2,391,329	-	1	<b>2,391,330</b>	86	-	2,907	<b>2,993</b>	<b>2,394,323</b>
Held to maturity investments	-	-	-	-	-	-	-	-	-	-
Guarantee deposits (margin accounts)	170,232	-	-	-	<b>170,232</b>	-	-	-	-	<b>170,232</b>
<b>Total financial assets</b>	<b>2,827,643</b>	<b>5,798,664</b>	<b>2,451,466</b>	<b>5,504,699</b>	<b>16,582,472</b>	<b>6,214,328</b>	<b>3,808,562</b>	<b>11,838,090</b>	<b>21,860,980</b>	<b>38,443,452</b>
<b>Financial Liabilities</b>										
Deposits and other demand liabilities	8,741,417	-	-	-	<b>8,741,417</b>	-	-	-	-	<b>8,741,417</b>
Cash items in process of collection	163,043	-	-	-	<b>163,043</b>	-	-	-	-	<b>163,043</b>
Obligations under repurchase agreements	-	48,545	-	-	<b>48,545</b>	-	-	-	-	<b>48,545</b>
Time deposits and other time liabilities	122,974	5,248,418	4,108,556	3,326,199	<b>12,806,147</b>	191,547	6,137	63,988	<b>261,672</b>	<b>13,067,819</b>
Financial derivatives contracts	-	131,378	120,361	349,551	<b>601,290</b>	495,789	471,185	949,464	<b>1,916,438</b>	<b>2,517,728</b>
Interbank borrowings	39,378	16,310	404,575	1,188,692	<b>1,648,955</b>	139,671	-	-	<b>139,671</b>	<b>1,788,626</b>
Issued debts instruments	-	71,465	39,267	745,830	<b>856,562</b>	2,431,849	1,549,743	3,277,079	<b>7,258,671</b>	<b>8,115,233</b>
Other financial liabilities	179,681	934	2,412	22,844	<b>205,871</b>	9,261	92	176	<b>9,529</b>	<b>215,400</b>
Guarantees received (margin accounts)	540,091	-	-	-	<b>540,091</b>	-	-	-	-	<b>540,091</b>
<b>Total financial liabilities</b>	<b>9,786,584</b>	<b>5,517,050</b>	<b>4,675,171</b>	<b>5,633,116</b>	<b>25,611,921</b>	<b>3,268,117</b>	<b>2,027,157</b>	<b>4,290,707</b>	<b>9,585,981</b>	<b>35,197,902</b>

(1) Interbank loans are presented on a gross basis. The amount of allowances is Ch\$29 million.

(2) Loans and accounts receivables from customers are presented on a gross basis. Provisions amounts according to type of loan are detailed as follows: Commercial loans Ch\$472,876 million, Mortgage loans Ch\$64,241 million, Consumer loans Ch\$259,442 million.

**NOTE 20**  
**MATURITY OF FINANCIAL ASSETS AND LIABILITIES, continued**

<b>As of December 31, 2017</b>	<b>Demand MCh\$</b>	<b>Up to 1 month MCh\$</b>	<b>Between 1 and 3 months MCh\$</b>	<b>Between 3 and 12 months MCh\$</b>	<b>Subtotal up to 1 year MCh\$</b>	<b>Between 1 and 3 years MCh\$</b>	<b>Between 3 and 5 years MCh\$</b>	<b>More than 5 years MCh\$</b>	<b>Subtotal More than 1 year MCh\$</b>	<b>Total MCh\$</b>
<b>Assets</b>										
Cash and deposits in banks	1,452,922	-	-	-	<b>1,452,922</b>	-	-	-	-	<b>1,452,922</b>
Cash items in process of collection	668,145	-	-	-	<b>668,145</b>	-	-	-	-	<b>668,145</b>
Trading investments	-	72,983	4,024	68,277	<b>145,284</b>	110,824	90,507	139,121	<b>340,452</b>	<b>485,736</b>
Investments under resale agreements	-	-	-	-	-	-	-	-	-	-
Financial derivatives contracts	-	135,780	198,876	410,415	<b>745,071</b>	385,428	371,090	737,058	<b>1,493,576</b>	<b>2,238,647</b>
Interbank loans (1)	-	6,064	152,911	3,710	<b>162,685</b>	-	-	-	-	<b>162,685</b>
Loans and accounts receivables from customers (2)	769,823	2,206,734	2,288,372	4,348,975	<b>9,613,904</b>	5,187,501	2,938,326	9,823,498	<b>17,949,325</b>	<b>27,563,229</b>
Available for sale investments	-	58,850	11,788	102,600	<b>173,238</b>	556,289	975,372	869,647	<b>2,401,308</b>	<b>2,574,546</b>
Held to maturity investments	-	-	-	-	-	-	-	-	-	-
Guarantee deposits (margin accounts)	323,767	-	-	-	<b>323,767</b>	-	-	-	-	<b>323,767</b>
<b>Total assets</b>	<b>3,214,657</b>	<b>2,480,411</b>	<b>2,655,971</b>	<b>4,933,977</b>	<b>13,285,016</b>	<b>6,240,042</b>	<b>4,375,295</b>	<b>11,569,324</b>	<b>22,184,661</b>	<b>35,469,677</b>
<b>Liabilities</b>										
Deposits and other demand liabilities	7,768,166	-	-	-	<b>7,768,166</b>	-	-	-	-	<b>7,768,166</b>
Cash items in process of collection	486,726	-	-	-	<b>486,726</b>	-	-	-	-	<b>486,726</b>
Obligations under repurchase agreements	-	268,061	-	-	<b>268,061</b>	-	-	-	-	<b>268,061</b>
Time deposits and other time liabilities	121,479	5,120,171	4,201,271	2,299,018	<b>11,741,939</b>	106,833	2,811	62,362	<b>172,006</b>	<b>11,913,945</b>
Financial derivatives contracts	-	144,410	196,444	356,288	<b>697,142</b>	378,582	358,358	705,406	<b>1,442,346</b>	<b>2,139,488</b>
Interbank borrowings	4,130	46,013	397,419	1,030,241	<b>1,477,803</b>	220,554	-	-	<b>220,554</b>	<b>1,698,357</b>
Issued debts instruments	-	21,043	55,119	274,239	<b>350,401</b>	1,727,571	2,104,771	2,910,910	<b>6,743,252</b>	<b>7,093,653</b>
Other financial liabilities	177,663	701	2,583	31,879	<b>212,826</b>	27,581	404	1,219	<b>29,204</b>	<b>242,030</b>
Guarantees received (margin accounts)	408,313	-	-	-	<b>408,313</b>	-	-	-	-	<b>408,313</b>
<b>Total liabilities</b>	<b>8,966,477</b>	<b>5,600,399</b>	<b>4,852,836</b>	<b>3,991,665</b>	<b>23,411,377</b>	<b>2,461,121</b>	<b>2,466,344</b>	<b>3,679,897</b>	<b>8,607,362</b>	<b>32,018,739</b>

(1) Interbank loans are presented on a gross basis, The amount of allowances is Ch\$86 million.

(2) Loans and accounts receivables from customers are presented on a gross basis. Provisions on loans amounts according to customer type: Commercial loans Ch\$462,865 million, Mortgage loans Ch\$69,066 million, Consumer loans Ch\$283,756 million.

**NOTE 21**  
**PROVISIONS**

a) As of December 31, 2018 and 2017, the detail for the provisions is as follows:

	As of December 31,	
	2018 MCh\$	2017 MCh\$
Provision for employee salaries and expenses	93,379	97,576
Provision for mandatory dividends	177,571	169,444
<b>Provision for contingent loan risks:</b>		
Provision for lines of credit of immediate disponibility	14,177	15,103
Other provisions for contingent loans	15,230	14,304
Provision for contingencies	8,963	27,303
Provision additional	20,000	-
Provision for foreign bank loans	620	599
<b>Total</b>	<b>329,940</b>	<b>324,329</b>

b) Below is the activity regarding provisions during the year ended December 31, 2018 and 2017:

	Provision						Total MCh\$
	Benefits and remuneration to the staff MCh\$	Risk of credits quotas MCh\$	Contingent MCh\$	Additional MCh\$	Minimum dividends MCh\$	Risk country MCh\$	
<b>Balances as of January 1, 2018</b>	<b>97,576</b>	<b>29,407</b>	<b>27,303</b>	-	<b>169,444</b>	<b>599</b>	<b>324,329</b>
Provision established	80,912	5,011	19,447	20,000	177,571	200	<b>303,141</b>
Application of provisions	(72,975)	-	(4,431)	-	(169,444)	-	<b>(246,850)</b>
Provisions released	(3,195)	(5,011)	(33,356)	-	-	(179)	<b>(41,741)</b>
Reclasification	-	-	-	-	-	-	-
Other	(8,939)	-	-	-	-	-	<b>(8,939)</b>
<b>Balances as of December 31, 2018</b>	<b>93,379</b>	<b>29,407</b>	<b>8,963</b>	<b>20,000</b>	<b>177,571</b>	<b>620</b>	<b>329,940</b>
<b>Balances as of January 1, 2017</b>	<b>72,592</b>	<b>28,900</b>	<b>65,404</b>	-	<b>141,700</b>	<b>386</b>	<b>308,982</b>
Provision established	106,687	9,168	8,645	-	169,444	464	<b>294,408</b>
Application of provisions	(81,703)	-	(389)	-	(141,700)	-	<b>(223,792)</b>
Provisions released	-	(8,661)	(46,357)	-	-	(251)	<b>(55,269)</b>
Reclasification	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
<b>Balances as of December 31, 2017</b>	<b>97,576</b>	<b>29,407</b>	<b>27,303</b>	-	<b>169,444</b>	<b>599</b>	<b>324,329</b>

**NOTE 21**  
**PROVISIONS, continued**

c) Provisions for personal salaries and expenses

	As of December 31,	
	2018	2017
	MCh\$	MCh\$
Provision for seniority compensation	9,531	17,874
Provision for stock-based personal benefits	-	-
Provision for performance bonds	59,633	53,947
Provision for vacation	22,792	23,039
Provision for other personal benefits	1,423	2,716
<b>Total</b>	<b>93,379</b>	<b>97,576</b>

d) Compensation year of services

	As of December 31,	
	2018	2017
	MCh\$	MCh\$
<b>Balances as of January, 2018</b>	<b>17,874</b>	<b>10,376</b>
Increase in the provision	10,753	29,545
Payments made	(8,414)	(22,047)
Advance payments	-	-
Released of provisions	(2,858)	-
Other movements	(7,824)	-
<b>Total</b>	<b>9,531</b>	<b>17,874</b>

e) Movement of the provision for compliance bonds:

	As of December 31,	
	2018	2017
	MCh\$	MCh\$
<b>Balances as of January 1, 2018</b>	<b>53,947</b>	<b>38,510</b>
Provisions constituted	58,229	55,961
Provisioning application	(51,954)	(40,524)
Release of provisions	(337)	-
Other movements	(252)	-
<b>Total</b>	<b>59,633</b>	<b>53,947</b>

f) Movement of holiday provision

	As of December 31,	
	2018	2017
	MCh\$	MCh\$
<b>Balances as of January 1, 2018</b>	<b>23,039</b>	<b>21,800</b>
Provisions constituted	11,167	11,263
Provisioning application	(10,551)	(10,024)
Release of provisions	-	-
Other movements	(863)	-
<b>Total</b>	<b>22,792</b>	<b>23,039</b>

**NOTE 22**  
**OTHER LIABILITIES**

Other liabilities consist of:

	<b>As of December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>MCh\$</b>	<b>MCh\$</b>
Accounts and notes payable	163,216	196,965
Income received in advance	673	601
Valuation Adjustments by macrohedge	7,039	-
Guarantees received (margin accounts) (1)	540,091	408,313
Notes payable through brokerage and simultaneous transactions	50,807	17,799
Other payable obligations	94,779	58,921
Withheld VAT	1,990	1,887
Accounts payable by insurance companies	8,424	13,873
Other liabilities	33,389	47,004
<b>Total</b>	<b>900,408</b>	<b>745,363</b>

- (1) Guarantee deposits threshold (margin accounts) correspond collaterals associated with derivative financial contracts to mitigate the counterparty credit risk and are mainly established in cash. These guarantees operate when mark to market of derivative financial instruments exceed the levels of threshold agreed in the contracts, which could result in the Bank delivering or receiving collateral.

**NOTE 23**  
**CONTINGENCIES AND COMMITMENTS**

**a) Lawsuits and legal procedures**

At the date these financial statements were issued, the Bank and its affiliates were subject to certain legal actions in the normal course of their business. As of December 31, 2018, the Banks and its subsidiaries have provisions for this item of Ch\$923 million and Ch\$0million, respectively (Ch\$1,214 million and Ch\$0 million as of December 31, 2017) which is included in "Provisions" in the Consolidated Statement of Financial Position as provisions for contingencies.

As of December 31, 2018, the following legal situations are pending:

**Santander Corredores de Bolsa Limitada**

Judgment "Echeverría with Santander Corredora" (currently Santander Corredores de Bolsa Ltda,), followed before the 21st Civil Court of Santiago, Case C-21,366-2014, on compensation for damages for faults in the purchase of shares, With regard to its actual situation as of December 31, 2018. Santander Corredores de Bolsa Limitada requested the Court to declare the proceeding abandoned due to the pending actions of the plaintiff, a situation that is pending for the Court to resolve.

**Santander Corredora de Seguros Limitada**

There are lawsuits amounting to UF3,790 corresponding to processes mainly for goods delivered in leasing, Our lawyers have not estimated additional material losses for these trials.

**b) Contingent loans**

To meet customer needs, the Bank acquired several irrevocable commitments and contingent liabilities, although these obligations should not be recognized in the Consolidated Statement of Financial Position, these contain credit risks and are therefore part of the Bank's overall risk.

The following table shows the Bank`s contractual obligations to issue loans:

	As of December 31,	
	2018 MCh\$	2017 MCh\$
Letters of credit issued	223,420	201,699
Foreign letters of credit confirmed	57,038	75,499
Performance guarantees	1,954,205	1,823,793
Personal guarantees	133,623	81,577
<b>Subtotal</b>	<b>2,368,286</b>	<b>2,182,568</b>
Available on demand credit lines	8,997,650	8,135,489
Other irrevocable credit commitments	327,297	260,691
<b>Total</b>	<b>11,693,223</b>	<b>10,578,748</b>

**NOTE 23**  
**CONTINGENCIES AND COMMITMENTS, continued**

**c) Held securities**

The Bank holds securities in the normal course of its business as follows:

	<b>As of December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>MCh\$</b>	<b>MCh\$</b>
<b>Third party operations</b>		
Collections	99,784	175,200
Transferred financial assets managed by the Bank	26,262	33,278
Assets from third parties managed by the Bank and its affiliates	1,630,431	1,660,804
<b>Subtotal</b>	<b>1,756,477</b>	<b>1,869,282</b>
<b>Custody of securities</b>		
Securities held in custody	11,160,488	383,002
Securities held in custody deposited in other entity	861,405	760,083
Issued securities held in custody	12,335,871	22,046,700
<b>Subtotal</b>	<b>24,357,764</b>	<b>23,189,785</b>
<b>Total</b>	<b>26,114,241</b>	<b>25,059,067</b>

During 2018, the Bank classified the portfolios managed by private banking in "Assets from third parties managed by the Bank and its affiliates". At the end of December 2018, the balance for this was Ch\$1,630,396 million (Ch\$1,660,768 million at December 31, 2017).

**d) Guarantees**

Banco Santander Chile has an integral bank policy of coverage of Official Loyalty N°4668409 in force with the company Compañía de Seguros Chilena Consolidada SA, Coverage USD 50,000,000 per claim with an annual limit of USD 100,000,000, which covers both the Bank and its subsidiaries, with an expiration date of June 30, 2019.

**Santander Agente de Valores Limitada**

In order to ensure the correct and full compliance of all its obligations as securities agent in accordance with the provisions of articles N° 30 and following of Law N° 18,045, on Stock Market, the company constituted a guarantee for UF4,000 with insurance policy N°217112981- taken with the Insurance Company of Crédito Continental SA and whose maturity is December 19, 2019.

**Santander Corredores de Bolsa Limitada**

i) As of December 31, 2018 the Company has comprehensive guarantees in the Santiago Stock Exchange to cover simultaneous operations carried out through its own portfolio, for a total of Ch\$ 40,427,334 (Ch\$ 25,218,779 as of December 31, 2017).

ii) Additionally, as of December 31, 2018, the Company holds a guarantee in CCLV Contraparte Central S,A,, in cash, for an amount of Ch\$ 5,000,000 (Ch\$ 5,000,000 as of December 31, 2017).

iii) In order to ensure the correct and full compliance of all its obligations as Brokerage Broker, in accordance with the provisions of articles 30 and following of Law N°18,045 on Securities Market, the Company has delivered fixed-income securities to the Santiago Stock Exchange for a present value of Ch\$1,008,792 as of December 31, 2018 (Ch\$ 1,014,400 as of December 31, 2017).

iv) As of December 31, 2018, the Company has a guarantee voucher N° B011364 from Banco Santander Chile to comply with the provisions of general rule N° 120 of the Commission for the Financial Market (Ex-SVS) with respect to the placement, transfer and redemption of the Morgan Stanley funds in the amount of USD \$ 300,000, which covers the participants who acquire quotas of foreign open funds Morgan Stanley Sicav and whose maturity is 23 February 2019.

v) As of December 31, 2018, the Company has a guarantee voucher N° B012308 from Banco Santander Chile to comply with the provisions of general rule N° 120 of the Commission for the Financial Market (Ex-SVS) with respect to the placement, transfer and redemption of the Morgan Stanley funds in the amount of USD \$ 300,000, which covers the participants who acquire quotas of foreign open funds Morgan Stanley Sicav and whose maturity is 13 April 2019.



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**Banco Santander Chile and Subsidiaries****Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2018 AND 2017

**NOTE 23****CONTINGENCIES AND COMMITMENTS, continued****Santander Corredora de Seguros Limitada**

i) In accordance with those established in Circular N° 1,160 of the Superintendency of Securities and Insurance, the company has contracted an insurance policy to respond to the correct and full compliance with all obligations arising from its operations as an intermediary in the hiring insurance.

ii) The insurance policy for insurance brokers N ° 4461903, which covers UF 500, and the professional liability policy for insurance brokers N° 4462082 for an amount equivalent to UF 60,000, were contracted with the Compañía de Seguros Generales Chilena Consolidada S,A, both are valid from April 15, 2016 to April 14, 2018.

iii) The Company maintains a guarantee slip with Banco Santander Chile to guarantee the faithful fulfillment of the public bidding rules of the tax and deductibility insurance plus ITP 2/3 of the mortgage portfolio for the housing of Banco Santander Chile, The amount amounts to UF 10,000 for each portfolio respectively, both with an expiration date as of July 31, 2019. For the same reason, the Company maintains a guarantee voucher in compliance with the public tender for fire and earthquake insurance, the amount of which amounts to UF 200 and UF 3,000 with the same financial institution, both with an expiration date as of December 31, 2018.

**NOTE 24**  
**EQUITY**

**a) Capital**

As of December 31, 2018 and 2017 the Bank had 188,446,126,794 shares outstanding, all of which are subscribed for and paid in full, amounting to Ch\$ 891,303 million. All shares have the same rights, and have no preferences or restrictions.

The movement in shares during 2018 and 2017 is as follows:

	Shares	
	As of December 31,	
	2018	2017
Issued as of January 1	188,446,126,794	188,446,126,794
Issuance of paid shares	-	-
Issuance of outstanding shares	-	-
Stock options exercised	-	-
<b>Issued as period end</b>	<b>188,446,126,794</b>	<b>188,446,126,794</b>

As of December 31, 2018 and 2017 the Bank does not own any of its shares in treasury, nor do any of the consolidated companies.

As of December 31, 2018 the shareholder composition is as follows:

Corporate Name or Shareholder`s Name	Shares	ADRs (*)	Total	% share holding
Santander Chile Holding S,A,	66,822,519,695	-	66,822,519,695	35.46
Teatinos Siglo XXI Inversiones Limitada	59,770,481,573	-	59,770,481,573	31.72
The Bank of New York Mellon	-	26,486,000,071	26,486,000,071	14.05
Banks on behalf of third parties	15,451,106,985	-	15,451,106,985	8.20
Pension funds (AFP) on behalf of third parties	9,033,172,896	-	9,033,172,896	4.79
Stock brokers on behalf of third parties	4,773,558,507	-	4,773,558,507	2.53
Other minority holders	6,109,287,067	-	6,109,287,067	3.25
<b>Total</b>	<b>161,960,126,723</b>	<b>26,486,000,071</b>	<b>188,446,126,794</b>	<b>100.00</b>

(\*) American Depository Receipts (ADR) are certificates issued by a U,S, commercial bank to be traded on the U,S, securities markets.

**NOTE 24**  
**EQUITY, continued**

As of December 31, 2017 the shareholder composition is as follows:

<b>Corporate Name or Shareholder`s Name</b>	<b>Shares</b>	<b>ADRs (*)</b>	<b>Total</b>	<b>% of equity holding</b>
Santander Chile Holding S,A,	66,822,519,695	-	66,822,519,695	35,46
Teatinos Siglo XXI Inversiones Limitada	59,770,481,573	-	59,770,481,573	31,72
The Bank of New York Mellon	-	31,238,866,071	31,238,866,071	16,58
Banks on behalf of third parties	13,892,691,988	-	13,892,691,988	7,37
Pension fund (AFP) on behalf of third parties	6,896,552,755	-	6,896,552,755	3,66
Stock brokers on behalf of third parties	3,762,310,365	-	3,762,310,365	2,00
Other minority holders	6,062,704,347	-	6,062,704,347	3,21
<b>Total</b>	<b>157,207,260,723</b>	<b>31,238,866,071</b>	<b>188,446,126,794</b>	<b>100,00</b>

(\*) American Depository Receipts (ADR) are certificates issued by a U,S, commercial bank to be traded on the U,S, securities markets.

**b) Reserves**

During the year 2018, on the occasion of the shareholders' meeting held in April, it was agreed to capitalize 25% of profits for reserves in 2017, equivalent to \$141,204 million (\$141,706 million for 2017).

**c) Dividends**

The distribution of dividends has been disclosed in the Consolidated Statements of Changes in Equity.

**d) Diluted earnings per share and basic earnings per share**

As of December 31, 2018 and 2017, the composition of diluted earnings per share and basic earnings per share are as follows:

	<b>As of December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>MCh\$</b>	<b>MCh\$</b>
<b>a) Basic earnings per share</b>		
Total attributable to equity holders of the Bank	591,902	564,815
Weighted average number of outstanding shares	188,446,126,794	188,446,126,794
Basic earnings per share (in Ch\$)	3,141	2,997
<b>b) Diluted earnings per share</b>		
Total attributable to equity holders of the Bank	591,902	564,815
Weighted average number of outstanding shares	188,446,126,794	188,446,126,794
Assumed conversion of convertible debt	-	-
Adjusted number of shares	188,446,126,794	188,446,126,794
Diluted earnings per share (in Ch\$)	3,141	2,997

As of December 31, 2018 and 2017, the Bank does not own instruments with dilutive effects.

**NOTE 24**  
**EQUITY, continued**

**e) Other comprehensive income of available for sale investments and cash flow hedges:**

	<b>As of December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>MCh\$</b>	<b>MCh\$</b>
<b>Available for sale investments</b>		
As of January 1,	1,855	7,375
Gain (losses) on the re-valuation of available for sale investments, before tax	6,071	(10,384)
Reclassification from other comprehensive income to net income for the year	-	-
Net income realized	(1,502)	4,864
<b>Subtotal</b>	<b>4,569</b>	<b>(5,520)</b>
<b>Total</b>	<b>6,424</b>	<b>1,855</b>
<b>Cash flow hedges</b>		
As of January 1,	(3,562)	2,288
Gains (losses) on the re-valuation of cash flow hedges, before tax	14,048	(5,850)
Reclassification and adjustments on cash flow hedges, before tax	(683)	-
Amounts removed from equity and included in carrying amount of non-financial asset (liability) whose acquisition or assignment was hedged as a highly probable transaction	-	-
<b>Subtotal</b>	<b>13,365</b>	<b>(5,850)</b>
<b>Total</b>	<b>9,803</b>	<b>(3,562)</b>
<b>Other comprehensive income, before tax</b>	<b>16,227</b>	<b>(1,707)</b>
<b>Income tax related to other comprehensive income components</b>		
Income tax relating to available for sale investments	(1,735)	(473)
Income tax relating to cash flow hedges	(2,646)	908
<b>Total</b>	<b>(4,381)</b>	<b>435</b>
<b>Other comprehensive income, net of tax</b>	<b>11,846</b>	<b>(1,272)</b>
Attributable to:		
Equity holders of the Bank	(10,890)	(2,312)
Non-controlling interest	956	1,040

The Bank expects that the results included in "Other comprehensive income" will be reclassified to profit or loss when the specific conditions have been met.

**NOTE 24**  
**CAPITAL REQUIREMENTS (BASEL)**

In accordance with Chilean General Banking Law, the Bank must maintain a minimum ratio of effective equity to risk-weighted consolidated assets of 8% net of required allowances, and a minimum ratio of basic equity to consolidated total assets of 3%, net of required allowances. However, as a result of the Bank's merger in 2002, the SBIF has determined that the Bank's combined effective equity cannot be lower than 11% of its risk-weighted assets. Effective net equity is defined for these purposes as basic equity (capital and reserves) plus subordinated bonds, up to a maximum of 50% of basic equity.

Assets are allocated to different risk categories, each of which is assigned a weighting percentage according to the amount of capital required to be held for each type of asset. For example, cash, deposits in banks and financial instruments issued by the Central Bank of Chile have a 0% risk weighting, meaning that it is not necessary to hold equity to back these assets according to current regulations, Property, plant and equipment have a 100% risk weighting, meaning that a minimum capital equivalent to 11% of these assets must be held. All derivatives traded off the exchanges are also assigned a risk weighting, using a conversion factor applied to their notional values, to determine the amount of their exposure to credit risk, Off-balance-sheet contingent credits are also included for weighting purposes, as "Credit equivalents,".

According to Chapter 12-1 of the SBIF's Recopilación Actualizada de Normas [Updated Compilation of Rules] effective January 2010, the SBIF changed existing regulation with the enforcement of Chapter B-3 from the Compendium of Accounting Standards, which changed the risk exposure of contingent allocations from 100% exposure to the following:

Type of contingent loan	Exposure
a) Pledges and other commercial commitments	100%
b) Foreign letters of credit confirmed	20%
c) Letters of credit issued	20%
d) Guarantees	50%
e) Interbank guarantee letters	100%
f) Available lines of credit	35%
g) Other loan commitments:	
- Higher education loans Law No, 20,027	15%
- Other	100%
h) Other contingent loans	100%

**NOTE 25**  
**CAPITAL REQUIREMENTS (BASEL), continued**

The levels of basic capital and effective net equity as of December 31, 2018 and 2017, are as follows:

(\*) "Financial derivative contracts" are presented at their "Credit Equivalent Risk" value as established in Chapter 12-1 of the Updated Compilation

	Consolidated assets		Risk-weighted assets	
	As of December 31,		As of December 31,	
	2018 MCh\$	2017 MCh\$	2018 MCh\$	2017 MCh\$
<b>Balance-sheet assets (net of allowances)</b>				
Cash and deposits in banks	2,065,441	1,452,922	-	-
Cash in process of collection	353,757	668,145	105,421	300,302
Trading investments	77,041	485,736	10,704	25,031
Investments under resale agreements	-	-	-	-
Financial derivative contracts (*)	1,226,892	1,014,070	868,578	718,426
Interbank loans, net	15,065	162,599	15,064	162,598
Loans and accounts receivables from customers, net	29,470,370	26,747,542	25,403,426	23,102,177
Available for sale investments	2,394,323	2,574,546	172,859	147,894
Investments in associates and other companies	32,293	27,585	32,293	27,585
Intangible assets	66,923	63,219	66,923	63,219
Property, plant, and equipment	253,586	242,547	253,586	242,547
Current taxes	-	-	-	-
Deferred taxes	382,934	385,608	38,293	38,561
Other assets	984,988	755,184	983,299	722,617
<b>Off-balance-sheet assets</b>				
Contingent loans	4,624,073	4,133,897	2,649,730	2,360,877
<b>Total</b>	<b>41,947,686</b>	<b>38,713,600</b>	<b>30,600,176</b>	<b>27,911,834</b>

of Rules issued by the SBIF.

The ratios of basic capital and effective net equity at the close of each period are as follows:

	Ratio			
	As of December 31,		As of December 31,	
	2018 MCh\$	2017 MCh\$	2018 %	2017 %
Basic capital	3,239,546	3,066,180	7.72	7.92
Effective net equity	4,101,664	3,881,252	13.40	13.91

**Banco Santander Chile and Subsidiaries**
**Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2018 AND 2017

**NOTE 26**
**NON-CONTROLLING INTEREST**

- a) It reflects the net amount of equity of dependent entities attributable to capital instruments which do not belong, directly or indirectly, to the Bank, including the portion of the income for the period that has been attributed to them.

The non-controlling interest included in the equity and the income from the subsidiaries is summarized as follows:

As of December 31, 2018	Other comprehensive income						
	Non-controlling interest	Equity	Income	Available for sale investments	Deferred tax	Total other comprehensive income	Comprehensive income
	%	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Subsidiaries:</b>							
Santander Agente de Valores Limitada	0.97%	488	99	-	-	-	99
Santander S,A, Sociedad Securitizadora	0.36%	2	-	-	-	-	-
Santander Corredores de Bolsa Limitada	49.00%	21,673	755	(84)	2	(82)	673
Santander Corredora de Seguros Limitada	0.24%	172	4	(2)	-	(2)	2
<b>Subtotal</b>		<b>22,335</b>	<b>858</b>	<b>(86)</b>	<b>2</b>	<b>(84)</b>	<b>774</b>
<b>Entities controlled through other considerations:</b>							
Bansa Santander S.A. (1)	100	20,051	2,650	-	-	-	2,650
Santander Gestión de Recaudación y Cobranzas Limitada	100	3,777	852	-	-	-	852
<b>Subtotal</b>		<b>23,828</b>	<b>3,502</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,502</b>
<b>Total</b>		<b>46,163</b>	<b>4,360</b>	<b>(86)</b>	<b>2</b>	<b>(84)</b>	<b>4,276</b>

(1) In September 2018, the company Bansa Santander S.A., held a legal assignment of rights by leasing contract, which resulted in a result of \$2,122 million before taxes.

(2) According to indicated in note 1 ii) Bansa Santander S,A, it is an entity controlled by the Bank for reasons other than its participation in the equity, therefore the result of this company is assigned entirely to the non-controlling interest.

As of December 31, 2017	Other comprehensive income						
	Non-controlling interest	Equity	Income	Available for sale investments	Deferred tax	Total other comprehensive income	Comprehensive income
	%	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Subsidiaries:</b>							
Santander Agente de Valores Limitada	0.97	389	132	-	-	-	132
Santander S,A, Sociedad Securitizadora	0.36	1	-	-	-	-	-
Santander Corredores de Bolsa Limitada	49.00	21,000	702	470	(134)	336	1,038
Santander Corredora de Seguros Limitada	0.24	167	4	-	-	-	4
<b>Subtotal</b>		<b>21,557</b>	<b>838</b>	<b>470</b>	<b>(134)</b>	<b>336</b>	<b>1,174</b>
<b>Entities controlled through other considerations:</b>							
Bansa Santander S,A,	100.00	17,401	10,869	-	-	-	10,869
Santander Gestión de Recaudación y Cobranzas Limitada	100.00	2,925	741	-	-	-	741
<b>Subtotal</b>		<b>20,326</b>	<b>11,610</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,610</b>
<b>Total</b>		<b>41,883</b>	<b>12,448</b>	<b>470</b>	<b>(134)</b>	<b>336</b>	<b>12,784</b>

(1) In September 2018, the company Bansa Santander S,A,, held a legal assignment of rights by leasing contract, which resulted in a result of \$ 20,663 million before taxes (\$ 15,197 million net of taxes).

(2) According to indicated in note 1 ii) Bansa Santander S,A, it is an entity controlled by the Bank for reasons other than its participation in the equity, therefore the result of this company is assigned entirely to the non-controlling interest.

**Banco Santander Chile and Subsidiaries****Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2018 AND 2017

**NOTE 26****NON-CONTROLLING INTEREST, continued**

- b) A summary of the financial information of subsidiaries included in the consolidation with non-controlling interests (before consolidation or conforming adjustments) is as follows:

	As of December 31,							
	2018				2017			
	Assets MCh\$	Liabilities MCh\$	Capital MCh\$	Net Income MCh\$	Assets MCh\$	Liabilities MCh\$	Capital MCh\$	Net Income MCh\$
Santander Corredora de Seguros Limitada	77,764	9,595	66,374	1,795	76,177	9,803	64,937	1,437
Santander Corredores de Bolsa Limitada	102,228	57,999	42,691	1,538	88,711	45,855	41,424	1,432
Santander Agente de Valores Limitada	50,552	71	40,177	10,304	44,910	4,732	26,569	13,609
Santander S.A. Sociedad Securitizadora	704	66	728	(90)	400	50	432	(82)
Santander Gestión de Recaudación y Cobranzas Ltda.	6,932	3,155	2,925	852	10,826	7,901	2,184	741
Bansa Santander S.A.	20,437	386	17,401	2,650	25,535	8,134	6,533	10,868
<b>Total</b>	<b>258,617</b>	<b>71,272</b>	<b>170,296</b>	<b>17,049</b>	<b>246,559</b>	<b>76,475</b>	<b>142,079</b>	<b>28,005</b>



**NOTE 27**  
**INTEREST INCOME**

This item refers to interest earned in the period from the financial assets whose return, whether implicitly or explicitly, is determined by applying the effective interest rate method, regardless of the value at fair value, as well as the effect of hedge accounting.

- a) For the periods ended December 31, 2018 and 2017, the income from interest income, not including income from hedge accounting, is attributable to the following items:

Items	As of December 31,							
	2018				2017			
	Interest MCh\$	Inflation adjustments MCh\$	Prepaid fees MCh\$	Total MCh\$	Interest MCh\$	Inflation adjustments MCh\$	Prepaid fees MCh\$	Total MCh\$
Resale agreements	903	-	-	903	939	-	-	<b>939</b>
Interbank loans	897	-	-	897	969	-	-	<b>969</b>
Commercial loans	771,405	153,851	11,008	936,264	752,013	85,389	10,525	<b>847,927</b>
Mortgage loans	330,055	266,691	909	597,655	320,041	149,303	414	<b>469,758</b>
Consumer loans	579,929	439	6,166	586,534	612,932	363	4,738	<b>618,033</b>
Investment instruments	75,423	24,790	-	100,213	74,000	5,797	-	<b>79,797</b>
Other interest income	16,644	4,013	-	20,657	12,172	1,538	-	<b>13,710</b>
<b>Interest income less income from hedge accounting</b>	<b>1,775,256</b>	<b>449,784</b>	<b>18,083</b>	<b>2,243,123</b>	<b>1,773,066</b>	<b>242,390</b>	<b>15,677</b>	<b>2,031,133</b>

- b) As indicated in section i) of Note 1, suspended interest relates to loans with payments over 90 days overdue, which are recorded in off-balance sheet accounts until they are effectively received.

As of December 31, 2018 and 2017, the suspended interest and adjustments income consists of the following:

Items	As of December 31,					
	2018			2017		
	Interest MCh\$	Inflation adjustments MCh\$	Total MCh\$	Interest MCh\$	Inflation adjustments MCh\$	Total MCh\$
Commercial loans	13,453	8,904	<b>22,357</b>	12,709	7,703	<b>20,412</b>
Mortgage loans	3,030	6,304	<b>9,334</b>	2,871	4,999	<b>7,870</b>
Consumer loans	4,172	333	<b>4,505</b>	5,084	377	<b>5,461</b>
<b>Total</b>	<b>20,655</b>	<b>15,541</b>	<b>36,196</b>	<b>20,664</b>	<b>13,079</b>	<b>33,743</b>

**NOTE 27**  
**INTEREST INCOME, continued**

- c) For the period ended December 31, 2018 and 2017, the expenses from interest expense, excluding expense from hedge accounting, are as follows:

Items	As of December 31,					
	2018			2017		
	Interest MCh\$	Inflation adjustments MCh\$	Total MCh\$	Interest MCh\$	Inflation adjustments MCh\$	Total MCh\$
Demand deposits	(14,914)	(1,371)	<b>(16,285)</b>	(13,851)	(695)	<b>(14,546)</b>
Repurchase agreements	(6,439)	-	<b>(6,439)</b>	(6,514)	-	<b>(6,514)</b>
Time deposits and liabilities	(317,061)	(35,284)	<b>(352,345)</b>	(341,821)	(20,509)	<b>(362,330)</b>
Interbank borrowings	(39,971)	-	<b>(39,971)</b>	(26,805)	-	<b>(26,805)</b>
Issued debt instruments	(241,455)	(133,227)	<b>(374,682)</b>	(220,027)	(76,170)	<b>(296,197)</b>
Other financial liabilities	(2,698)	(110)	<b>(2,808)</b>	(2,946)	(303)	<b>(3,249)</b>
Other interest expense	(6,929)	(10,497)	<b>(17,426)</b>	(5,236)	(4,973)	<b>(10,209)</b>
<b>Interest expense less expenses from hedge accounting</b>	<b>(629,467)</b>	<b>(180,489)</b>	<b>(809,956)</b>	<b>(617,200)</b>	<b>(102,650)</b>	<b>(719,850)</b>

- d) For the periods ended December 31, 2018 and 2017, the income and expense from interest is as follows:

Items	As of December 31,	
	2018 MCh\$	2017 MCh\$
Interest income less income from hedge accounting	2,243,123	2,031,133
Interest expense less expense from hedge accounting	(809,956)	(719,850)
<b>Net Interest income (expense) from hedge accounting</b>	<b>1,433,167</b>	<b>1,311,283</b>
Hedge accounting (net)	(18,799)	15,408
<b>Total net interest income</b>	<b>1,414,368</b>	<b>1,326,691</b>

**NOTE 28**  
**FEES AND COMMISSIONS**

- a) Fees and commissions includes the value of fees earned and paid during the year, except those which are an integral part of the financial instrument`s effective interest rate:

	As of December 31,	
	2018	2017
	MCh\$	MCh\$
<b>Fee and commission income</b>		
Fees and commissions for lines of credits and overdrafts	6,624	7,413
Fees and commissions for guarantees and letters of credit	33,654	33,882
Fees and commissions for card services	218,903	201,791
Fees and commissions for management of accounts	33,865	31,901
Fees and commissions for collections and payments	40,077	44,312
Fees and commissions for intermediation and management of securities	10,147	10,090
Insurance brokerage fees	39,949	36,430
Office banking	15,921	15,669
Fees for other services rendered	45,633	43,123
Other fees earned	39,690	30,947
<b>Total</b>	<b>484,463</b>	<b>455,558</b>

	As of December 31,	
	2018	2017
	MCh\$	MCh\$
<b>Fee and commission expense</b>		
Compensation for card operations	(163,794)	(149,809)
Fees and commissions for securities transactions	(936)	(858)
Office banking	(4,096)	(15,283)
Other fees	(24,752)	(10,545)
<b>Total</b>	<b>(193,578)</b>	<b>(176,495)</b>
<b>Net fees and commissions income</b>	<b>290,885</b>	<b>279,063</b>

The fees earned in transactions with letters of credit are presented on the Consolidated Statement of Income in the item "Interest income".

**NOTE 28**  
**FEES AND COMMISSIONS**

a) The income and expenses for the commissions of the business segments are presented below and the calendar for the recognition of income from ordinary activities is opened.

As of December 31, 2018	Segments				Total MM\$	Revenue recognition calendar for ordinary activities		
	Individuals and PYMEs MM\$	Companies and institutional MM\$	Global Corporate Banking MM\$	Others MM\$		Transferred over time MM\$	Transferred at a specific time MM\$	Accrual model MM\$
<b>Fee income</b>								
Commissions by credit lines and overdrafts	5,901	271	453	(1)	<b>6,624</b>	6,624	-	-
Commissions for endorsements and letters of credit	11,099	16,258	6,239	58	<b>33,654</b>	33,654	-	-
Commissions for card services	211,615	6,193	1,036	59	<b>218,903</b>	34,856	184,047	-
Commissions for account management	30,386	2,678	799	2	<b>33,865</b>	33,865	-	-
Commissions for collections, collections and payments	66,780	1,693	458	(28,854)	<b>40,077</b>	-	15,719	24,358
Commissions for intermediation and management of values	4,050	134	7,221	(1,258)	<b>10,147</b>	-	10,147	-
Remuneration for insurance commercialization	-	-	-	39,949	<b>39,949</b>	-	-	-
Office Banking	11,420	3,893	608	-	<b>15,921</b>	-	15,921	-
Other remuneration for services rendered	40,901	3,833	819	80	<b>45,633</b>	-	45,633	39,949
Other commissions earned	6,908	9,743	23,320	(281)	<b>39,690</b>	-	39,690	-
<b>Total</b>	<b>389,060</b>	<b>44,696</b>	<b>40,953</b>	<b>9,754</b>	<b>484,463</b>	<b>108,999</b>	<b>311,157</b>	<b>64,307</b>
<b>Commission expenses</b>								
Remuneration for card operation	(159,817)	(3,186)	(134)	(657)	<b>(163,794)</b>	-	(163,794)	-
Commissions for operation with securities	(169)	(3)	(419)	(345)	<b>(936)</b>	-	(936)	-
Office banking	(2,374)	(985)	(722)	(15)	<b>(4,096)</b>	-	(4,096)	-
Other commissions	(6,168)	(3,776)	(4,614)	(10,194)	<b>(24,752)</b>	-	(24,752)	-
<b>Total</b>	<b>(168,528)</b>	<b>(7,950)</b>	<b>(5,889)</b>	<b>(11,211)</b>	<b>(193,578)</b>	<b>-</b>	<b>(193,578)</b>	<b>-</b>
<b>Total income and expenses for net commissions</b>	<b>220,532</b>	<b>36,746</b>	<b>35,064</b>	<b>(1,457)</b>	<b>290,885</b>	<b>108,999</b>	<b>117,579</b>	<b>64,307</b>

**NOTE 29**  
**NET INCOME (EXPENSE) FROM FINANCIAL OPERATIONS**

Includes the amount of the adjustments from the financial instruments variation, except those attributable to the interest accrued by the application of the effective interest rate method of the value adjustments of the assets, as well as the results obtained in their sale.

For the periods ended December 31, 2018 and 2017, the detail of income from financial operations is as follows:

	As of December 31,	
	2018	2017
	MCh\$	MCh\$
<b>Profit and loss from financial operations</b>		
Trading derivatives	38,217	(18,974)
Trading investments	9,393	10,008
Sale of loans and accounts receivables from customers		
Current portfolio	(309)	3,020
Charged-off portfolio	709	3,020
Available for sale investments	8,479	8,956
Repurchase of issued bonds	(840)	(742)
Other profit and loss from financial operations	(2,475)	(2,492)
<b>Total</b>	<b>53,174</b>	<b>2,796</b>

(1) During 2018, the bank has repurchased bonds, see note N ° 5.

**NOTE 30**  
**NET FOREIGN EXCHANGE INCOME**

Net foreign exchange income includes the income earned from foreign currency trading, differences arising from converting monetary items in a foreign currency to the functional currency, and those generated by non-monetary assets in a foreign currency at the time of their sale.

For the period ended December 31, 2018 and 2017, net foreign exchange income is as follows:

	As of December 31,	
	2018	2017
	MCh\$	MCh\$
<b>Net foreign exchange gain (loss)</b>		
Net gain (loss) from currency exchange differences	(212,618)	113,115
Hedging derivatives	252,275	22,933
Income from assets indexed to foreign currency	12,151	(9,190)
Income from liabilities indexed to foreign currency	-	98
<b>Total</b>	<b>51,908</b>	<b>126,956</b>

**NOTE 31**  
**PROVISIONS FOR LOAN LOSSES**

a) The movement in provisions for loan losses for the periods ended Diciembre 31, 2018 and 2017 is as follows:

As of December 31, 2018	Loans and accounts receivable from customers								Additional Provisions	Total
	Interbank loans Individual MCh\$	Commercial loans		Mortgage loans	Consumer loans		Contingent loans			
		Individual MCh\$	Group MCh\$	Group MCh\$	Group MCh\$	Individual MCh\$	Group MCh\$			
<b>Charged-off of loans</b>	-	(20,203)	(16,118)	(9,496)	(79,517)	-	-	-	(125,334)	
Provisions established	(45)	(68,302)	(83,979)	(22,683)	(190,868)	(8,026)	(3,439)	(20,000)	(397,342)	
<b>Total provisions and charge-offs</b>	<b>(45)</b>	<b>(88,505)</b>	<b>(100,097)</b>	<b>(32,179)</b>	<b>(270,385)</b>	<b>(8,026)</b>	<b>(3,439)</b>	<b>(20,000)</b>	<b>(522,676)</b>	
Provisions released (*)	102	35,301	8,764	8,446	45,031	6,303	5,163	-	109,110	
Recovery of loans previously charged-off	-	11,399	19,535	17,367	40,180	-	-	-	88,481	
<b>Net charge to income</b>	<b>57</b>	<b>(41,805)</b>	<b>(71,798)</b>	<b>(6,366)</b>	<b>(185,174)</b>	<b>(1,724)</b>	<b>1,794</b>	<b>(20,000)</b>	<b>(325,085)</b>	

As of December 31, 2017	Loans and accounts receivable from customers								Total
	Interbank loans Individual MCh\$	Commercial loans		Mortgage loans	Consumer loans		Contingent loans		
		Individual MCh\$	Group MCh\$	Group MCh\$	Group MCh\$	Individual MCh\$	Group MCh\$		
<b>Charged-off of loans</b>	-	(15,699)	(49,274)	(17,426)	(94,443)	-	-	-	(176,842)
Provisions established	(307)	(60,023)	(99,407)	(22,163)	(157,595)	(8,079)	(4,224)	-	(351,798)
<b>Total provisions and charge-offs</b>	<b>(307)</b>	<b>(75,722)</b>	<b>(148,681)</b>	<b>(39,589)</b>	<b>(252,038)</b>	<b>(8,079)</b>	<b>(4,224)</b>	-	<b>(528,640)</b>
Provisions released (*)	393	55,925	20,491	11,427	46,089	10,135	1,660	-	146,120
Recovery of loans previously charged-off	-	10,902	21,499	10,942	39,972	-	-	-	83,315
<b>Net charge to income</b>	<b>86</b>	<b>(8,895)</b>	<b>(106,691)</b>	<b>(17,220)</b>	<b>(165,977)</b>	<b>2,056</b>	<b>(2,564)</b>	-	<b>(299,205)</b>

b) The detail of Charge-off of individually significant loans, is as follows:

As of December 31, 2018	Loans and accounts receivable from customers					Total
	Commercial loans		Mortgage loans	Consumer loans		
	Individual MCh\$	Group MCh\$	Group MCh\$	Group MCh\$		
Charge-off of loans	54,399	80,127		28,558	249,668	412,752
Provision applied	(34,196)	(64,009)		(19,062)	(170,151)	(287,418)
<b>Net charge offs of individually significant loans</b>	<b>20,203</b>	<b>16,118</b>		<b>9,496</b>	<b>79,517</b>	<b>125,334</b>

As of December 31, 2017	Loans and accounts receivables from customers					Total
	Commercial loans		Mortgage loans	Consumer loans		
	Individual MCh\$	Group MCh\$	Group MCh\$	Group MCh\$		
Charge-off of loans	51,978	92,223		20,137	222,212	386,550
Provision applied	(36,279)	(42,949)		(2,711)	(127,769)	(209,708)
<b>Net charge offs of individually significant loans</b>	<b>15,699</b>	<b>49,274</b>		<b>17,426</b>	<b>94,443</b>	<b>176,842</b>

**NOTE 32**  
**PERSONNEL SALARIES AND EXPENSES**

**a) Composition of personnel salaries and expenses:**

For the periods ended December 31, 2018 and 2017, the composition of personnel salaries and expenses is as follows:

	<b>As of December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>MCh\$</b>	<b>MCh\$</b>
Personnel compensation	259,354	250,962
Bonuses or gratuities	72,728	75,181
Stock-based benefits	(337)	2,752
Seniority compensation:	21,869	26,120
Pension plans	1,069	2,039
Training expenses	3,782	2,867
Day care and kindergarden	2,778	2,505
Health and welfare funds	6,040	5,644
Other personnel expenses	30,281	28,897
<b>Total</b>	<b>397,564</b>	<b>396,967</b>

**Benefits based on equity instruments (settled in cash)**

The Bank provides certain executives of the Bank and its affiliates with a benefit of payments based on shares, which are settled in cash in accordance with the requirements of IFRS 2. The Bank measures the services received and the liability incurred, at fair value.

Until the settlement of the liability, the Bank determines the fair value of the liability at the end of each reporting period, as well as on the settlement date, recognizing any change in fair value in profit or loss for the year.

The balance corresponding to profits based on equity instruments, as of December 31, 2018 and 2017 was \$ 337 million and \$2,752 million, respectively.



**NOTE 33**  
**ADMINISTRATIVE EXPENSES**

For the periods ended December 31, 2018 and 2017, the composition of administrative expenses is as follows:

	As of December 31,	
	2018 MCh\$	2017 MCh\$
<b>General administrative expenses</b>	<b>145,241</b>	<b>139,418</b>
Maintenance and repair of property, plant and equipment	20,962	21,359
Office lease	29,761	26,136
Equipment lease	55	96
Insurance premiums	3,439	3,354
Office supplies	5,070	6,862
IT and communication expenses	44,209	39,103
Lighting, heating, and other utilities	4,849	5,468
Security and valuables transport services	12,168	12,181
Representation and personnel travel expenses	3,444	4,262
Judicial and notarial expenses	1,148	974
Fees for technical reports and auditing	10,020	9,379
Other general administrative expenses	10,116	10,244
<b>Outsourced services</b>	<b>65,358</b>	<b>57,400</b>
Data processing	32,360	34,880
Archive service	3,401	3,324
Valuation service	3,167	2,419
Outsourced staff	9,936	6,878
Other	16,494	9,899
<b>Board expenses</b>	<b>1,297</b>	<b>1,290</b>
<b>Marketing expenses</b>	<b>19,286</b>	<b>18,877</b>
<b>Taxes, payroll taxes, and contributions</b>	<b>13,907</b>	<b>13,118</b>
Real estate taxes	1,730	1,443
Patents	1,896	1,646
Other taxes	7	24
Contributions to SBIF	10,274	10,005
<b>Total</b>	<b>245,089</b>	<b>230,103</b>

**NOTE 34**  
**DEPRECIATION, AMORTIZATION AND IMPAIRMENT**

a) The values of depreciation and amortization during December 31, 2018 and 2017 are detailed below:

	As December 31,	
	2018 MCh\$	2017 MCh\$
<b>Depreciation and amortization</b>		
Depreciation of property, plant, and equipment	(54,987)	(55,623)
Amortizations of intangible assets	(24,293)	(22,200)
<b>Total depreciation and amortization</b>	<b>(79,280)</b>	<b>(77,823)</b>
<b>Impairments</b>		
Impairment of property, plant and equipment	(39)	(354)
Impairment of intangible assets	-	(5,290)
<b>Total Impairments</b>	<b>(39)</b>	<b>(5,644)</b>
<b>Totales</b>	<b>(79,319)</b>	<b>(83,467)</b>

As of December 31, 2018, the impairment amount of fixed assets amounts to \$39 million (\$354 million as of December 31, 2017), mainly due to ATM incidents, And the amount of impairment in intangible amounts to \$0 due to the obsolescence of computer projects.

b) The changes in book value due to depreciation and amortization for the nine month period ended December 31, 2018 and 2017 are as follows:

	Depreciation and amortization 2018		
	Property, plant, and equipment MCh\$	Intangible assets MCh\$	Total MCh\$
<b>Balances as of January 1, 2018</b>	<b>(290,932)</b>	<b>(261,828)</b>	<b>(552,760)</b>
Depreciation and amortization for the period	(54,987)	(24,293)	(79,280)
Sales and disposals in the period	77	-	77
Other	-	-	-
<b>Balance as of December 31, 2018</b>	<b>(345,842)</b>	<b>(286,121)</b>	<b>(631,963)</b>

	Depreciation and amortization 2017		
	Property, plant, and equipment MCh\$	Intangible assets MCh\$	Total MCh\$
<b>Balances as of January 1, 2017</b>	<b>(235,622)</b>	<b>(239,628)</b>	<b>(475,250)</b>
Depreciation and amortization for the period	(55,623)	(22,200)	(77,823)
Sales and disposals in the period	313	-	313
Other	-	-	-
<b>Balance as of December 31, 2017</b>	<b>(290,932)</b>	<b>(261,828)</b>	<b>(552,760)</b>

**NOTE 35**  
**OTHER OPERATING INCOME AND EXPENSES**

a) Other operating income is as follows:

	As of December 31,	
	2018	2017
	MCh\$	MCh\$
<b>Income from assets received in lieu of payment</b>		
Income from sale of assets received in lieu of payment	7,106	3,330
Recovery of charge-offs and income from assets received in lieu of payment	14,987	17,600
Other income from assets received in lieu of payment	1,410	7,547
<b>Subtotal</b>	<b>23,503</b>	<b>28,477</b>
Contingency Provisión Liberation (1)	12,020	29,903
<b>Subtotal</b>	<b>12,020</b>	<b>29,903</b>
<b>Other income</b>		
Leases	222	264
Income from sale of property, plant and equipment (2)	2,490	23,229
Recovery of provisions for contingencies	-	-
Compensation from insurance companies due to damages	144	1,237
Other	1,147	4,053
<b>Subtotal</b>	<b>4,003</b>	<b>28,783</b>
<b>Total</b>	<b>39,526</b>	<b>87,163</b>

(1) The Bank maintained provisions for contingencies in accordance with IAS 37, which during 2018 was favorable for the Bank.

(2) The result from the sale of fixed assets as of December 31, 2018 includes MCh \$ 2,122 corresponding to the legal assignment of rights by leasing contract entered into by Bansa Santander S,A,, as disclosed in Note N ° 26.

b) Other operating expenses are as follows:

	As of December 31,	
	2018	2017
	MCh\$	MCh\$
<b>Allowances and expenses for assets received in lieu of payment</b>		
Charge-offs of assets received in lieu of payment	15,037	30,027
Provisions on assets received in lieu of payment	816	3,912
Expenses for maintenance of assets received in lieu of payment	1,721	1,679
<b>Subtotal</b>	<b>17,574</b>	<b>35,618</b>
<b>Credit card expenses</b>	<b>3,151</b>	<b>3,070</b>
<b>Customer services</b>	<b>3,635</b>	<b>2,563</b>
<b>Other expenses</b>	<b>798</b>	<b>1,607</b>
Operating charge-offs	9,964	23,475
Life insurance and general product insurance policies	-	-
Additional tax on expenses paid overseas	62	-
Gain (Loss) for sale of PP&E	21	-
Provisions for contingencies	898	912
Expense for the Retail Association	-	-
Other	9,637	28,769
<b>Subtotal</b>	<b>21,380</b>	<b>54,763</b>
<b>Total</b>	<b>45,740</b>	<b>96,014</b>

**NOTE N°36**

**TRANSACTIONS WITH RELATED PARTIES**

Associated and dependent entities are the Bank's "related parties". However, this also includes its "key personnel" from the executive staff (members of the Bank's Board of Directors and Managers of Banco Santander Chile and its affiliates, together with their close relatives), as well as the entities over which the key personnel could exercise significant influence or control.

The Bank also includes those 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).

Article 89 of the Ley de Sociedades Anónimas (Public Companies Act), which is also applicable to banks, states that any transaction with a related party must be made under equitable conditions similar to those that customarily prevail in the market.

Article 84 of the Ley General de Bancos (General Banking Act) establishes limits for loans that can be granted to related parties and prohibits lending to the Bank's directors, General Manager, or representatives.

Transactions between the Bank and its related parties are specified below and have been divided into four categories:

**Santander Group companies**

This category includes all the companies that are controlled by the Santander Group around the world, and hence, it also includes the companies over which the Bank exercises any degree of control (Affiliates and special-purpose entities).

**Associated companies**

This category includes the entities over which the Bank exercises a significant degree of influence, in accordance with section b) of Note 1, and which generally belong to the group of entities known as "business support companies".

**Key personnel**

This category includes members of the Bank's Board of Directors and managers of Banco Santander Chile and its affiliates, together with their close relatives.

**Other**

This category encompasses the related parties that are not included in the groups identified above and which are, in general, entities over which the key personnel could exercise significant influence or control.

The terms for transactions with related parties are equivalent to those which prevail in transactions made under market conditions or to which the corresponding considerations in kind have been attributed.

**NOTE N°36**  
**TRANSACTIONS WITH RELATED PARTIES, continued**

**a) Loans to related parties**

Loans and receivables as well as contingent loans are as follows:

	As of December 31,							
	2018				2017			
	Santander Group companies	Associated companies	Key personnel	Other	Santander Group companies	Associated companies	Key personnel	Other
MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Loans and accounts receivables:</b>								
Commercial loans	122,289	459	4,298	233	80,076	771	3,947	7,793
Mortgage loans	-	-	18,814	-	-	-	18,796	-
Consumer loans	-	-	5,335	-	-	-	4,310	-
<b>Loans and account receivables:</b>	<b>122,289</b>	<b>459</b>	<b>28,447</b>	<b>233</b>	<b>80,076</b>	<b>771</b>	<b>27,053</b>	<b>7,793</b>
Provision for loan losses	(308)	(9)	(116)	(5)	(209)	(9)	(177)	(18)
<b>Net loans</b>	<b>121,981</b>	<b>450</b>	<b>28,331</b>	<b>228</b>	<b>79,867</b>	<b>762</b>	<b>26,876</b>	<b>7,775</b>
Guarantees	442,854	-	22,893	7,171	361,452	-	23,868	7,164
<b>Contingent loans</b>								
Personal guarantees	-	-	-	-	-	-	-	-
Letters of credit	5,392	-	2,060	44	19,251	-	-	33
Performance guarantees	445,064	-	3,364	-	377,578	-	-	-
<b>Contingent loans</b>	<b>450,456</b>	<b>-</b>	<b>5,424</b>	<b>44</b>	<b>396,829</b>	<b>-</b>	<b>-</b>	<b>33</b>
Provision for contingent loans	(1)	-	(18)	-	(4)	-	-	1
<b>Net contingent loans</b>	<b>450,455</b>	<b>-</b>	<b>5,406</b>	<b>44</b>	<b>396,825</b>	<b>-</b>	<b>-</b>	<b>34</b>

Loans regarding activity with related parties during the periods ended December 31, 2018 and 2017 is as follows:

	As of December 31,							
	2018				2017			
	Santander Group companies	Associated companies	Key personnel	Other	Santander Group companies	Associated companies	Key personnel	Other
MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Opening balances as of January 1,	476,906	771	27,051	7,826	546,058	532	26,423	7,100
Loans granted	200,657	39	16,574	773	78,214	318	7,777	1,050
Loan payments	(104,818)	(351)	(9,754)	(700)	(147,366)	(79)	(7,149)	(324)
<b>Total</b>	<b>572,745</b>	<b>459</b>	<b>33,871</b>	<b>7,899</b>	<b>476,906</b>	<b>771</b>	<b>27,051</b>	<b>7,826</b>

**Banco Santander Chile and Subsidiaries**

**Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2018 AND 2017

**NOTE 36**

**TRANSACTIONS WITH RELATED PARTIES, continued**

**b) Assets and liabilities with related parties**

	As of December 31							
	2018				2017			
	Santander Group companies	Associated companies	Key personnel	Other	Santander Group companies	Associated companies	Key personnel	Other
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Assets</b>								
Cash and deposits in banks	189,803	-	-	-	74,949	-	-	-
Trading investments	-	-	-	-	-	-	-	-
Investments under resale agreements	-	-	-	-	-	-	-	-
Financial derivative contracts	748,632	105,358	-	9	545,028	86,011	-	14
Available for sale investments	-	-	-	-	-	-	-	-
Other assets	38,960	51,842	-	-	8,480	118,136	-	-
<b>Liabilities</b>								
Deposits and other demand liabilities	27,515	(21,577)	2,493	(480)	24,776	25,805	2,470	221
Obligations under repurchase agreements	6,501	-	329	68	50,945	-	-	-
Time deposits and other time liabilities	2,585,337	-	3,189	(838)	785,988	27,968	3,703	3,504
Financial derivative contracts	770,624	112,523	-	-	418,647	142,750	-	7,190
Bank obligation	-	-	-	-	-	-	-	-
Issued debts instruments	335,443	-	-	-	482,626	-	-	-
Other financial liabilities	6,807	-	-	-	4,919	-	-	-
Other liabilities	60,884	89,817	-	-	164,303	58,168	-	-

**c) Recognized income (expense) with related parties**

	As of December 31,							
	2018				2017			
	Santander Group companies	Associated companies	Key personnel	Other	Santander Group companies	Associated companies	Key personnel	Other
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Income (expense) recorded</b>								
Income and expenses from interest and inflation	(53,256)	(156)	1,252	508	(43,892)	-	1,051	-
Fee and commission income and expenses	91,178	7,826	305	22	72,273	15,404	224	1
Net income (expense) from financial operations and foreign exchange transactions (*)	(566,677)	65,727	27	(12)	363,108	(48,453)	(3)	19
Other operating income and expenses	42	1,388	-	-	21,670	(1,454)	-	-
Key personnel compensation and expenses	-	-	(11,761)	-	-	-	(43,037)	-
Administrative and other expenses	(43,035)	(50,764)	-	-	(48,246)	(47,220)	-	-
<b>Total</b>	<b>(571,748)</b>	<b>24,022</b>	<b>(10,177)</b>	<b>518</b>	<b>364,913</b>	<b>(81,723)</b>	<b>(41,765)</b>	<b>20</b>

(\*) Primarily relates to derivative contracts used to hedge economically the exchange risk of assets and liabilities that hedge positions of the Bank and its subsidiaries.

**NOTE 36**  
**TRANSACTIONS WITH RELATED PARTIES, continued**

**d) Payment to Board members and key management personnel**

The compensation received by key management personnel, including Board members and all the executives holding Manager positions, is shown in the "Personnel salaries and expenses" and/or "Administrative expenses" of the Consolidated Statements of Income, and detailed as follows:

	As of December 31,	
	2018	2017
	MCh\$	MCh\$
Personnel compensation	16,924	16,863
Board member`s salaries and expenses	1,230	1,199
Bonuses or gratuity	16,243	16,057
Compensation in stock	(337)	2,752
Training expenses	210	68
Seniority compensation	4,202	3,842
Health funds	284	273
Other personnel expenses	858	773
Pension Plans (*)	1,069	2,039
<b>Total</b>	<b>40,683</b>	<b>43,866</b>

(\*) Part of the executives who qualified for this benefit ceased to belong to the Group for various reasons without meeting the requirements to obtain the benefit, for which the amount of the obligation decreased, generating an income for the reversal of provisions.

**e) Composition of key personnel**

As of December 31, 2018 and 2017, the composition of the Bank's key personnel is as follows:

Position	N° of executives	
	As of December 31,	
	2018	2017
Director	11	11
Division manager	12	13
Manager	108	109
<b>Total key personnel</b>	<b>131</b>	<b>133</b>

**NOTE 37**  
**PENSION PLANS**

The Bank has an additional benefit available to its principal executives, consisting of a pension plan. The purpose of the pension plan is to endow the executives with funds for a better supplementary pension upon their retirement.

For this purpose, the Bank will match the voluntary contributions made by the beneficiaries for their future pension with an equivalent contribution. The executives will be entitled to receive this benefit only when they fulfill the following conditions:

- a. Aimed at the Bank's management
- b. The general requisite to apply for this benefit is that the employee must be carrying out his/her duties when turning 60 years old.
- c. The Bank will create a pension fund, with life insurance, for each beneficiary in the plan, Periodic contributions into this fund are made by the manager and matched by the Bank.
- d. The Bank will be responsible for granting the benefits directly.

If the working relationship between the manager and the respective company ends, before s/he fulfills the abovementioned requirements, s/he will have no rights under this benefit plan.

In the event of the executive's death or total or partial disability, s/he will be entitled to receive this benefit.

The Bank will make contributions to this benefit plan on the basis of mixed collective insurance policies whose beneficiary is the Bank. The life insurance company with whom such policies are executed is not an entity linked or related to the Bank or any other Santander Group company.

Plan Assets owned by the Bank at the end of 2018 totaled Ch\$6,804 million (Ch\$7,919 million in 2017)

The amount of the defined benefit plans has been quantified by the Bank, based on the following criteria:

**Calculation method**

Use of the projected unit credit method which considers each working year as generating an additional amount of rights over benefits and values each unit separately. It is calculated based primarily on fund contribution, as well as other factors such as the legal annual pension limit, seniority, age and yearly income for each unit valued individually.

**Actuarial hypothesis assumptions:**

Actuarial assumption with respect to demographic and financial variables are non-biased and mutually compatible with each other, The most significant actuarial hypotheses considered in the calculation were.

Assets related to the pension fund contributed by the Bank into the Seguros Euroamérica insurance company with respect to defined benefit plans are presented as net of associated commitments.

	<b>Plans post-employment 2018</b>	<b>Plans post-employment 2017</b>
Mortality chart	RV-2014	RV-2014
Termination of contract rates	5,00%	5,0%
Impairment chart	PDT 1985	PDT 1985



**NOTE N°37**  
**PENSION PLANS, continued**

Activity for post-employment benefits is as follows:

	<b>As of December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>MCh\$</b>	<b>MCh\$</b>
Plan assets	6,804	7,919
<b>Commitments for defined-benefit plans</b>		
For active personnel	(5,958)	(6,998)
Incurred by inactive personnel	-	-
Minus:		
Unrealized actuarial (gain) losses	-	-
<b>Balances at year end</b>	<b>846</b>	<b>921</b>

Year's cash flow for post-employment benefits is as follows:

	<b>As of December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>MCh\$</b>	<b>MCh\$</b>
<b>a) Fair value of plan assets</b>		
Opening balance	7,919	6,612
Expected yield of insurance contracts	353	307
Employer contributions	836	1,931
Actuarial (gain) losses	-	-
Premiums paid	-	-
Benefits paid	(2,304)	(931)
<b>Fair value of plan assets at year end</b>	<b>6,804</b>	<b>7,919</b>
<b>b) Present value of obligations</b>		
Present value of obligation opening balance	(6,998)	(4,975)
Net incorporation of Group companies	-	-
Service cost	(1,069)	(2,039)
Interest cost	-	-
Curtailement/settlement effect	-	-
Benefits paid	-	-
Past service cost	-	-
Actuarial (gain) losses	-	-
Other	2,109	16
<b>Present value of obligations at year end</b>	<b>(5,958)</b>	<b>(6,998)</b>
<b>Net balance at year end</b>	<b>846</b>	<b>921</b>

**NOTE N°37**  
**PENSION PLANS, continued**

Plan expected profit:

	As of December 31,	
	2018	2017
Type of expected yield from the plan's assets	UF + 2.50% annual	UF + 2.50% annual
Type of yield expected from the reimbursement rights	UF + 2.50% annual	UF + 2.50% annual

Plan associated expenses:

	For the years ended December 31,	
	2018	2017
	MCh\$	MCh\$
Current period service expenses	1,069	2,039
Interest cost	-	-
Expected yield from plan's asset	-	(307)
Expected yield of insurance contracts linked to the Plan:	(353)	-
Extraordinary allocations	-	-
Actuarial (gain)/losses recorded in the period	-	-
Past service cost	-	-
Other	-	-
<b>Total</b>	<b>716</b>	<b>1,732</b>

**NOTE 38**

**FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction on the main market (or the most advantageous) at the measurement date in the current market conditions (in other words, an exit price) regardless of whether that price is directly observable or estimated by using a different valuation technique. The measurement of fair value assumes the sale transaction of an asset or the transference of the liability happens within the main asset or liability market, or the most advantageous market for the asset or liability.

For financial instruments with no available market prices, fair values have been estimated by using recent transactions in analogous instruments, and in the absence thereof, the present values or other valuation techniques based on mathematical valuation models sufficiently accepted by the international financial community. In the use of these models, consideration is given to the specific particularities of the asset or liability to be valued, and especially to the different kinds of risks associated with the asset or liability,

These techniques are significantly influenced by the assumptions used, including the discount rate, the estimates of future cash flows and prepayment expectations. Hence, the fair value estimated for an asset or liability may not coincide exactly with the price at which that asset or liability could be delivered or settled on the date of its valuation, and may not be justified in comparison with independent markets.

**Determination of fair value of financial instruments**

Below is a comparison between the value at which the Bank's financial assets and liabilities are recorded and their fair value as of December 31, 2018 and December 31, 2017:

	As of December 31, 2018		As of December 31, 2017	
	Book value MCh\$	Fair value MCh\$	Book value MCh\$	Fair value MCh\$
<b>Assets</b>				
Trading investments	77,041	77,041	485,736	485,736
Financial derivative contracts	3,100,635	3,100,635	2,238,647	2,238,647
Loans and accounts receivable from customers and interbank loans, (net)	29,485,435	30,573,611	26,910,141	28,518,929
Investments available for sale	2,394,323	2,394,323	2,574,546	2,574,546
Guarantee deposits (margin accounts)	170,232	170,232	323,767	323,767
<b>Liabilities</b>				
Deposits and interbank borrowings	23,597,863	23,770,106	21,380,468	20,887,959
Financial derivative contracts	2,517,728	2,517,728	2,139,488	2,139,488
Issued debt instruments and other financial liabilities	8,330,633	8,605,135	7,335,683	7,487,591
Guarantees received (margin accounts)	371,512	371,512	408,313	408,313

Fair value is approximated to book value in the following accounts, due to their short-term nature in the following cases: cash and bank deposits, operations with liquidation in progress and buyback contracts as well as security loans.

In addition, the fair value estimates presented above do not attempt to estimate the value of the Bank's profits generated by its business activity, nor its future activities, and accordingly, they do not represent the Bank's value as a going concern.

Below is a detail of the methods used to estimate the financial instruments' fair value.

**NOTE 38**  
**FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES, continued**

**a) Financial instruments for trading investments and available for sale investment.**

The estimated fair value of these financial instruments was established using market values or estimates from an available dealer, or quoted market prices of similar financial instruments. Investments with maturities of less than 1 year are evaluated at recorded value since they are considered as having a fair value not significantly different from their recorded value, due to their short maturity term. To estimate the fair value of debt investments or representative values in these lines of businesses, we take into consideration additional variables and elements, as long as they apply, including the estimate of prepayment rates and credit risk of issuers.

**b) Loans and accounts receivable from customers and interbank loans**

Fair value of commercial, mortgage and consumer loans and credit cards is measured through a discounted cash flow (DCF) analysis. To do so, we use current market interest rates considering product, term, amount and similar loan quality. Fair value of loans with 90 days or more of delinquency are measured by means of the market value of the associated guarantee, minus the rate and term of expected payment. For variable rate loans whose interest rates change frequently (monthly or quarterly) and that are not subjected to any significant credit risk change, the estimated fair value is based on their book value.

**c) Deposits**

Disclosed fair value of deposits that do not bear interest and saving accounts is the amount payable at the reporting date and, therefore, equals the recorded amount. Fair value of time deposits is calculated through a discounted cash flow calculation that applies current interest rates from a monthly calendar of scheduled maturities in the market.

**d) Short and long term issued debt instruments**

The fair value of these financial instruments is calculated by using a discounted cash flow analysis based on the current incremental lending rates for similar types of loans having similar maturities.

**e) Financial derivative contracts**

The estimated fair value of financial derivative contracts is calculated using the prices quoted on the market for financial instruments having similar characteristics.

The fair value of interest rate swaps represents the estimated amount that the Bank expects to receive to cancel the contracts or agreements, considering the term structures of the interest curve, volatility of the underlying asset and credit risk of counterparties.

If there are no quoted prices from the market (either direct or indirect) for any derivative instrument, the respective fair value estimates have been calculated by using models and valuation techniques such as Black-Scholes, Hull, and Monte Carlo simulations, taking into consideration the relevant inputs/outputs such as volatility of options, observable correlations between underlying assets, counterparty credit risk, implicit price volatility, the velocity with which the volatility reverts to its average value, and the straight-line relationship (correlation) between the value of a market variable and its volatility, among others.

**Measurement of fair value and hierarchy**

IFRS 13 - Fair Value Measurement, provides a hierarchy of reasonable values which separates the inputs and/or valuation technique assumptions used to measure the fair value of financial instruments. The hierarchy reflects the significance of the inputs used in making the measurement. The three levels of the hierarchy of fair values are the following:

- Level 1: the inputs are quoted prices (unadjusted) on active markets for identical assets and liabilities that the Bank can access on the measurement date.

**NOTE 38**  
**FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES, continued**

- Level 2: inputs other than the quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs are unobservable inputs for the asset or liability.

The hierarchy level within which the fair value measurement is categorized in its entirety is determined based on the lowest level of input that is significant to the fair value measurement in its entirety.

The best evidence of a financial instrument's fair value at the initial time is the transaction price (Level 1).

In cases where quoted market prices cannot be observed, Management makes its best estimate of the price that the market would set using its own internal models which in most cases use data based on observable market parameters as a significant input (Level 2) and, in very specific cases, significant inputs not observable in market data (Level 3). Various techniques are employed to make these estimates, including the extrapolation of observable market data.

Financial instruments at fair value and determined by quotations published in active markets (Level 1) include:

- Chilean Government and Department of Treasury bonds

Instruments which cannot be 100% observable in the market are valued according to other inputs observable in the market (Level 2).

The following financial instruments are classified under Level 2:

Type of financial instrument	Model used in valuation	Description
· Mortgage and private bonds	Present Value of Cash Flows Model	Internal Rates of Return ("IRRs") are provided by RiskAmerica, according to the following criterion: If, at the valuation day, there are one or more valid transactions at the Santiago Stock Exchange for a given mnemonic, the reported rate is the weighted average amount of the observed rates. In the case there are no valid transactions for a given mnemonic on the valuation day, the reported rate is the IRR base from a reference structure, plus a spread model based on historical spread for the same item or similar ones.
· Time deposits	Present Value of Cash Flows Model	IRRs are provided by RiskAmerica, according to the following criterion: If, at the valuation day, there are one or more valid transactions at the Santiago Stock Exchange for a given mnemonic, the reported rate is the weighted average amount of the observed rates. In the case there are no valid transactions for a given mnemonic on the valuation day, the reported rate is the IRR base from a reference structure, plus a spread model based on issuer curves.
· Constant Maturity Swaps (CMS), FX and Inflation Forward (Fwd) , Cross Currency Swaps (CCS), Interest Rate Swap (IRS)	Present Value of Cash Flows Model	IRRs are provided by ICAP, GFI, Tradition, and Bloomberg according to this criterion: With published market prices, a valuation curve is created by the bootstrapping method and is then used to value different derivative instruments.
· FX Options	Black-Scholes	Formula adjusted by the volatility smile (implicit volatility), Prices (volatility) are provided by BGC Partners, according to this criterion: With published market prices, a volatility surface is created by interpolation and then these volatilities are used to value options.

In limited occasions significant inputs not observable in market data are used (Level 3). To carry out this estimate, several techniques are used, including extrapolation of observable market data or a mix of observable data.

**NOTE 38**  
**FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES, continued**

The following financial instruments are classified under Level 3:

Type of financial instrument	Model used in valuation	Description
· Caps/ Floors/ Swaptions	Black Normal Model for Cap/Floors and Swaptions	There is no observable input of implicit volatility.
	Black – Scholes	There is no observable input of implicit volatility.
	Hull-White	Hybrid HW model for rates and Brownian motion for FX, There is no observable input of implicit volatility.
	Implicit Forward Rate Agreement (FRA)	Start Fwd unsupported by MUREX (platform) due to the UF forward estimate.
· Cross currency swap, Interest rate swap, Call money swap in Tasa Activa Bancaria (Active Bank Rate) TAB	Present Value of Cash Flows Model	Validation obtained by using the interest curve and interpolating at flow maturities, but TAB is not a directly observable variable and is not correlated to any market input.
	Present Value of Cash Flows Model	Valued by using similar instrument prices plus a charge-off rate by liquidity.

The Bank does not believe that any change in unobservable inputs with respect to level 3 instruments would result in a significantly different fair value measurement.

The following table presents the assets and liabilities that are measured at fair value on a recurring basis, as of December 31, 2018 and 2017.

As of December 31,	Fair value measurement			
	2018 MCh\$	Level 1 MCh\$	Level 2 MCh\$	Level 3 MCh\$
<b>Assets</b>				
Trading investments	77,041	71,158	5,883	-
Available for sale investments	2,394,323	2,368,768	24,920	635
Derivatives	3,100,635	-	3,089,077	11,558
Guarantee deposits (margin accounts)	170,232	-	170,232	-
<b>Total</b>	<b>5,742,321</b>	<b>2,439,926</b>	<b>3,290,112</b>	<b>12,193</b>
<b>Liabilities</b>				
Derivatives	2,517,728	-	2,516,933	795
Guarantees received (margin accounts)	371,512	-	371,512	-
<b>Total</b>	<b>2,889,240</b>	<b>-</b>	<b>2,888,445</b>	<b>795</b>

As of December 31,	Fair value measurement			
	2017 MCh\$	Level 1 MCh\$	Level 2 MCh\$	Level 3 MCh\$
<b>Assets</b>				
Trading investments	485,736	481,642	4,094	-
Available for sale investments	2,574,546	2,549,226	24,674	646
Derivatives	2,238,647	-	2,216,306	22,341
Guarantee deposits (margin accounts)	323,767	323,767	-	-
<b>Total</b>	<b>5,622,696</b>	<b>3,354,635</b>	<b>2,245,074</b>	<b>22,987</b>
<b>Liabilities</b>				
Derivatives	2,139,488	-	2,139,481	7
Guarantees received (margin accounts)	408,313	408,313	-	-
<b>Total</b>	<b>2,547,801</b>	<b>408,313</b>	<b>2,139,481</b>	<b>7</b>

**NOTE 38**  
**FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES, continued**

The following table presents the assets and liabilities that are not measured at fair value in the consolidated statement of financial position, as of December 31, 2018 and 2017:

As of December 31,	Fair value measurement			
	2018 MCh\$	Level 1 MCh\$	Level 2 MCh\$	Level 3 MCh\$
<b>Assets</b>				
Loans and accounts receivables from customers and Interbank loans	30,573,611	-	-	30,573,611
<b>Total</b>	<b>30,573,611</b>	-	-	<b>30,573,611</b>
<b>Liabilities</b>				
Deposits and Interbank borrowing	23,770,106	-	23,770,106	-
Issued debt instruments and other financial liabilities	8,605,135	-	8,605,135	-
<b>Total</b>	<b>32,375,241</b>	-	<b>32,375,241</b>	-

As of December 31,	Fair value measurement			
	2017 MCh\$	Level 1 MCh\$	Level 2 MCh\$	Level 3 MCh\$
<b>Assets</b>				
Loans and accounts receivables from customers and Interbank loans	28,518,929	-	-	28,518,929
<b>Total</b>	<b>28,518,929</b>	-	-	<b>28,518,929</b>
<b>Liabilities</b>				
Deposits and Interbank borrowing	20,887,959	-	20,887,959	-
Issued debt instruments and other financial liabilities	7,487,591	-	7,487,591	-
<b>Total</b>	<b>28,375,550</b>	-	<b>28,375,550</b>	-

There was no transfer between level 1 and 2 for the period ended December 31, 2018 and 2017.

**NOTE 38**  
**FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES, continued**

The following table presents the Bank's activity for assets and liabilities measured at fair value on a recurrent basis using unobserved significant entries (Level 3) as of December 31, 2018 and 2017:

	Assets MCh\$	Liabilities MCh\$
	<b>22,987</b>	<b>7</b>
<b>As of January 1, 2018</b>		
<b>Total realized and unrealized profits (losses)</b>	(10,769)	(802)
Included in statement of income	25	
Included in other comprehensive income		
Purchases, issuances, and loans (net)	-	-
<b>As of December 31, 2018</b>	<b>12,193</b>	<b>795</b>
<b>Total profits or losses included in comprehensive income at December 31, 2018 that are attributable to change in unrealized profit (losses) related to assets or liabilities as of December 31, 2017</b>	<b>(10,794)</b>	<b>(802)</b>
	Assets MCh\$	Liabilities MCh\$
	<b>40,034</b>	<b>43</b>
<b>As of January 1, 2017</b>		
<b>Total realized and unrealized profits (losses)</b>	(17,035)	(36)
Included in statement of income	(12)	-
Included in other comprehensive income		
Purchases, issuances, and loans (net)	-	-
<b>As of December 31, 2017</b>	<b>22,987</b>	<b>7</b>
<b>Total profits or losses included in comprehensive income at December 31, 2018 that are attributable to change in unrealized profit (losses) related to assets or liabilities as of December 31, 2017</b>	<b>(17,047)</b>	<b>(36)</b>

The realized and unrealized profits (losses) included in comprehensive income for 2018 and 2017, in the assets and liabilities measured at fair value on a recurrent basis through unobservable market data (Level 3) are recorded in the Statement of Comprehensive Income in the associate line item.

The potential effect as of December 31, 2018 and 2017 on the valuation of assets and liabilities valued at fair value on a recurrent basis through unobservable significant entries (level 3), generated by changes in the principal assumptions if other reasonably possible assumptions that are less or more favorable were used, is not considered by the Bank to be significant.



**NOTE 38**  
**FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES, continued**

The following tables show the financial instruments subject to compensation in accordance with IAS 32, for 2018 and 2017:

<b>As of December 31, 2018</b>					
Linked financial instruments, compensated in balance					
Financial instruments	Gross amounts	Compensated in balance	Net amount presented in balance	Remains of unrelated and / or unencumbered financial instruments	Amount in Statements of Financial Position
<b>Assets</b>	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	
Financial derivative contracts	1,947,726	-	1,947,726	1,152,909	3,100,635
Investments under resale agreements	-	-	-	-	-
Loans and accounts receivable from customers, and Interbank loans, net	-	-	-	29,485,435	29,485,435
<b>Total</b>	<b>1,947,726</b>	<b>-</b>	<b>1,947,726</b>	<b>30,683,344</b>	<b>32,586,070</b>
<b>Liabilities</b>					
Financial derivative contracts	1,735,555	-	1,735,555	782,173	2,517,728
Investments under resale agreements	48,545	-	48,545	-	48,545
Déposits and interbank borrowings	-	-	-	23,597,862	23,597,862
<b>Total</b>	<b>1,784,100</b>	<b>-</b>	<b>1,784,100</b>	<b>24,380,035</b>	<b>26,164,135</b>
<b>As of December 31, 2017</b>					
Linked financial instruments, compensated in balance					
Financial instruments	Gross amounts	Compensated in balance	Net amount presented in balance	Remains of unrelated and / or unencumbered financial instruments	Amount in Statements of Financial Position
<b>Assets</b>	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	
Financial derivative contracts	2,029,657	-	2,029,657	208,990	2,238,647
Investments under resale agreements	-	-	-	-	-
Loans and accounts receivable from customers, and Interbank loans, net	-	-	-	26,910,141	26,910,141
<b>Total</b>	<b>2,029,657</b>	<b>-</b>	<b>2,029,657</b>	<b>27,119,131</b>	<b>29,148,788</b>
<b>Liabilities</b>					
Financial derivative contracts	1,927,654	-	1,927,654	211,834	2,139,488
Investments under resale agreements	268,061	-	268,061	-	268,061
Déposits and interbank borrowings	-	-	-	21,380,467	21,380,467
<b>Total</b>	<b>2,195,715</b>	<b>-</b>	<b>2,195,715</b>	<b>21,592,301</b>	<b>23,788,016</b>

**NOTE 38**  
**FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES, continued**

In order to reduce the exposure of credit in its financial derivative operations, the Bank has entered into bilateral collateral agreements with its counterparts, in which it establishes the terms and conditions under which they operate. In general terms, the collateral (received / delivered) operates when the net of the fair value of the financial instruments held exceeds the thresholds defined in the respective contracts.

Below are the financial derivatives contracts, according to their collateral agreement :

Financial derivatives contracts	As of December 31,			
	2018		2017	
	Asset MCh\$	Liabilities MCh\$	Asset MCh\$	Liabilities MCh\$
Derivatives contracts with threshold collateral agreement equal to zero	2,639,835	2,133,149	1,898,220	1,773,471
Derivatives contracts with non-zero threshold collateral agreement	344,520	262,683	221,030	316,840
Derivatives contracts without collateral agreement	116,280	121,896	119,397	49,177
<b>Total Financial derivatives contracts</b>	<b>3,100,635</b>	<b>2,517,728</b>	<b>2,238,647</b>	<b>2,139,488</b>

**NOTE 39**  
**RISK MANAGEMENT**

**Introduction and general description**

The Bank, due to its activities with financial instruments is exposed to several types of risk. The main risks related to financial instruments that apply to the Bank are as follow:

**Market risk:** rises from holding financial instruments whose value may be affected by fluctuations in market conditions, generally including the following types of risk:

- a. Foreign exchange risk: this arises as a consequence of fluctuations in market interest rates.
- b. Interest rate risk: this arises as a consequence of fluctuations in market interest rates.
- c. Price risk: this arises as a consequence of changes in market prices, either due to factor specific to the instrument itself or due to factors that affect all the instruments negotiated in the market.
- d. Inflation risk: this arises as a consequence of changes in Chile's inflation rate, whose effect would be mainly applicable to financial instruments denominated in UFs

**Credit risk:** this is the risk that one of the parties to a financial instrument fails to meet its contractual obligations for reason of insolvency or inability of the individuals or legal entities in question to continue as a going concern, causing a financial loss to the other party.

**Liquidity risk:** is the possibility that an entity may be unable to meet its payment commitments, or that in order to meet them, it may have to raise funds with onerous terms or risk damage to its image and reputation.

**Operating risk:** this is a risk arising from human errors, system error, fraud or external events which may damage the Bank's reputation, may have legal or regulatory implication, or cause financial losses.

This note includes information on the Bank's exposure to these risk an on its objectives, policies, and processes involved in their measurement and management.

**Risk management structure**

The Board of Directors is responsible for the establishment and monitoring of the Bank's risk management structure and, to this end, has a corporate governance system in line with international recommendations and trends, adapted to the Chilean regulatory reality and adapted to best practices, advanced markets in which it operates. To better exercise this function, the Board of Directors has established the Comprehensive Risk Committee ("CIR"), whose main mission is to assist in the development of its functions related to the Bank's control and risk management, Complementing the CIR in risk management, the Board also has 3 key committees: Assets and Liabilities Committee (CAPA), Markets Committee ("CDM") and the Directors and Audit Committee ("CDA"), Each of the committees is composed of directors and executive members of the Bank's management.

The CIR is responsible for developing Bank risk management policies in accordance with the guidelines of the Board of Directors, the Global Risk Department of Santander Spain and the regulatory requirements issued by the Chilean Superintendency of Banks and Financial Institutions ("SBIF"). These policies have been created mainly to identify and analyze the risk faced by the Bank, establish risk limits and appropriate controls, and monitor risks and compliance with limits. The Bank's risk management policies and systems are regularly reviewed to reflect changes in market conditions, and the products or services offered, The Bank, through the training and management of standards and procedures, aims to develop a disciplined and constructive control environment, in which all its employees understand their duties and obligations.

To fulfill its functions, the CIR works directly with the Bank's risk and control departments, whose joint objectives include:

- evaluate those risks that, due to their size, could compromise the solvency of the Bank, or that present potentially significant operational or reputation risks;
- ensure that the Bank is provided with the means, systems, structures and resources in accordance with the best practices that allow for the implementation of the strategy in risk management;

**NOTE 39**

**RISK MANAGEMENT, continued**

- ensure the integration, control and management of all Bank risks;
- execute the application throughout the Bank and its businesses of homogeneous risk principles, policies and metrics;
- develop and implement a risk management model in the Bank, so that the risk exposure is properly integrated in the different decision-making processes;
- identify risk concentrations and mitigation alternatives, monitor the macroeconomic and competitive environment, quantify sensitivities and the foreseeable impact of different scenarios on the positioning of risks; Y
- manage the structural liquidity risks, interest rates and exchange rates, as well as the Bank's own resources base.

To comply with the aforementioned objectives, the Bank (Administration and ALCO) carries out several activities related to risk management, which include: calculating the risk exposures of the different portfolios and / or investments, considering mitigating factors (guarantees, netting, collaterals, etc.); calculate the probabilities of expected loss of each portfolio and / or investments; assign the loss factors to the new operations (rating and scoring); measure the risk values of the portfolios and / or investments according to different scenarios through historical simulations; establish limits to potential losses based on the different risks incurred; determine the possible impacts of structural risks in the Consolidated Statements of Results of the Bank; set the limits and alerts that guarantee the Bank's liquidity; and identify and quantify operational risks by business lines and thus facilitate their mitigation through corrective actions. The CDA is primarily responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks the Bank faces.

**Credit risk**

Credit risk is the risk that one of the parties to the financial instrument contract fails to comply with its contractual obligations due to insolvency or disability of natural or legal persons and causes a financial loss in the other party. For purposes of credit risk management, the Bank consolidates all the elements and components of credit risk exposure (eg risk of individual default by creditor, innate risk of a line of business or sector, and / or geographical risk) .

**Mitigation of credit risk for loans and accounts receivable**

The Board of Directors has delegated responsibility for credit risk management to the Comprehensive Risk Committee (CIR) and the Bank's risk departments whose roles are summarized as follows:

- Formulation of credit policies, in consultation with the business units, covering the requirements of guarantee, credit evaluation, risk rating and presentation of reports, documents and legal procedures in compliance with the regulatory, legal and internal requirements of the Bank.
- Establish the structure of the authorization for the approval and renewal of credit applications. The Bank structures levels of credit risk by placing limits on the concentration of that risk in terms of individual debtors, groups of debtors, segments of industries and countries. The authorization limits are assigned to the respective officers of the business unit (commercial, consumption, PYMEs) to be monitored permanently by the Administration. In addition, these limits are reviewed periodically. The risk assessment teams at branch level interact regularly with clients, however for large operations, the risk teams of the parent company and even the CIR, work directly with clients in the evaluation of credit risks and preparation of credit risk, credit applications. Inclusive, Banco Santander España participates in the process of approving the most significant loans, for example to clients or economic groups with debt amounts greater than US \$ 40 million.
- Limit concentrations of exposure to customers, counterparts, in geographic areas, industries (for accounts receivable or credits), and by issuer, credit rating and liquidity (for investments).
- Develop and maintain the Bank's risk classification in order to classify the risks according to the degree of exposure to financial loss faced by the respective financial instruments and with the purpose of focusing the management or risk management specifically on the associated risks.
- Review and evaluate credit risk The risk divisions of the Administration are largely independent of the commercial division of the bank and evaluate all credit risks in excess of the designated limits, prior to the approval of credits to customers or prior to the acquisition of specific investments, Credit renewals and revisions are subject to similar processes.

**NOTE 39**

**RISK MANAGEMENT, continued**

In the preparation of a credit request for a corporate client, the Bank verifies several parameters such as the debt service capacity (including, generally, projected cash flows), the client's financial history and / or projections for the economic sector in which it operates. The risk division is closely involved in this process. All requests contain an analysis of the client's strengths and weaknesses, a rating and a recommendation, The credit limits are not determined based on the outstanding balances of the clients, but on the direct and indirect credit risk of the financial group. For example, a limited company would be evaluated together with its subsidiaries and affiliates.

Consumer loans are evaluated and approved by their respective risk divisions (individuals, PYMEs) and the evaluation process is based on an evaluation system known as Garra (Banco Santander) and Syseva of Santander Banefe, both processes are decentralized, automated and they are based on a scoring system that includes the credit risk policies implemented by the Bank's Board of Directors. The credit application process is based on the collection of information to determine the client's financial situation and ability to pay. The parameters that are used to assess the credit risk of the applicant include several variables such as: income levels, duration of current employment, indebtedness, reports of credit agencies.

***Mitigation of credit risk of other financial assets (investments, derivatives, commitments)***

As part of the process of acquiring financial investments and financial instruments, the Bank considers the probability of uncollectibility of issuers or counterparties using internal and external evaluations such as independent risk evaluators of the Bank, In addition, the Bank is governed by a strict and conservative policy which ensures that the issuers of its investments and counterparties in transactions of derivative instruments are of the highest reputation.

In addition, the Bank operates with various instruments that, although they involve exposure to credit risk, are not reflected in the Consolidated Statement of Financial Position, such as: guarantees and bonds, documentary letters of credit, guarantee slips and commitments to grant loans.

The guarantees and bonds represent an irrevocable payment obligation, In the event that a guaranteed client does not fulfill its obligations with third parties who are liable to the Bank, the latter will make the corresponding payments, so that these transactions represent the same exposure to credit risk as a common loan.

Documentary letters of credit are commitments documented by the Bank on behalf of the client that are guaranteed by the merchandise shipped to which they are related and, therefore, have a lower risk than direct indebtedness, Guarantee slips correspond to contingent commitments that are made effective only if the client does not comply with the performance of works agreed with a third party, guaranteed by them.

When it comes to commitments to grant credit, the Bank is potentially exposed to losses in an amount equivalent to the unused total of the commitment, However, the probable amount of loss is less than the unused total of the commitment. The Bank monitors the maturity of credit lines because generally long-term commitments have a higher credit risk than short-term commitments.

***Maximum credit risk exposure***

For financial assets recognized in the Consolidated Statement of Financial Position, exposure to credit risk is equal to their book value, For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the guarantee were executed.

**NOTE 39**  
**RISK MANAGEMENT, continued**

Below is the distribution by financial asset and off-balance sheet commitments of the Bank's maximum exposure to credit risk as of December 31, 2018 and 2017, without deduction of collateral, security interests or credit improvements received:

	Note	As of December 31,	
		2018 Amount of exposure MCh\$	2017 Amount of exposure MCh\$
Deposits in banks	5	1,240,578	839,561
Cash items in process of collection	5	353,757	668,145
Trading investments	6	77,041	485,736
Investments under resale agreements	7	-	-
Financial derivative contracts	8	3,100,635	2,238,647
Loans and accounts receivable from customers and interbank loans, net	9 y 10	29,485,435	26,910,141
Available for sale investments	11	2,394,323	2,574,546
Off-balance commitments:			
Letters of credit issued		223,420	201,699
Foreign letters of credit confirmed		57,038	75,499
Guarantees		1,954,205	1,823,793
Available credit lines		8,997,650	8,135,489
Personal guarantees		133,623	81,577
Other irrevocable credit commitments		327,297	260,691
<b>Total</b>		<b>48,345,002</b>	<b>44,295,524</b>

**Banco Santander Chile and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
AS OF DECEMBER 31, 2018 AND 2017

**NOTE 39**  
**RISK MANAGEMENT, continued**

Regarding the quality of the credits, these are classified in accordance with what is described in the compendium of regulations of the SBIF as of December 31, 2018 and 2017:

Category Comercial Portfolio	As of December 31,							
	2018				2017			
	Individual	Percentage	Allowance	Percentage	Individual	Percentage	Allowance	Percentage
	MCh\$	%	MCh\$	%	MCh\$	%	MCh\$	%
<b>A1</b>	29,998	0.10	9	0.00	166,434	0.60	58	0.01
<b>A2</b>	1,074,789	3.55	735	0.09	884,638	3.19	568	0.07
<b>A3</b>	2,746,323	9.07	3,811	0.48	2,753,676	9.93	3,523	0.43
<b>A4</b>	3,222,102	10.64	18,697	2.35	3,203,629	11.56	16,980	2.08
<b>A5</b>	1,796,864	5.93	21,455	2.69	1,431,586	5.16	18,171	2.23
<b>A6</b>	981,170	3.24	15,159	1.90	745,193	2.69	12,900	1.58
<b>B1</b>	495,102	1.64	11,550	1.45	330,463	1.19	8,328	1.02
<b>B2</b>	82,112	0.27	5,561	0.70	53,392	0.19	2,286	0.28
<b>B3</b>	67,703	0.22	2,943	0.37	64,995	0.23	3,661	0.45
<b>B4</b>	93,133	0.31	21,871	2.75	90,224	0.33	21,480	2.63
<b>C1</b>	154,708	0.51	3,094	0.39	145,033	0.52	2,901	0.36
<b>C2</b>	55,611	0.18	5,562	0.70	56,871	0.21	5,687	0.70
<b>C3</b>	45,171	0.15	11,293	1.42	39,825	0.14	9,956	1.22
<b>C4</b>	36,005	0.12	14,402	1.81	53,261	0.19	21,304	2.61
<b>C5</b>	65,465	0.22	42,552	5.34	71,896	0.26	46,732	5.73
<b>C6</b>	71,035	0.23	63,932	8.07	77,048	0.28	69,343	8.50
<b>Subtotal</b>	<b>11,017,291</b>	<b>36.38</b>	<b>242,626</b>	<b>30.47</b>	<b>10,168,164</b>	<b>36.67</b>	<b>243,878</b>	<b>29.90</b>
	<b>Individual</b>	<b>Percentage</b>	<b>Allowance</b>	<b>Percentage</b>	<b>Individual</b>	<b>Percentage</b>	<b>Allowance</b>	<b>Percentage</b>
	<b>MCh\$</b>	<b>%</b>	<b>MCh\$</b>	<b>%</b>	<b>MCh\$</b>	<b>%</b>	<b>MCh\$</b>	<b>%</b>
<b>Commercial</b>								
Normal Portfolio	3,793,923	12.53%	60,255	7.56%	3,488,633	12.58%	58,728	7.20%
Impaired portfolio	443,539	1.46%	170,024	21.34%	414,530	1.50%	160,345	19.65%
<b>Subtotal</b>	<b>4,237,462</b>	<b>13.99%</b>	<b>230,279</b>	<b>28.90%</b>	<b>3,903,163</b>	<b>14.08%</b>	<b>219,073</b>	<b>26.85%</b>
<b>Mortgage</b>								
Normal Portfolio	9,678,316	31.96%	20,979	2.63%	8,634,351	31.14%	20,174	2.47%
Impaired portfolio	472,665	1.56%	43,262	5.43%	462,544	1.67%	48,892	5.99%
<b>Subtotal</b>	<b>10,150,981</b>	<b>33.52%</b>	<b>64,241</b>	<b>8.06%</b>	<b>9,096,895</b>	<b>32.81%</b>	<b>69,066</b>	<b>8.46%</b>
<b>Mortgage</b>								
Normal Portfolio	4,601,694	15.20%	103,020	12.93%	4,230,567	15.26%	114,099	13.99%
Impaired portfolio	274,595	0.91%	156,422	19.64%	327,125	1.18%	169,657	20.80%
<b>Subtotal</b>	<b>4,876,289</b>	<b>16.11%</b>	<b>259,442</b>	<b>32.57%</b>	<b>4,557,692</b>	<b>16.44%</b>	<b>283,756</b>	<b>34.79%</b>
<b>Total</b>	<b>30,282,023</b>	<b>100.00%</b>	<b>796,588</b>	<b>100.00%</b>	<b>27,725,914</b>	<b>100.00%</b>	<b>815,773</b>	<b>100.00%</b>

As December 31, 2018, the Bank does not believe that the credit quality of its other financial assets or liabilities is of sufficient significance to warrant further disclosure.

**NOTE 39**  
**RISK MANAGEMENT, continued**

Regarding the individual evaluation portfolio, the different categories correspond to:

- Categories A or Portfolio in Normal Compliance, is one that is made up of debtors whose ability to pay them it allows compliance with its financial obligations and commitments, and that according to the evaluation of its economic-financial situation, it is not seen that this condition changes in the short term.

- Categories B or Substandard Portfolio, is one that contemplates debtors with financial difficulties or significant worsening of their ability to pay and over which there are reasonable doubts about the total reimbursement of principal and interest in the terms agreed upon, showing a low slack to meet with your financial obligations in the short term.

- Categories C or Portfolio in Default, is made up of those debtors whose recovery is considered remote, since they show a deteriorated or no capacity to pay.

As for the group evaluation portfolios, a joint evaluation of the operations that compose it is carried out.

Refer to Note 31 for details of impaired Bank loans and their respective provisions, Also refer to the Note 20 for a breakdown of the maturities of the Bank's financial assets.

**Exposure to credit risk in derivative contracts with abroad**

As of December 31, 2018, the Bank's foreign exposure, including the counterparty risk in the derivative portfolio, was USD 2,090 million or 4,27% of the assets, In the table below, the exposure to derivative instruments is calculated using the equivalent credit risk, which is equal to the net value of the replacement plus the maximum potential value, considering the collateral in cash, which mitigates the exposure.

Below, additional details are included regarding our exposure to those countries that have a rating of 1 and that correspond to the largest exposures, The following is the exposure as of December 31, 2018, considering the fair value of the derivative instruments.

<b>Country</b>	<b>Clasificación</b>	<b>Derivative instrument (adjusted to market) M USD</b>	<b>Deposits M USD</b>	<b>Loans MUSD</b>	<b>Financial investments M USD</b>	<b>Total exposure M USD</b>
Bolivia	3	0.00	0.00	0.06	0.00	0.06
China	2	0.00	0.00	243.95	0.00	243.95
Italia	2	0.00	6.25	0.00	0.00	6.25
México	2	0.00	0.04	0.00	0.00	0.04
Panamá	2	0.56	0.00	0.00	0.00	0.56
Perú	2	2.26	0.00	0.00	0.00	2.26
Tailandia	2	0.00	0.00	0.31	0.00	0.31
Turquía	3	0.00	0.00	9.49	0.00	9.49
Colombia	2	100.41	0.00	0.00	0.00	100.41
<b>Total</b>		<b>103.23</b>	<b>6.29</b>	<b>253.81</b>	<b>0.00</b>	<b>363.33</b>

The total amount of this exposure to derivative instruments must be offset daily with the collateral and, therefore, the exposure to net loans is USD \$ 0.



**NOTE 39**  
**RISK MANAGEMENT, continued**

Our exposure to Spain within the group is as follows:

Counterpart	Country	Clasificación	Derivative instruments	Deposits	Loans	Financial	Total
			(adjusted to market)	M USD	M USD	M USD	investments
			M USD	M USD	M USD	M USD	M USD
Banco Santander España (*)	España	1	216.65	332.83	-	-	549.48

The total amount of this exposure to derivative instruments must be offset daily with the collateral and, therefore, the exposure to net loans is USD \$0,28.

(\*) We include our exposure to the Santander branches in New York and Hong Kong as exposure to Spain.

**Impairment of other financial instruments**

As of December 31, 2018 and 2017, the Bank did not have significant impairments in its financial assets other than credits and / or accounts receivable.

**Security interests and credit improvements**

The maximum exposure to credit risk, in some cases, is reduced by guarantees, credit enhancements and other actions that mitigate the Bank's exposure, Based on this, the constitution of guarantees is a necessary but not sufficient instrument in the granting of a loan; therefore, the acceptance of risk by the Bank requires the verification of other variables or parameters such as the ability to pay or generate resources to mitigate the risk incurred.

The procedures for the management and valuation of guarantees are included in the internal risk management policy. These policies establish the basic principles for the management of credit risk, which includes the management of guarantees received in transactions with customers, In this sense, the risk management model includes assessing the existence of appropriate and sufficient guarantees that allow the recovery of the loan to be carried out when the debtor's circumstances do not allow it to meet its obligations.

The procedures used for the valuation of the guarantees are in accordance with the best practices of the market, which involve the use of valuations in real estate guarantees, market price in stock values, value of the shares in an investment fund, etc. All the collateral received must be properly instrumented and registered in the corresponding registry, as well as having the approval of the Bank's legal divisions.

The Bank also has rating tools that allow ordering the credit quality of operations or clients, In order to study how this probability varies, the Bank has historical databases that store the information generated internally. The qualification tools vary according to the segment of the analyzed client (commercial, consumption, SMEs, etc.).

The following is a breakdown of impaired and non-impaired financial assets that have collateral, collateral or credit enhancements associated with the Bank as of December 31, 2018 and 2017:

	As of December	
	2018	2017
	MCh\$	MCh\$
<b>Non-impaired financial assets:</b>		
Properties/mortgages	22,047,354	19,508,151
Investments and others	2,200,776	2,108,962
<b>Impaired financial assets:</b>		
Properties/mortgages	119,181	152,252
Investments and others	865	1,087
<b>Total</b>	<b>24,368,176</b>	<b>21,770,452</b>

**NOTE 39**  
**RISK MANAGEMENT, continued**

**Liquidity risk**

Liquidity risk is the risk that the Bank has difficulties in complying with the obligations associated with its financial obligations.

**Liquidity risk management**

The Bank is exposed daily to requirements of cash funds from several banking transactions such as current account drafts, payments of term deposits, guarantee payments, disbursements of derivative operations, etc. As is inherent in banking activity, the Bank does not hold funds in cash to cover the balance of those positions, since experience shows that only a minimum level of these funds will be withdrawn, which can be foreseen with a high degree of certainty.

The Bank's approach to liquidity management is to ensure, to the extent possible, that it always has sufficient liquidity to meet its obligations at maturity, under normal circumstances and stress conditions, without incurring unacceptable losses or risking risk, of damage to the reputation of the Bank. The Board sets limits on a minimum portion of funds to be made available to meet such payments and on a minimum level of inter-bank operations and other lending facilities that should be available to cover drafts at unexpected levels of demand, which is reviewed periodically. On the other hand, the Bank must comply with regulatory limits dictated by the SBIF for the mismatches of terms.

These limits affect the mismatches between future income and expenditure flows of the Bank considered individually and are the following:

- i, Mismatches of up to 30 days for all currencies, up to once the basic capital;
- ii, mismatches of up to 30 days for foreign currencies, up to once the basic capital; Y
- iii, mismatches of up to 90 days for all currencies, twice the basic capital.

The treasury department receives information from all the business units on the liquidity profile of its financial assets and liabilities and details of other projected cash flows derived from future businesses. According to this information, treasury maintains a portfolio of liquid assets in the short term, composed largely of liquid investments, loans and advances to other banks, to ensure that the Bank maintains sufficient liquidity. The liquidity needs of the business units are met through short-term transfers from treasury to cover any short-term fluctuation and long-term financing to address all structural liquidity requirements.

The Bank monitors its liquidity position on a daily basis, determining the future flows of its expenses and revenues, In addition, stress tests are carried out at the end of each month, for which a variety of scenarios are used, covering both normal market conditions and fluctuation conditions. The liquidity policy and procedures are subject to review and approval by the Bank's Board of Directors, Periodic reports are generated detailing the liquidity position of the Bank and its affiliates, including any exceptions and corrective measures adopted, which are regularly reviewed by the ALCO.

The Bank is based on client (retail) and institutional deposits, bonds with banks, debt instruments and time deposits as its main sources of financing, Although most of the obligations with banks, debt instruments and time deposits have maturities of more than one year, customer and retail deposits tend to have shorter maturities and a large proportion of them are payable within 90 days, days. The short-term nature of these deposits increases the liquidity risk of the Bank and therefore the Bank actively manages this risk by constantly monitoring market trends and price management.

**Exposure to liquidity risk**

One of the key measures used by the Bank to manage liquidity risk is the proportion of net liquid assets to customer deposits, For this purpose, the net liquid assets must include cash / cash, cash equivalents and debt investments for which there is an active and liquid market minus the deposits of the banks, fixed income securities issued, loans and other commitments maturing in next month. A similar measure, but not identical, is used as a calculation to measure the Bank's compliance with the liquidity limit established by the SBIF, where the Bank determines the mismatch between its rights and obligations according to maturity according to the estimated performance.

**NOTE 39**  
**RISK MANAGEMENT, continued**

The proportions of the mismatches at 30 days in relation to capital and 90 days in relation to 2 times the capital are shown in the following table:

	As of December 31,	
	2018	2017
	%	%
30 days	(20)	(48)
30 days foreign	-	(22)
90 days	(37)	(51)

Following is a breakdown, by contractual maturities, of the balances of the Bank's assets and liabilities as of December 31, 2018 and 2017, considering also those unrecognized commitments:

As of December 31, 2018	Demand	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	Total
	MM\$	MM\$	MM\$	MM\$	MM\$	MM\$	MM\$	MM\$
Asset expiration (Note 20)	2,827,643	5,798,664	2,451,466	5,504,699	6,214,328	3,808,562	11,838,090	<b>38,443,452</b>
Expiration of liabilities (Note 20)	(9,786,584)	(5,517,050)	(4,675,171)	(5,633,116)	(3,268,117)	(2,027,157)	(4,290,707)	<b>(35,197,902)</b>
<b>Net expiration</b>	<b>(6,958,941)</b>	<b>281,614</b>	<b>(2,223,705)</b>	<b>(128,417)</b>	<b>2,946,211</b>	<b>1,781,405</b>	<b>7,547,383</b>	<b>3,245,550</b>
<b>Unrecognized loan / credit commitments</b>								
Guarantees and bonds	-	(22,128)	(63,230)	(41,637)	-	(6,628)	-	<b>(133,623)</b>
Letters of credit from abroad confirmed	-	(3,842)	(9,128)	(33,177)	(212)	(10,679)	-	<b>(57,038)</b>
Letters of documentary credits issued	-	(12,469)	(110,970)	(54,015)	-	(45,937)	(2)	<b>(223,393)</b>
Guarantee	-	(663,642)	(188,147)	(905,554)	(75,909)	(87,597)	(33,356)	<b>(1,954,205)</b>
<b>Net maturity, including commitments</b>	<b>(6,958,941)</b>	<b>(420,467)</b>	<b>(2,595,180)</b>	<b>(1,162,800)</b>	<b>2,870,090</b>	<b>1,630,564</b>	<b>7,514,025</b>	<b>877,291</b>

As of December 31, 2017	A la vista	Hasta 1 mes	Entre 1 y 3 meses	Entre 3 y 12 meses	Entre 1 y 3 años	Entre 3 y 5 años	Más de 5 años	Total
	MM\$	MM\$	MM\$	MM\$	MM\$	MM\$	MM\$	MM\$
Asset expiration (Note 20)	3,214,657	2,480,411	2,655,971	4,933,977	6,240,042	4,375,295	11,569,324	<b>35,469,677</b>
Expiration of liabilities (Note 20)	(8,966,477)	(5,600,399)	(4,852,836)	(3,991,665)	(2,461,121)	(2,466,344)	(3,679,897)	<b>(32,018,739)</b>
<b>Net expiration</b>	<b>(5,751,820)</b>	<b>(3,119,988)</b>	<b>(2,196,865)</b>	<b>942,312</b>	<b>3,778,921</b>	<b>1,908,951</b>	<b>7,889,427</b>	<b>3,450,938</b>
<b>Unrecognized loan / credit commitments</b>								
Guarantees and bonds	-	(16,028)	(13,382)	(47,288)	(315)	(4,564)	-	<b>(81,577)</b>
Letters of credit from abroad confirmed	-	(16,681)	(33,513)	(21,277)	(1,197)	(2,831)	-	<b>(75,499)</b>
Letters of documentary credits issued	-	(12,367)	(115,720)	(43,029)	-	(30,554)	(29)	<b>(201,699)</b>
Guarantee	-	(514,510)	(244,543)	(835,030)	(147,204)	(61,275)	(21,231)	<b>(1,823,793)</b>
<b>Net maturity, including commitments</b>	<b>(5,751,820)</b>	<b>(3,679,574)</b>	<b>(2,604,023)</b>	<b>(4,312)</b>	<b>3,630,205</b>	<b>1,809,727</b>	<b>7,868,167</b>	<b>1,268,370</b>

**NOTE 39**

**RISK MANAGEMENT, continued**

The above tables show the undiscounted cash flows of the Bank's financial assets and liabilities on the estimated maturity basis, The expected cash flows of the Bank from these instruments can vary considerably compared to this analysis. For example, demand deposits are expected to remain stable or have an increasing trend, and unrecognized loan commitments are not expected to be executed all that have been arranged, In addition, the above breakdown excludes available lines of credit, since they lack contractual defined maturities.

**Market risk**

Market risk arises as a consequence of the activity maintained in the markets, through financial instruments whose value may be affected by variations in market conditions, reflected in changes in the different assets and financial risk factors. The risk can be mitigated through hedges through other products (assets / liabilities or derivatives), or by undoing the operation / open position. The objective of market risk management is the management and control of exposure to market risk within acceptable parameters.

There are four major risk factors that affect market prices: interest rates, exchange rates, price, and inflation, Additionally, and for certain positions, it is also necessary to consider other risks, such as spread risk, base risk, commodity risk, volatility or correlation risk.

**Market risk management**

The internal management of the Bank to measure market risk is mainly based on the procedures and standards of Santander Spain, which are based on analyzing management in three main components:

- trading portfolio;
- local financial management portfolio;
- portfolio of foreign financial management.

The trading portfolio consists mainly of those investments valued at their fair value, free of any restriction for immediate sale and that are often bought and sold by the Bank with the intention of selling them in the short term in order to benefit from the short-term price variations. The financial management portfolios include all financial investments not considered in the trading portfolio.

The general responsibility for market risk lies with the ALCO. The Bank's risk / finance department is responsible for the preparation of detailed management policies and their application in the Bank's operations in accordance with the guidelines established by the ALCO and by the Global Risk Department of Banco Santander de España.

The functions of the department in relation to the trading portfolio entail the following:

- i, apply "Value at Risk" (VaR) techniques to measure interest rate risk,
- ii, adjust the trading portfolios to the market and measure the profit and daily loss of commercial activities,
- iii, compare the real VAR with the established limits,
- iv, establish procedures to control losses in excess of predetermined limits and
- v, Provide information on the negotiation activities for the ALCO, other members of the Bank's Management, and the Global Risk Department of Santander – Spain.

The functions of the department in relation to the financial management portfolios entail the following:

- i, apply sensitivity simulations (as explained below) to measure the interest rate risk of activities in local currency and the potential loss foreseen by these simulations and
- ii, provides the respective daily reports to the ALCO, other members of the Bank's Management, and the Global Risk Department of Santander – Spain.

**NOTE 39**  
**RISK MANAGEMENT, continued**

**Market risk - Negotiation portfolio**

The Bank applies VaR methodologies to measure the market risk of its trading portfolio. The Bank has a consolidated commercial position composed of fixed income investments, foreign currency trading and a minimum equity investment position. The composition of this portfolio consists essentially of bonds of the Central Bank of Chile, mortgage bonds and locally issued low-risk corporate bonds. At the end of the year, the trading portfolio did not present investments in stock portfolios.

For the Bank, the VaR estimate is made under the historical simulation methodology, which consists of observing the behavior of the losses and gains that would have occurred with the current portfolio if the market conditions of a certain historical period were in force, , from that information, infer the maximum loss with a certain level of confidence. The methodology has the advantage of accurately reflecting the historical distribution of market variables and of not requiring any specific probability distribution assumption. All VaR measures are intended to determine the distribution function for the change in the value of a given portfolio, and once this distribution is known, to calculate the percentile related to the level of confidence needed, which will be equal to the value at risk in virtue of those parameters. As calculated by the Bank, the VaR is an estimate of the maximum expected loss of the market value of a given portfolio within a 1-day horizon at a confidence level of 99,00%, It is the maximum loss of a day in which the Bank could expect to suffer in a certain portfolio with a 99,00% confidence level, In other words, it is the loss that the Bank would expect to exceed only 1,0% of the time. The VaR provides a single estimate of market risk that is not comparable from one market risk to another. The returns are calculated using a 2 year time window or at least 520 data obtained from the reference date of VaR calculation backwards in time.

The Bank does not calculate three separate VaRs, A single VaR is calculated for the entire trading portfolio, which, in addition, is segregated by type of risk. The VaR program performs a historical simulation and calculates a profit and loss statement (G & P) for 520 data points (days) for each risk factor (fixed income, currencies and variable income). The G & P of each risk factor is added and a consolidated VaR calculated with 520 data points or days. At the same time, the VaR is calculated for each risk factor based on the individual G & P calculated for each factor. Moreover, a weighted VaR is calculated in the manner described above but which gives a weight greater than the 30 most recent data points. The largest of the two VaRs is reported, In 2015 and 2014, the same VaR model was still used and there has been no change in methodology.

The Bank uses the VaR estimates to deliver a warning in case the statistically estimated losses in the trading portfolio exceed the prudent levels and, therefore, certain predetermined limits exist.

**Limitations of the VaR model**

When applying this calculation methodology no assumption is made about the probability distribution of changes in risk factors, simply use the changes observed historically to generate scenarios for the risk factors in which each of the positions will be valued, in portfolio.

It is necessary to define a valuation function  $f_j(x_i)$  for each instrument  $j$ , preferably the same one that it uses to calculate the market value and results of the daily position. This valuation function will be applied in each scenario to generate simulated prices of all the instruments in each scenario.

In addition, the VaR methodology must be interpreted considering the following limitations:

- Changes in market rates and prices may not be independent and identically distributed random variables, nor may they have a normal distribution, In particular, the assumption of normal distribution may underestimate the probability of extreme market movements;
- The historical data used by the Bank may not provide the best estimate of the joint distribution of changes in risk factors in the future, and any modification of the data may be inadequate. In particular, the use of historical data may fail to capture the risk of possible extreme and adverse market fluctuations regardless of the period of time used;
- a 1-day time horizon may not fully capture those market risk positions that can not be liquidated or hedged in one day, It would not be possible to liquidate or cover all positions in a day;

**NOTE 39**  
**RISK MANAGEMENT, continued**

- VaR is calculated at the close of business, however trading positions may change substantially during the trading day;
  - The use of 99% confidence level does not take into account, nor does it make any statement about, the losses that may occur beyond this level of trust, and
  - The model as such VaR does not capture all the complex effects of the risk factors on the value of the positions or portfolios, and therefore, could underestimate the potential loss
- At no time in 2018 and 2017, the Bank exceeded the VaR limits in relation to the 3 components that make up the trading portfolio: fixed income investments, variable income investments and investments in foreign currency.

The Bank performs daily back-testing and, in general, it is discovered that trading losses exceed the estimated VaR almost one in every 100 trading days, At the same time, a limit was established for the maximum VaR that is willing to accept on the trading portfolio, In both 2018 and 2017, the Bank has remained within the maximum limit established for the VaR, even in those instances in which the real VaR exceeded the estimate.

The high, low and average levels for each component and for each year were the following:

VAR	2018 MMUSD	2017 MMUSD
<b>Consolidated:</b>		
High	5.23	5.71
Low	1.21	1.56
Average	2.01	3.01
<b>Fixed income investments:</b>		
High	2.54	5.51
Low	1.19	1.15
Average	1.71	2.36
<b>Variable income investments:</b>		
High	0.01	0.01
Low	0.00	0.00
Average	0.00	0.00
<b>Foreign currency investments</b>		
High	4.29	4.21
Low	0.09	0.53
Average	1.14	1.71

**Market risk – local and foreign financial management**

The Bank's financial management portfolio includes most of the Bank's assets and non-trading liabilities, including the loan / loan portfolio. For these portfolios, investment and financing decisions are heavily influenced by the Bank's commercial strategies.

The Bank uses a sensitivity analysis to measure the market risk of local and foreign currency (not included in the trading portfolio), The Bank performs a scenario simulation which will be calculated as the difference between the present value of the flows in the chosen scenario (curve with parallel movement of 100 bp in all its tranches) and its value in the base scenario (current market) , All positions in local currency indexed to inflation (UF) are adjusted by a sensitivity factor of 0,57, which represents a change in the rate curve at 57 basis points in real rates and 100 basis points in nominal rates. The same scenario is carried out for net foreign currency positions and interest rates in US dollars, The Bank has also established limits regarding the maximum loss that these types of movements in interest rates may have on capital and net financial income budgeted for the year.

**NOTE 39**  
**RISK MANAGEMENT, continued**

To determine the consolidated limit, the foreign currency limit is added to the local currency limit for both the net financial loss limit and the capital and reserve loss limit, using the following formula:

$$\text{Bound limit} = \text{square root of } a^2 + b^2 + 2ab$$

a: limit in national currency,  
b: limit in foreign currency,  
Since it is assumed that the correlation is 0,  $2ab = 0$ .

Limitation of the sensitivity models

The most important assumption is the use of a change of 100 basis points in the yield curve (57 basis points for real rates), The Bank uses a change of 100 basis points given that sudden changes of this magnitude are considered realistic. The Global Risk Department of Santander Spain has also established comparable limits by country, in order to be able to compare, monitor and consolidate the market risk by country in a realistic and orderly manner,

In addition, the methodology of sensitivity simulations should be interpreted considering the following limitations:

- The simulation of scenarios assumes that the volumes remain in the Bank's Consolidated Statement of Financial Position and that they are always renewed at maturity, omitting the fact that certain considerations of credit risk and prepayments may affect the maturity of certain positions.
- This model assumes an equal change in the entire performance curve of everything and does not take into account the different movements for different maturities.
- The model does not take into account the sensitivity of volumes resulting from changes in interest rates.
- The limits to the losses of budgeted financial income are calculated on the basis of expected financial income for the year that can not be obtained, which means that the actual percentage of financial income at risk could be greater than expected.

Market risk – Financial management portfolio – December 31, 2018 and 2017

	2018		2017	
	Effect on financial income	Effect on capital	Effect on financial income	Effect on capital
<b>Financial management portfolio – local currency (MCh\$)</b>				
Loss limit	48,000	192,001	48,000	175,000
High	43,742	189,725	37,148	141,287
Low	27,854	170,450	22,958	112,818
Average	37,569	180,972	29,110	128,506
<b>Financial management portfolio – foreign currency (Th\$US)</b>				
Loss limit	30	75	30	75
High	12	38	16	42
Low	4	(10)	4	15
Average	9	22	10	23
<b>Financial management portgolio (MCh\$)</b>				
Loss limit	48,000	192,002	48,000	175,000
High	45,492	192,848	38,249	142,442
Low	29,167	168,766	23,571	112,277
Average	38,908	182,557	29,948	128,360

**NOTE 39**  
**RISK MANAGEMENT, continued**

**Operating risk**

Operational risk is the risk of direct or indirect losses arising from a wide variety of causes related to the Bank's processes, personnel, technology and infrastructure, and external factors that are not credit, market or liquidity, such as those related to legal or regulatory requirements, Operating risks arise from all Bank operations.

The objective of the Bank is the management of operational risk in order to mitigate economic losses and damages to the Bank's reputation with a flexible structure of internal control.

The Bank's Administration has the primary responsibility for the development and application of controls to deal with operational risks, This responsibility is supported by the overall development of the Bank's standards for operational risk management in the following areas:

- Requirements for the proper segregation of functions, including the independent authorization of operations
- Requirements for reconciliation and supervision of transactions
- Compliance with applicable legal and regulatory requirements
- Documentation of controls and procedures
- Requirements for the periodic evaluation of the applicable operational risks, and the adequacy of the controls and procedures to deal with the identified risks
- Requirements for the disclosure of operating losses and the proposed corrective measures
- Development of contingency plans
- Training and professional development / training
- Establishment of business ethics standards
- Reduction or mitigation of risks, including contracting insurance policies if they are effective,

Compliance with Bank regulations is supported by a program of periodic reviews carried out by the Bank's internal audit and whose examination results are presented internally to the management of the business unit examined and to the Directors and Audit Committee.

**Capital risk**

The Group defines capital risk as the risk that the Group or any of its companies may have an insufficient amount and/or quality of capital to: meet the minimum regulatory requirements in order to operate as a bank; respond to market expectations regarding its creditworthiness; and support its business growth and any strategic possibilities that might arise, in accordance with its strategic plan.

The objectives in this connection include most notably:

- To meet the internal capital and capital adequacy targets
- To meet the regulatory requirements
- To align the Bank's strategic plan with the capital expectations of external agents (rating agencies, shareholders and investors, customers, supervisors, etc.)
- To support the growth of the businesses and any strategic opportunities that may arise

The Group has a capital adequacy position that surpasses the levels required by regulations.

Capital management seeks to optimize value creation at the Bank and at its different business segment. The Bank continuously evaluates its risk-return ratios through its basic capital, effective net equity, economic capital and return on equity. With regard to capital adequacy, the Bank conducts its internal process based on the SBIF standards which are based on Basel Capital Accord (Basel I). Economic capital is the capital required to support all the risk of the business activity with a given solvency level.

**Capital minimo**

Capital is managed according to the risk environment, the economic performance of Chile and the business cycle. Board may modify our current equity policies to address changes in the mentioned risk environment.



**NOTE 39**  
**RISK MANAGEMENT, continued**

Under the General Banking Law, a bank is required to have a minimum of UF800,000 (approximately Ch\$22,053 million or U.S.\$ 31.6 million as of December 31, 2018) of paid-in capital and reserves, calculated in accordance with Chilean GAAP.

**Capital requirement**

Chilean banks are required by the General Banking Law to maintain regulatory capital of at least 8% of risk-weighted assets, net of required loan loss allowance and deductions, and paid-in capital and reserves ("basic capital") of at least 3% of total assets, net of required loan loss allowances. Regulatory capital and basic capital are calculated based on the consolidated financial statements prepared in accordance with the Compendium of Accounting Standards issued by the SBIF. As we are the result of the merger between two predecessors with a relevant market share in the Chilean market, we are currently required to maintain a minimum regulatory capital to risk-weighted assets ratio of 11%. As of December 31, 2018, the ratio of our regulatory capital to risk-weighted assets, net of loan loss allowance and deductions, was 13,40% and our core capital ratio was 7,72%.

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 basic capital;
- 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.

The levels of basic capital and effective net equity at the close of each period are as follows:

	As of December 31,		Ratio	
	2018	2017	As of December 31,	
	MCh\$	MCh\$	2018	2017
			%	%
Basic capital	3,239,546	3,066,180	7,72	7,92
Regulatory capital	4,101,664	3,881,252	13,40	13,91

**Concentration of risk**

The Bank operates mainly in Chile, so most of its financial instruments are concentrated in that country, Refer to Note 10 of the financial statements for a breakdown of the concentration by industry of the Bank's receivables and accounts receivable.

**NOTE 40  
SUBSEQUENT EVENTS**

On January 12, 2019, the law that modernizes banking legislation was published in the official gazette, a regulation that was approved by Congress on October 3, 2018. The new law adopts the highest international standards in banking regulation and supervision, strengthening international competitiveness and contributing to Chile's financial stability.

On January 24, 2019, the Bank placed a Senior Bond corresponding to its "T-14" line for 3,000,000 UF.

On January 30, 2019, the Bank placed a Senior Bond corresponding to its "T-18" line for 2,000,000 UF.

On February 1, 2019, the Bank placed a Senior Bond corresponding to 30,000,000 EUR.

On February 1, 2019, the Bank placed a Senior Bond corresponding to its "T-7" line for 2,000,000 UF.

There are no other subsequent events to be disclosed that occurred between January 1, 2018 and the date of issuance of these Financial Statements (February 28, 2019).

**FELIPE CONTRERAS FAJARDO**  
Chief Accounting Officer

**Miguel Mata Huerta**  
Chief Executive Officer

