

BANCO SANTANDER CHILE
Form 6-K/A
June 26, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K/A

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

For the month of June, 2018

Commission File Number: 001-14554

Banco Santander Chile

Santander Chile Bank

(Translation of Registrant's Name into English)

Bandera 140

Santiago, Chile

(Address of principal executive office)

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

Form 20-F Form 40-F

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

Yes No

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

Yes No

Banco Santander Chile

PRELIMINARY STATEMENT

This Form 6-K/A amends the Form 6-K filed by Banco Santander Chile (the “Company”) on April 6, 2018 (Consolidated Financial Statements as of December 31, 2017 and 2016 prepared in accordance with Chilean Bank GAAP) (the “Original Form 6-K”) to include the audit opinion of PwC dated February 27, 2018 and to correct certain errors in the English translation and transcription of Notes 1, 7, 9, 10, 12-14, 21, 31 and 38 to the Consolidated Financial Statements as of December 31, 2017 and 2016 prepared in accordance with Chilean Bank GAAP. No other changes were made to the Original Form 6-K.

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1. Consolidated Financial Statements of Banco Santander Chile as of December 31, 2017 and 2016 prepared in accordance with Chilean Bank GAAP

SIGNATURE

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

**BANCO
SANTANDER-CHILE**

By: /s/ Cristian Florence
Name: Cristian Florence
Title: General Counsel
Date: June 26, 2018

Item 1

Banco Santander Chile

Consolidated financial statements

December 31, 2017

(A free translation from the original in Spanish)

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\$ -Chilean pesos

MCh\$-Million Chilean pesos

US\$ -United States dollars

UF - The Unidad de Fomento is a Chilean government inflation-indexed, peso denominated monetary unit set daily in advance on the basis of the previous month's inflation rate

INDEPENDENT AUDITOR'S REPORT

(A free translation from the original in Spanish)

Santiago, February 27, 2018

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 statement of financial position as of December 31, 2017 and 2016, the consolidated statements of 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 Superintendencia 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 conducted 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 from 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 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 27, 2018

Banco Santander Chile

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Opinion

In our opinion, the consolidated financial statements referred to above presents fairly, in all material respects, the financial position of Banco Santander Chile and its subsidiaries as of December 31, 2017 and 2016, and the results of its operations, and its cash flows for the years then ended, in accordance with accounting standards and instructions issued by the Superintendence of Banks and Financial Institutions.

Roberto J. Villanueva B.

RUT: 7.060.344-6

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CONSOLIDATED

FINANCIAL Banco Santander Chile

STATEMENTS 2017

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Banco Santander Chile and Subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As of December 31,	
	NOTE	2017 MCh\$	2016 MCh\$
ASSETS			
Cash and deposits in banks	4	1,452,922	2,279,389
Cash items in process of collection	4	668,145	495,283
Trading investments	5	485,736	396,987
Investments under resale agreements	6	-	6,736
Financial derivative contracts	7	2,238,647	2,500,782
Interbank loans, net	8	162,599	272,635
Loans and accounts receivables from customers, net	9	26,747,542	26,113,485
Available for sale investments	10	2,574,546	3,388,906
Held to maturity investments		-	-
Investments in associates and other companies	11	27,585	23,780
Intangible assets	12	63,219	58,085
Property, plant, and equipment	13	242,547	257,379
Current taxes	14	-	-
Deferred taxes	14	385,608	372,699
Other assets	15	755,183	840,499
TOTAL ASSETS		35,804,279	37,006,645
LIABILITIES			
Deposits and other demand liabilities	16	7,768,166	7,539,315
Cash items in process of being cleared	4	486,726	288,473
Obligations under repurchase agreements	6	268,061	212,437
Time deposits and other time liabilities	16	11,913,945	13,151,709
Financial derivative contracts	7	2,139,488	2,292,161
Interbank borrowing	17	1,698,357	1,916,368
Issued debt instruments	18	7,093,653	7,326,372
Other financial liabilities	18	242,030	240,016
Current taxes	14	6,435	29,294
Deferred taxes	14	9,663	7,686
Provisions	20	324,329	308,982
Other liabilities	21	745,363	795,785
TOTAL LIABILITIES		32,696,216	34,108,598
EQUITY			
Attributable to the equity holders of the Bank		3,066,180	2,868,706

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Capital	23	891,303	891,303
Reserves	23	1,781,818	1,640,112
Valuation adjustments	23	(2,312)	6,640
Retained earnings		395,371	330,651
Retained earnings from prior years		-	-
Income for the year		564,815	472,351
Minus: Provision for mandatory dividends	23	(169,444)	(141,700)
		41,883	
Non-controlling interest	25		29,341
TOTAL EQUITY		3,108,063	2,898,047
TOTAL LIABILITIES AND EQUITY		35,804,279	37,006,645

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Consolidated Financial Statements December 2017 / Banco Santander Chile 6

Banco Santander Chile and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEAR

For the years ended

As of
December
31,
2017 2016
NOTE MCh\$MCh\$

OPERATING INCOME

Interest income	26	2,058,446	2,137,044
Interest expense	26	(731,755)	(855,678)
Net interest income		1,326,691	1,281,366
Fee and commission income	27	455,558	431,184
Fee and commission expense	27	(176,495)	(176,760)
Net fee and commission income		279,063	254,424
Net income (expense) from financial operations	28	2,796	(367,034)
Net foreign exchange gain	29	126,956	507,392
Other operating income	34	87,163	18,299
Net operating profit before provision for loan losses		1,822,669	1,694,447
Provision for loan losses	30	(299,205)	(343,286)
NET OPERATING PROFIT		1,523,464	1,351,161
Personnel salaries and expenses	31	(396,967)	(395,133)
Administrative expenses	32	(230,103)	(226,413)
Depreciation and amortization	33	(77,823)	(65,359)
Impairment of property, plant, and equipment	33	(5,644)	(234)
Other operating expenses	34	(96,014)	(85,198)
Total operating expenses		(806,551)	(772,337)
OPERATING INCOME		716,913	578,824

Income from investments in associates and other companies	11	3,963	3,012
Income before tax		720,876	581,836
Income tax expense	14	(143,613)	(107,120)
NET INCOME FOR THE YEAR		577,263	474,716
Attributable to:			
Equity holders of the Bank		564,815	472,351
Non-controlling interest	25	12,448	2,365
Earnings per share attributable to			
Equity holders of the Bank:			
(expressed in Chilean pesos)			
Basic earnings	23	2,997	2,507
Diluted earnings	23	2,997	2,507

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

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Banco Santander Chile and Subsidiaries

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

For the years ended

		As of December 31,	
		2017	2016
		NOTEMCh\$	MCh\$
NET INCOME FOR THE YEAR		577,263	474,716
OTHER COMPREHENSIVE INCOME - ITEMS WHICH MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS			
Availablefor sale investments	10	(5,520)	14,468
Cash flow hedge	23	(5,850)	(6,338)
Other comprehensive income which may be reclassified subsequently to profit or loss, before tax		(11,370)	8,130
Income tax related to items which may be reclassified subsequently to profit or loss	14	2,754	(1,975)
Other comprehensive income for the period which may be reclassified subsequently to profit or loss, net of tax		(8,616)	6,155
OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		568,647 480,871	
Attributable to:			
Equity holders of the Bank	555,863 477,703		
Non-controlling interest	25 12,7843,168		

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Banco Santander Chile and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2017 and 2016

	RESERVES			VALUATION ADJUSTMENTS		RETAINED EARNINGS				Total attributable to equity holders of the Bank
	Capital	Reserves and other retained earnings	Effects of merger of companies under common control	Available for sale investments	Cash flow hedge	Income tax effects	Retained earnings of prior years	Income for the year	Provision for mandatory dividends	
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Equity as of December 31, 2015	891,303	1,530,117	(2,224)	(6,965)	8,626	(373)	-	448,878	(134,663)	2,734,699
Distribution of income from previous period	-	-	-	-	-	-	448,878	(448,878)	-	-
Equity as of January 1, 2016	891,303	1,530,117	(2,224)	(6,965)	8,626	(373)	448,878	-	(134,663)	2,734,699
Increase or decrease of capital and reserves	-	-	-	-	-	-	-	-	-	-
Dividends distributions/ withdrawals made	-	-	-	-	-	-	(336,659)	-	134,663	(201,996)
Transfer of retained earnings to reserves	-	112,219	-	-	-	-	(112,219)	-	-	-
Provision for mandatory dividends	-	-	-	-	-	-	-	-	(141,700)	(141,700)
Subtotals	-	112,219	-	-	-	-	(448,878)	-	(7,037)	(343,696)
Other comprehensive income	-	-	-	13,414	(6,338)	(1,724)	-	-	-	5,352
	-	-	-	-	-	-	-	472,351	-	472,351

Income for the year										
Subtotals	-	-	-	13,414	(6,338)	(1,724)	-	472,351	-	477,703
Equity as of December 31, 2016	891,303	1,642,336	(2,224)	6,449	2,288	(2,097)	-	472,351	(141,700)	2,868,706
Equity as of December 31, 2016	891,303	1,642,336	(2,224)	6,449	2,288	(2,097)	-	472,351	(141,700)	2,868,706
Distribution of income from previous period	-	-	-	-	-	-	472,351	(472,351)	-	-
Equity as of January 1, 2017	891,303	1,642,336	(2,224)	6,449	2,288	(2,097)	472,351	-	(141,700)	2,868,706
Increase or decrease of capital and reserves	-	-	-	-	-	-	-	-	-	-
Dividends distributions/ withdrawals made	-	-	-	-	-	-	(330,645)	-	-	(330,645)
Transfer of retained earnings to reserves	-	141,706	-	-	-	-	(141,706)	-	-	-
Provision for mandatory dividends	-	-	-	-	-	-	-	-	(27,744)	(27,744)
Subtotals	-	141,706	-	-	-	-	(472,351)	-	(27,744)	(358,389)
Other comprehensive income	-	-	-	(5,990)	(5,850)	2,888	-	-	-	(8,952)
Income for the year	-	-	-	-	-	-	-	564,815	-	564,815
Subtotals	-	-	-	(5,990)	(5,850)	2,888	-	564,815	-	555,863
Equity as of December 31, 2017	891,303	1,784,042	(2,224)	459	(3,562)	791	-	564,815	(169,444)	3,066,180

Period	Total attributable to equity holders of the Bank	Allocated to reserves	Allocated to dividends	Percentage distributed	Number of shares	Dividend per share (in Chilean pesos)
	MCh\$	MCh\$	MCh\$	%		

Year 2016 (Shareholders Meeting 472,351 April 2017)	141,706	330,645	70	188,446,126,794	1.755
Year 2015 (Shareholders Meeting 448,878 April 2016)	112,219	336,659	75	188,446,126,794	1.787

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

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Banco Santander Chile and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended

	As of December 31,	
	2017	2016
	NOTE	MCh\$
	MCh\$	MCh\$
A – CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME FOR THE YEAR		577,263
Debits (credits) to income that do not represent cash flows		(1,198,140)
Depreciation and amortization	33	77,823
Impairments of property, plant, and equipment	33	5,644
Provision for loan losses	30	382,520
Mark to market of trading investments		1,438
Income from investments in associates and other companies	11	(3,963)
Net gain on sale of assets received in lieu of payment	34	(28,477)
Provision on assets received in lieu of payment	34	3,912
Net gain on sale of property, plant, and equipment	34	(23,229)
Charge off of assets received in lieu of payment	34	30,027
Net interest income	26	(1,326,691)
Net fee and commission income	27	(279,063)
Other debits (credits) to income that do not represent cash flows		(29,903)
Changes in deferred taxes	14	(8,178)
Increase/decrease in operating assets and liabilities		219,661
(Increase) decrease of loans and accounts receivables from customers, net		(629,605)
(Increase) decrease of financial investments		725,611
Decrease (increase) due to resale agreements (assets)		6,736
Decrease (increase) of interbank loans		110,036
(Increase) decrease of assets received or awarded in lieu of payment		10,243
Increase (decrease) of debits in customers checking accounts		127,968
Increase (decrease) of time deposits and other time liabilities		(1,237,764)
Increase (decrease) of obligations with domestic banks		(364,956)
Increase (decrease) of other demand liabilities or time obligations		100,883
Increase (decrease) of obligations with foreign banks		146,947
Increase (decrease) of obligations with Central Bank of Chile		(2)
Increase (decrease) of obligations under repurchase agreements		55,624
Increase (decrease) in other financial liabilities		2,014
Net increase of other assets and liabilities		(166,361)
Redemption of letters of credit		(11,772)
Mortgage bond issuances		-
Senior bond issuances		911,581
Redemption mortgage bonds and payments of interest		(5,736)

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Redemption and maturity of of senior bonds and payments of interest		(1,167,656)	(2,499,271)
Interest received		2,058,446	2,137,044
Interest paid		(731,755)	(855,678)
Dividends received from investments in other companies	11	116	217
Fees and commissions received	27	455,558	431,184
Fees and commissions paid	27	(176,495)	(176,760)
Total cash flow provided by (used in) operating activities		(401,216)	752,290

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

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Banco Santander Chile and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended

		As of December 31,	
		2017	2016
	NOTE	MCh\$	MCh\$
B – CASH FLOWS FROM INVESTMENT ACTIVITIES:			
Purchases of property, plant, and equipment	13	(58,771)	(62,356)
Sales of property, plant, and equipment	13	17,940	560
Purchases of investments in associates and other companies	11	(3)	(1,123)
Purchases of intangible assets	12	(32,624)	(27,281)
Total cash flow provided by (used in) investment activities		(73,458)	(90,200)
C – CASH FLOW FROM FINANCING ACTIVITIES:			
From shareholder’s financing activities		(345,544)	(348,787)
Redemption of subordinated bonds and payments of interest		(14,899)	(12,128)
Dividends paid		(330,645)	(336,659)
From non-controlling interest financing activities		(242)	(4,008)
Dividends and/or withdrawals paid		(242)	(4,008)
Total cash flow used in financing activities		(345,786)	(352,795)
D – NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD		(820,460)	309,295
E – EFFECTS OF FOREIGN EXCHANGE RATE FLUCTUATIONS		(31,398)	(150,266)
F – INITIAL BALANCE OF CASH AND CASH EQUIVALENTS		2,486,199	2,327,170
FINAL BALANCE OF CASH AND CASH EQUIVALENTS	4	1,634,341	2,486,199

As of December
31,
2017 2016

**Reconciliation of provisions for the Consolidated Statements
of Cash Flows for the periods**

	MCh\$	MCh\$
Provision for loan losses for cash flow purposes	382,520	421,584
Recovery of loans previously charged off	(83,315)	(78,298)
Provision for loan losses - net	30 299,205	343,286

Reconciliation of liabilities arising from financing activities	December, 31 2016	Cash Flow MCh\$	Changes other than cash			December, 31 2017	
			Acquisition MCh\$	Foreign Currency Movement MCh\$	UF Movement MCh\$		Fair Value Changes MCh\$
Subordinated Bonds	759,665	-	-	-	13,527	-	773,192
Dividends paid	-	(330,645)	-	-	-	-	(330,645)
Other	-	-	-	-	-	-	-
Total liabilities from financing activities	759,665	(330,645)	-	-	13,527	-	442,547

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Banco Santander Chile and Subsidiaries

Notes to the Consolidated Financial Statements

AS OF DECEMBER 31, 2017 AND 2016

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, 2017, 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 “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 period. 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, 2017 and 2016 and December 31, 2016 and for the nine-month period ended December 31, 2017 and 2016, 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

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.

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Banco Santander Chile and Subsidiaries

Notes to the Consolidated Financial Statements

AS OF DECEMBER 31, 2017 AND 2016

NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 As of December 31,					
			2017			2016		
			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 25 – Non-controlling interest.

i. Entities controlled by the Bank through other considerations

The following companies have been consolidated as of December 31, 2017 and 2016 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)

Banco Santander Chile and Subsidiaries**Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2017 AND 2016

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, 2017	2016
			%	%
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	12.07	12.07

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.

During the fourth quarter of 2016, Banco Penta assigned to Banco Santander a portion of its interest in the companies "Sociedad Operadora de la Cámara de Compensación de pagos de Alto Valor S.A." y "Servicios de Infraestructura de Mercado OTC S.A." with which the Bank's participation increased to 14.93% and 12.07% respectively.

During the third quarter of 2016, Deutsche Bank assigned to Banco Santander a portion of its interest in the companies "Sociedad Operadora de la Cámara de Compensación de pago de Alto Valor S.A." and "Servicios de Infraestructura de Mercado OTC S.A." with which the Bank's participation increased in that opportunity to 14.84% and 11.93% respectively.

At the Extraordinary Shareholders' Meeting of Transbank S.A. held on April 21, 2016, it was agreed to increase capital of the company through the capitalization of retained earnings, through the issue of paid-up shares, and placement of payment actions for approximately \$ 4,000 million. Banco Santander Chile participated proportionally to its participation (25%), for which it subscribed and paid shares for approximately \$ 1,000 million.

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.

Banco Santander Chile and Subsidiaries

Notes to the Consolidated Financial Statements

AS OF DECEMBER 31, 2017 AND 2016

NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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;
- 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 "Other segments" 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".

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Banco Santander Chile and Subsidiaries

Notes to the Consolidated Financial Statements

AS OF DECEMBER 31, 2017 AND 2016

NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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\$616.85 per US\$1 for December, 2017 (Ch\$666.00 per US\$1 for December, 2016).

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.

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. In the first semester of 2017 and during 2016, 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

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Banco Santander Chile and Subsidiaries

Notes to the Consolidated Financial Statements

AS OF DECEMBER 31, 2017 AND 2016

NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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 interbank loans) 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.

Banco Santander Chile and Subsidiaries

Notes to the Consolidated Financial Statements

AS OF DECEMBER 31, 2017 AND 2016

NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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. If a special item for these operations is not mentioned, they will be included along with the accounts being reported.

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 6.

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 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 customers: these loans are non-derivative financial assets for which fixed or determined amounts are charged, that are not listed on an active market and which the Bank does not intend to sell -immediately or in the short term. When the Bank is the lessor in a lease, and it substantially transfers the risks and 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, 2017 and 2016, 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.

Banco Santander Chile and Subsidiaries

Notes to the Consolidated Financial Statements

AS OF DECEMBER 31, 2017 AND 2016

NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 (i.e. a liability of the Bank), whether they are for trading or for hedge accounting, as set forth in Note 6.

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 three types of instruments issued by the Bank: obligations under letters of credit, subordinated bonds and senior bonds placed in the local and foreign market.

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

h) Valuation of financial 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

Banco Santander Chile and Subsidiaries

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AS OF DECEMBER 31, 2017 AND 2016

NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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, 2017, the CVA and DVA are Ch \$ 8,142 million and Ch \$ 15,406 million, respectively.

“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.

Banco Santander Chile and Subsidiaries

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NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The main techniques used as of September 30, 2017 and 2016 and as of December 31, 2016 by the Bank's internal models to determine the fair value of the financial instruments are as follows:

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.

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.

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").

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Notes to the Consolidated Financial Statements

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NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

There must be adequate documentation evidencing the specific designation of the financial derivative to hedge
3. 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:

For fair value hedges, the gains or losses arising on both hedging instruments and the hedged items (attributable to
a. the type of risk being hedged) are included as "Net income (expense) from financial operations" in the Consolidated Statement of Income.

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
b. (attributable to the hedged risk) are recorded in the Consolidated Financial Statement of Income under "Net income (expense) from financial operations".

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
c. 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.

The differences in valuation of the hedging instrument corresponding to the ineffective portion of the cash flow
d. 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.

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.

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NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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:

If the transferor does not retain control of the transferred financial asset: the asset is derecognized from the
a. Consolidated Statement of Financial Position and any rights or obligations retained or created in the transfer are recognized.

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
b. associated liability is the amortized cost of the rights and obligations retained, if the transferred asset is measured at amortized cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

Accordingly, financial assets are only 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 23). 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).

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

ii. Commissions, fees, and similar items

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

(1) Fee and commission income and expenses on financial assets and liabilities measured at fair value through profit or loss are recognized when they are earned or paid.

Those arising from transactions or services that are performed over a period of time are recognized over the life of these transactions or services.

(2) Those relating to services provided in a single transaction are recognized when the single transaction is performed.

iii. Non-financial income and expenses

Non-financial income and expenses are recognized for accounting purposes on an accrual basis.

j) Impairment

i. Financial assets:

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

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

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

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

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

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.

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.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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:

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.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

1) 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 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.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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 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 N°3,573 (modified by Circular N°3,584), and internal models for commercial and consumer loans.

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NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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:

Normal Portfolio includes debtors with a payment ability that allows them to meet their obligations and i. 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.

Substandard Portfolio includes debtors with financial difficulties or a significant deterioration of their payment ii. 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.

Impaired Portfolio includes debtors and their loans where repayment is considered remote, with a reduced or no iii. 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	Severity (%)	Expected Loss (%)
		Non-Performance (%)		
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.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

The allowance rates applied over the calculated exposure are as follows:

Classification	Estimated 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. 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;
- 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.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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:

LTV Range	Days overdue at month end	0	1-29	30-59	60-89	Impaired portfolio
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. 10 of Chapter B-1 from the SBIF Compendium of Accounting Standards, these provisions will be recorded in liabilities, similar to provisions for contingent loans.

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).

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Charge-offs are always recorded as a charge to loan risk allowances according to Chapter B-1 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.

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.

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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 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 8, 9, and 30)
- Impairment losses of certain assets (Notes 7, 8, 9, 10, and 33)
- The useful lives of tangible and intangible assets (Notes 12, 13 and 33)
- The fair value of assets and liabilities (Notes 5, 6, 7, 10 and 37)
- Commitments and contingencies (Note 22)
- Current and deferred taxes (Note 14)

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.

As of December 31, 2017 and 2016, did not have any non-current asses classified as held for sale.

Assets received or awarded in lieu of payment

Assets received or awarded in lieu of payment of loans and accounts receivable from 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.

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, 2017 the average selling cost has been estimated at 3.4% of the appraisal value (5.1% for December 31, 2016).

Independent appraisals are obtained at least every 18 months and fair values are adjusted accordingly.

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.

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Banco Santander Chile and Subsidiaries

Notes to the Consolidated Financial Statements

AS OF DECEMBER 31, 2017 AND 2016

NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

u) 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, 2017 and 2016, the Bank did not have any instruments that generated dilution.

v) 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.

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

Assets owned by third parties and managed by certain companies that are within the Bank’s scope of consolidation (Santander 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.

x) Provision for mandatory dividends

As of December 31, 2017 and 2016, 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.

y) 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.

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.

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Banco Santander Chile and Subsidiaries

Notes to the Consolidated Financial Statements

AS OF DECEMBER 31, 2017 AND 2016

NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 fixed 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.

z) 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 SBIF

Circular No. 3,621. Compendium of Accounting Standards. Chapters B-1 and C-3. Credits guaranteed by the School Infrastructure Guarantee Fund. Complementary instructions -This circular issued on March 15, 2017 introduces the following modifications:

- The title of No. 4 of Chapter B-1 is replaced by the following: "4 Warranty, goods delivered under lease, factoring operations and School Infrastructure Guarantee fund".
- The section 4.4 "Guarantee Fund for School Infrastructure" is added to this section, for purposes of determining provisions applicable to the substitution of credit risk of direct credit for the credibility of the referred fund, assigning for this purpose category A1 .
- The following item is added: 1302.1.50 Credits for school infrastructure Law N° 20.845.

This rule is immediately applicable. *This change had no impact on the Bank.*

Banco Santander Chile and Subsidiaries

Notes to the Consolidated Financial Statements

AS OF DECEMBER 31, 2017 AND 2016

NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Circular No. 3,615. Compendium of Accounting Standards. Chapter C-2. Report on the review of financial information - The circular issued on December 12, 2016, aims to increase the level of transparency of the Financial information provided by the banks. Therefore, the SBIF has considered it pertinent that as from June 2017, the financial statements referred to June 30 will be subject to a review report of the financial information issued by its external auditors. In accordance with NAGA No. 63, AU930, or its international equivalent, SAS No. 122, Section AU-C 930, which must be sent to the SBIF on the same day of its publication, or the immediately preceding or following bank business day.

If a bank does not have the necessary information to prepare financial statements with its respective notes within the period established in the law, it shall at least publish and send to the SBIF the Statement of Financial Position and Income Statement, adding a note with the date in which they will be available, although they must be available within the first fortnight of the following month.

In the case of the financial statements referred to as of June 30, the banks must send, by August 15, the review report of their external auditors. *A review of the required regulations has been carried out, including the respective conclusion on the consolidated intermediate financial statements reported to the SBIF.*

2. Accounting Standards issued by the International Accounting Standards Board

Amendment to IAS 12 Recognition of deferred tax assets related to unrealized losses - On January 19, 2016, the IASB issued this amendment to clarify the recognition of deferred assets related to debt instruments measured at fair value due to different recognition practices. Of deferred assets, it is clarified that:

- Unrealized losses on debt instruments measured at fair value and measures at cost for tax purposes generate a deductible temporary difference regardless of whether the holder of the debt instrument expects to recover the book value of the debt instrument by sale or use.
- The book value of an asset does not limit the estimate of probable taxable profits.

- The estimate of future taxable income excludes tax deductions from the reverse of deductible temporary differences.

This regulation is applicable as of January 1, 2017. *This change had no impact for the Bank.*

Amendment to IAS 7 Statement of Cash Flow. Disclosure Initiative - This amendment issued on January 29, 2016 improves the information provided to users of the financial statements related to the entities' financing activities. The purpose of the amendment is to provide disclosures that enable users of the financial statements to assess changes in liabilities generated from financing operations. One way to comply with this new disclosure is to provide a reconciliation between the initial and final balance in the EFE for liabilities generated from financing activities.

This regulation is applicable from January 1, 2017, with early application allowed. *The implementation of this amendment had no material impact on the Bank's consolidated financial statements.*

Annual improvements, cycle 2014-2016

Amendment to IFRS 12 Disclosures of Interest in Other Entities - Clarifies the scope of the standard by specifying that the disclosure requirements of the standard, except for paragraphs B10-B16, apply to interest on an entity listed in paragraph 5 (subsidiaries, joint ventures, associates and non-consolidated structured entities) that are classified as held for sale, held for distribution or as discontinued operations in accordance with IFRS 5 Non-current assets held for sale and discontinued operations.

The amendment to IFRS 12 is for annual periods beginning on or after 1 January 2017. *The implementation of this amendment had no material impact on the Bank's consolidated financial statements.*

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, 2017

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 September 30, 2017. 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

As of December 31, 2017, there are no new Accounting Standards issued by the Superintendency of Banks and Financial Institutions.

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Banco Santander Chile and Subsidiaries

Notes to the Consolidated Financial Statements

AS OF DECEMBER 31, 2017 AND 2016

NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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 is effective as of January 1, 2018. Early application is allowed. The Administration in accordance with what is established by the Superintendency of Banks and Financial Institutions, will not apply this norm in advance or in the future, as long as the aforementioned Superintendency does not provide it as a mandatory standard for all banks.

Banco Santander Chile and Subsidiaries

Notes to the Consolidated Financial Statements

AS OF DECEMBER 31, 2017 AND 2016

NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

This rule is effective as of January 1, 2017, however, the IASB has deferred its entry into force for annual periods beginning on or after January 1, 2018. Advance application is permitted. *Management is evaluating the potential impact of adopting this standard.*

Amendments to IFRS 10 and IAS 28 - Sale and Contribution of assets between an Investor and its associate or joint venture - On September 11, 2014, the IASB published this amendment, which clarifies the scope of the profits and losses recognized in a transaction involving an associate or joint venture, and that it depends on whether the asset sold or contribution constitutes a business. Therefore, IASB concluded that all of the gains or losses must be recognized against loss of control of a business. In addition, gains or losses arising from the sale or contribution of a non-business subsidiary (definition of IFRS 3) to an associate or joint venture must be recognized only to the extent of unrelated interests in the associate or joint venture.

This standard was initially effective as of January 1, 2016, however, on December 17, 2015, the IASB issued "Effective Date of Amendment to IFRS 10 and IAS 28" postponing indefinitely the entry into force of this standard. *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.*

Amendment to IFRS 2 Classification and measurement of share-based payment transactions -This amendment issued on 20 June 2016, addresses matters on which there were consultations and which the IASB decided to address, the matters are:

- Accounting of payment transactions based on shares settled in cash that include a condition of performance.
- Classification of payment transactions based on shares with balance compensation features.
- Accounting for changes in payment transactions based on shares from cash settled to liquidated in equity instruments.

This amendment is applicable as of January 1, 2018 prospectively, with early application allowed. *The Administration is evaluating the potential impact of adopting this regulation.*

Amendment to IFRS 4 Application of IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts -This amendment issued on September 12, 2016 aims to address concerns about the differences between the effective date of IFRS 9 and the next new IFRS 17 insurance contract rule. This amendment provides two options for the issuing entities insurance contracts within the scope of IFRS 4:

- An option that allows entities to reclassify from profit or loss to other comprehensive income, some of the income or expenses derived from the designated financial assets; This is the so-called superposition approach.
- An optional temporary exemption from the application of IFRS 9 for entities whose main activity consists of the issue of contracts within the scope of IFRS 4; This is the so-called deferment approach.

The entity that opts to apply the overlay approach retroactively to the classification of financial assets will do so when IFRS 9 is applied for the first time, while the entity that chooses to apply the deferral approach will do so for annual periods beginning on or after January 1, 2018. *The Administration has evaluated that this rule will not have effects on the Bank's financial statements.*

Banco Santander Chile and Subsidiaries

Notes to the Consolidated Financial Statements

AS OF DECEMBER 31, 2017 AND 2016

NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

IFRIC 22 Transactions in foreign currency and consideration received / delivered in advance -This interpretation issued on December 8, 2016, clarifies the accounting for transactions that include the receipt or payment of a anticipated consideration in a foreign currency. The Interpretation covers transactions in foreign currency when an entity recognizes an asset or a non-monetary liability derived from the payment or anticipated receipt of a consideration before that the entity recognizes the related asset, expense or income. Does not apply when an entity measures recognition of the asset, expense or income related to its fair value or to the fair value of the consideration received or paid in a date other than the date of initial recognition of the non-monetary asset or liability. In addition, it is not necessary to apply interpretation to income taxes, insurance contracts or reinsurance contracts.

The date of the transaction, in order to determine the exchange rate, is the date of the initial recognition of the non-monetary asset paid in advance or liabilities for deferred income. If there are several payments or receipts in advance, a date is established of transaction for each payment or receipt. IFRIC 22 is effective for annual reporting periods beginning at from January 1, 2018. Early application is allowed. *The Administration has assessed that this rule will have no effect on the financial statements of the Bank.*

Annual improvements, cycle 2014-2016

Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards -Eliminates the short-term exemptions contained in paragraphs E3-E7 (transitional provisions of Financial Instruments, Benefit to Employees and Investment Entities) of IFRS 1, and who have fulfilled the intended purpose.

Amendment to IAS 28 Investments in Associates and Joint Ventures - Clarifies that the choice to measure at fair value through profit and loss changes (FVTPL) an investment in an associate or joint venture that belongs to an entity that is a venture capital organization, or other Qualified entity, is available for each investment in an associated entity or joint venture on the basis of the investment, after the initial recognition.

The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018. *The Administration is evaluating the potential impact of the adoption of this regulation.*

IFRS 17 Insurance contracts - This regulation issued on May 18, 2017, establishes principles for the recognition, measurement, presentation and disclosure of the insurance contracts issued. It also requires similar principles to apply to maintained reinsurance contracts and to investment contracts issued with discretionary participation components. IFRS 17 repeals IFRS 4 Insurance Contracts. IFRS 17 will be applied to annual periods beginning on or after January 1, 2021. Early application is permitted. *This standard does not apply directly to the Bank, however, the Bank has participation in insurance business and ensure that this regulation is applied correctly and timely.*

IFRIC 23 Uncertainty over Income Tax Treatments- This interpretation issued on June 7, 2017 clarifies the accounting for tax uncertainties, which are used to determine income tax, tax basis, tax losses and unused losses, when there is an uncertainty about the treatment necessary by the IAS 12 “Income Taxes”. This rule includes four points: a) If an entity accounts for tax uncertainties individually or as a whole, b) The assumptions that an entity makes about the revisions for the tax treatment established by the tax authority, c) How an entity determines a taxable gain or loss, its tax base, tax losses and unused losses and tax rates, and d) How an entity considers the changes made and their circumstances.

This interpretation will be effective for the annual periods starting on January 1, 2019. The anticipated adoption of this standard is allowed. *Management is assessing the potential impact of the adoption of this standard.*

Practice declarations – Making materiality judgements, this declaration has been issued on September, 2017 and corresponds to a guide with regard to how to make materiality judgements. This practice declaration motivates companies to apply judgement in order to prepare financial statements with information that is useful for the investors more than trying to abide with a checklist of IFRS revelations.

The objective of this is to provide useful financial information for investors as well as to other lenders regarding their decision making when supplying resources to the entity.

This practical declaration is not an IFRS and therefore entities aren't forced to abide by them, although, materiality is an omnipresent principle within IFRS.

Banco Santander Chile and Subsidiaries

Notes to the Consolidated Financial Statements

AS OF DECEMBER 31, 2017 AND 2016

NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

In practical terms this document presents definitions in relation to materiality, users and judgement, as well as providing a 4 step model for the process of materiality.

Steps	Process
Step 1 – Identify	· Identify information that has potential to be material
Step 2 – Evaluate	· Evaluate if the identified information in step 1 is material
Step 3 – Organize	· Organize the information within the financial statements draft in a way that communicates the information in a clear and concise manner
Step 4 – Review	· Review the financial statements draft to determine if all the material information has been identified and this materiality has been entirely considered from a broad perspective, in order to obtain complete financial statements

This declaration does not have an effective date because it is not a norm but a practice declaration, although it can be applied immediately. *Management will consider this declaration in the preparation of its financial statements starting from this date.*

Amendment to IAS 28 Long-Term Participations in Associates and Joint Ventures -On October 12, 2017, the IASB published this amendment to clarify that an entity would also apply IFRS 9 to a long-term participation in an associate or joint venture to which the participation method does not apply. When applying IFRS 9, the adjustments of the long-term participations arising from the application of this Standard will not be taken into account.

This amendment is effective retroactively in accordance with IAS 8 for annual periods beginning on or after January 1, 2019, except as specified in paragraphs 45G and 45J. Permit your anticipate app. If an entity applies the changes in a period that begins before, it will reveal that fact. *The Bank's Administration is evaluating the potential impact of this modification.*

Annual Improvements, cycle 2015-2017 - This amendment published on December 12, 2017 introduces the following improvements:

IFRS 3 Business Combinations / IFRS 11 Joint Agreements: deals with the prior interest in a joint operation, as a business combination in stages.

IAS 12 Income Tax: deals with the consequences in income tax of payments of classified financial instruments as heritage.

IAS 23 Loan costs: deals with the eligible costs for capitalization.

This amendment is effective for annual periods beginning on or after January 1, 2019. *The Bank's Administration will be evaluating the potential impact of this modification.*

I.- As of December 31, 2017, the following significant events have occurred and affected the Bank's operations and Consolidated Financial Statements.

a) Bylaws and 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:

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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.

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Directory: Corresponds to a Board composed of 9 full members and 2 alternates.

Banco Santander Chile and Subsidiaries

Notes to the Consolidated Financial Statements

AS OF DECEMBER 31, 2017 AND 2016

NOTE 02

SIGNIFICANT EVENTS

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 Financial Statements for 2016, it was agreed to distribute 70% of the net profits for the year (which are denominated in the 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.

d) Issuance of bonds – As of December 31 2017**d.1) Senior bonds year 2017**

In the year ended December 31, 2017 the Bank has issued senior bonds int the amount of USD 770,000,000 and AUD 30,000,000 Debt issuance information is included in Note 18.

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
Total	USD	770,000,000				770,000,000	
AUD	AUD	30,000,000	10.0	3.96%	05-12-2017	30,000,000	12-12-2027
Total	AUD	30,000,000				30,000,000	

.d.2) Subordinated bonds year 2017

As of December 2017, the Bank did not issue subordinated bonds.

d.3) Mortgage bonds year 2017

As of December 2017, the Bank did not issue mortgage bonds.

Banco Santander Chile and Subsidiaries

Notes to the Consolidated Financial Statements

AS OF DECEMBER 31, 2017 AND 2016

NOTE 02

SIGNIFICANT EVENTS, continued

d.4) Repurchased bonds year 2017

In the nine months ended December 31, 2017 the Bank has repurchased the following bonds:

Date	Type	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

II.- As of December 31, 2016, the following significant events have occurred and affected the Bank's operations and Consolidated Financial Statements.

a) Directory

At the Ordinary Shareholders' Meeting held on April 26, 2016, the appointment of titular directors, Mr. Andreu Plaza López and Mrs. Ana Dorrego de Carlos was ratified, who were appointed as titular directors at the Ordinary Meeting of the Board of Directors held on October 20, 2015.

At the Ordinary Session of the Board of Directors held on March 15, 2016, Víctor Arbulú Crousillat resigned as director. In view of his resignation and the vacancy left in at a past moment by Mr. Lisandro Serrano Spoerer, on the occasion of his resignation at the Ordinary Session of the Board of Directors held on October 20, 2015, the Board appointed Mr. Andreu Plaza López and Mrs. Ana Dorrego de Carlos. Finally, it is reported that on the occasion of the resignation of Mr. Victor Arbulú Crousillat he has been appointed as a member of the Directors and Audit Committee and in his replacement, Mr. Mauricio Larraín Garcés.

b) Use of Profits and Distribution of Dividends

At the Ordinary General Shareholders' Meeting held on April 26, 2016, Mr. Oscar von Chrismar Carvajal (First Vice-Chairman), Mr. Roberto Méndez Torres (Second Vice-President), titular directors Marco Colodro Hadjes, Lucia Santa Cruz Sutil, Ana Dorrego de Carlos, Mauricio Larraín Garcés, Juan Pedro Santa María, Orlando Poblete Iturrate, Andreu Plaza Lopez and Blanca Bustamante Bravo participated in a meeting with Mr. Vittorio Corbo Lioi as Chairman. In addition, the General Manager Mr. Claudio Melandri Hinojosa and the Manager of Strategic Planning Mr. Raimundo Monge also attend to the meeting.

According to the information presented in the Meeting mentioned above, net income for year 2015 (referred to in the financial statements "Profit attributable to equity holders of the Bank"), amounted to Ch\$ 448,878 million. It was approved to distribute 75% of said profits, which, divided by the number of shares issued, correspond to a dividend of \$ 1,786,498.13 per share, which began to be paid as of April 29, 2016.

Likewise, it is approved that the remaining 25% 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 2016.

d) Capital increase of Transbank S.A.

At the Extraordinary Shareholders' Meeting of Transbank S.A. Held on April 21, 2016, it was agreed to increase the capital of the company by capitalizing the accumulated profits, through the issuance of shares redeemed for payment,

and placement of payment shares for approximately \$ 4,000 million. Banco Santander Chile participated proportionally to its participation (25%), reason why it subscribed and paid shares for approximately \$ 1 billion.

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Banco Santander Chile and Subsidiaries**Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2017 AND 2016

NOTE 02**SIGNIFICANT EVENTS, continued****e) Issuance of bank bonds - As of December 31, 2016:**

As of December 31, 2016, the Bank has issued bonds for UF 145,000,000, CLP 200,000,000,000, USD 30,000,000 and JPY 3,000,000,000 and EUR 74,000,000. The detail of the placements made as of December 31, 2016 is included in Note 15.

e.1 Senior Bonds as of December 31, 2016

In the year ended December 31, 2016 the Bank has issued senior bonds int the amount of UF 96,000,000, CLP 100,000,000,000, USD 215,000,000, JPY 3,000,000,000, EUR 104,000,000 y CHF 125,000,000, Debt issuance information is included in Note 18.

Set	Currency	Amount	Term	Yearly Issuance rate		Date of issue	Due date
				Original (annual)			
T1	UF	7,000,000	4.0	2.20%		01-02-2016	01-02-2020
T2	UF	5,000,000	4.5	2.25%		01-02-2016	01-08-2020
T3	UF	5,000,000	5.0	2.30%		01-02-2016	01-12-2020
T4	UF	8,000,000	5.5	2.35%		01-02-2016	01-08-2021
T5	UF	5,000,000	6.0	2.40%		01-02-2016	01-02-2022
T6	UF	5,000,000	6.5	2.45%		01-02-2016	01-08-2022
T7	UF	5,000,000	7.0	2.50%		01-02-2016	01-02-2023
T8	UF	8,000,000	7.5	2.55%		01-02-2016	01-08-2023
T9	UF	5,000,000	8.0	2.60%		01-02-2016	01-02-2024
T10	UF	5,000,000	8.5	2.60%		01-02-2016	01-08-2024
T11	UF	5,000,000	9.0	2.65%		01-02-2016	01-02-2025
T12	UF	5,000,000	9.5	2.70%		01-02-2016	01-08-2025
T13	UF	5,000,000	10.0	2.75%		01-02-2016	01-02-2026
T14	UF	18,000,000	11.0	2.80%		01-02-2016	01-02-2027
T15	UF	5,000,000	12.5	3.00%		01-02-2016	01-08-2028

Total UF	96,000,000			
T16 CLP	100,000,000,000	5.5	5.20%	01-02-201601-08-2021
Total CLP	100,000,000,000			
DN USD	10,000,000	5.0	Libor-USD 3M+1.05%	02-06-201609-06-2021
DN USD	10,000,000	5.0	Libor-USD 3M+1.22%	08-06-201617-06-2021
DN USD	10,000,000	5.0	Libor-USD 3M+1.20%	01-08-201616-08-2021
DN USD	185,000,000	5.0	Libor-USD 3M+1.20%	10-11-201628-11-2021
Total USD	215,000,000			
JPY JPY	3,000,000,000	5.0	0.115%	22-06-201629-06-2021
Total JPY	3,000,000,000			
EUR EUR	20,000,000	8.0	0.80%	04-08-201619-08-2024
EUR EUR	54,000,000	12.0	1.307%	05-08-201617-08-2028
EUR EUR	30,000,000	3.0	0.25%	09-12-201620-12-2019
Total EUR	104,000,000			
CHF CHF	125,000,000	8.5	0.35%	14-11-201630-05-2025
Total CHF	125,000,000			

e.2 Subordinated Bonds as of December 31, 2016

As of December 2016, the Bank did not issue subordinated bonds.

e.3 Mortgage bonds as of December 31, 2016

As of December 2016, the Bank did not issue mortgage bonds.

e.4 Repurchased bonds

As of 2016 the Bank has repurchased the following bonds:

Fecha	Tipo	Monto
13-01-2016	Senior USD	600,000
27-01-2016	Senior USD	960,000
08-03-2016	Senior USD	481,853,000
08-03-2016	Senior USD	140,104,000
10-05-2016	Senior USD	10,000,000
29-11-2016	Senior USD	6,895,000

Banco Santander Chile and Subsidiaries

Notes to the Consolidated Financial Statements

AS OF DECEMBER 31, 2017 AND 2016

NOTE 03

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, 2017. Regarding the information corresponding to the year 2016, 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 (SMEs) 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 SME 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.

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Banco Santander Chile and Subsidiaries**Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2017 AND 2016

NOTE 03**REPORTING SEGMENTS, continued**

Below are the tables showing the Bank's results by business segment, for the periods ending as of December 31, 2017 and 2016:

	December 31, 2017					
	Loans and accounts receivable from customers	Net fee and interest income	Financial transactions, net	Provision for loan losses	Support expenses	Segment's net contribution
	(1)		(2)		(3)	
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Retail Banking	19,233,169	970,632	20,595	(290,156)	(534,970)	372,250
Middle-market	6,775,734	266,680	13,751	(19,312)	(91,882)	203,500
Commercial Banking	26,008,903	1,232,999	34,346	(309,468)	(626,852)	575,750
Global Corporate Banking	1,633,796	107,806	50,714	4,008	(62,685)	120,471
Other	83,215	(9,708)	44,692	6,255	(15,356)	35,187
Total	27,725,914	1,320,663	129,752	(299,205)	(704,893)	731,408
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)
Net income for the year						577,263

(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.

	December 31, 2016						
	Loans and accounts receivable from customers	Net interest income	Net fee and commission income	Financial transactions, net	Provision for loan losses	Support expenses (3)	Segment's net contribution
	(1) MCh\$	MCh\$	MCh\$	(2) MCh\$	MCh\$	MCh\$	MCh\$
Retail Banking	18,604,936	931,105	196,845	21,141	(321,614)	(529,909)	297,568
Middle-market	6,396,376	244,960	30,851	19,577	(25,558)	(83,412)	186,418
Commercial Banking	25,001,312	1,176,065	227,696	40,718	(347,172)	(613,321)	483,986
Global Corporate Banking	2,121,513	95,105	25,077	55,927	(2,773)	(53,935)	119,401
Other	83,606	10,196	1,651	43,713	6,659	(19,649)	42,570
Total	27,206,431	1,281,366	254,424	140,358	(343,286)	(686,905)	645,957
Other operating income							18,299
Other operating expenses							(85,432)
Income from investments in associates and other companies							3,012
Income tax expense							(107,120)
Net income for the period							474,716

(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, 2017 AND 2016

NOTE 04**CASH AND CASH EQUIVALENTS**a) **The detail of the balances included under cash and cash equivalents is as follows:**

	As of December 31,	
	2017	2016
	MCh\$	MCh\$
Cash and deposit in banks		
Cash	613,361	570,317
Deposit in the Central Bank of Chile	441,683	507,275
Deposit in domestic banks	393	1,440
Deposit in foreign banks	397,485	1,200,357
Subtotal	1,452,922	2,279,389
Cash in process of collection, net	181,419	206,810
Cash and cash equivalents	1,634,341	2,486,199

The balance of funds held in cash and at 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:

As of December	
31,	
2017	2016

	MCh\$	MCh\$
Assets		
Documents held by other banks (document to be cleared)	199,619	200,109
Funds receivable	468,526	295,174
Subtotal	668,145	495,283
Liabilities		
Funds payable	486,726	288,473
Subtotal	486,726	288,473
Cash in process of collection, net	181,419	206,810

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Banco Santander Chile and Subsidiaries**Notes to the Consolidated Financial Statements**

AS OF DECEMBER 31, 2017 AND 2016

NOTE 05

TRADING INVESTMENTS

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

	As of December	
	31,	
	2017	2016
	MCh\$	MCh\$
Chilean Central Bank and Government securities		
Chilean Central Bank Bonds	272,272	158,686
Chilean Central Bank Notes	-	-
Other Chilean Central Bank and Government securities	209,370	237,325
Subtotal	481,642	396,011
Other Chilean securities		
Time deposits in Chilean financial institutions	-	-
Mortgage finance bonds of Chilean financial institutions	-	-
Chilean financial institutions bonds	-	-
Chilean corporate bonds	-	976
Other Chilean securities	-	-
Subtotal	-	976
Foreign financial securities		
Foreign Central Banks and Government securities	-	-
Other foreign financial instruments	-	-
Subtotal	-	-
Investments in mutual funds		
Funds managed by related entities	4,094	-
Funds managed by third parties	-	-
Subtotal	4,094	-
Total	485,736	396,987

As of December 31, 2017 and 2016, there were no trading investments sold under contracts to resell to clients and financial institutions.

NOTE N°06**INVESTMENTS UNDER RESALE AGREEMENTS AND OBLIGATION UNDER REPURCHASE AGREEMENTS****a) Rights arising from agreements**

The Bank purchases financial instruments agreeing to resell them at a future date. As December 31, 2017 and 2016, rights associated with instruments acquired under contracts to resell are as follows.

	As December 31, 2017			Total MCh\$	2016			Total MCh\$
	From 1 day and less than 3 month MCh\$	More than 3 months and less than 1 year MCh\$	More than 1year 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\$	
Securities from the Chilean Government and the Chilean Central Bank:								
Chilean Central Bank Bonds	-	-	-	-	3,260	-	-	3,260
Chilean Central Bank Notes	-	-	-	-	-	-	-	-
Other securities from the Government and the Chilean Central Bank	-	-	-	-	3,476	-	-	3,476
Subtotal	-	-	-	-	6,736	-	-	6,736
Instruments from other domestic institutions:								
Timedeposits in Chilean fiancial institutions	-	-	-	-	-	-	-	-
Mortgage finance bonds of Chilean financial institutions	-	-	-	-	-	-	-	-
Chilean financial institutions bonds	-	-	-	-	-	-	-	-
Chilean corporate bonds	-	-	-	-	-	-	-	-

Other Chilean securities	-	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-	-
Foreign financial securities:								
Foreign government or central bank securities	-	-	-	-	-	-	-	-
Other Chilean securities	-	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-	-
Investments in mutual funds:								
Funds managed by related entities	-	-	-	-	-	-	-	-
Funds managed by other	-	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-	-
Total	-	-	-	-	6,736	-	-	6,736

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Banco Santander Chile and Subsidiaries**Notes to the Consolidated Financial Statements**

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NOTE N°06**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 itself to buy them back at future dates, plus interest at a predetermined rate. As of December 31, 2017 and 2016, obligation related to instruments sold under repurchase agreements are as follow:

	As of December 31, 2017			Total MCh\$	2016			Total MCh\$
	From 1 day and less than 3 month MCh\$	More than 3 months and less than 1 year MCh\$	More than 1year 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\$	
Securities from the Chilean Government and the Chilean Central Bank:								
Chilean Central Bank Bonds	-	-	-	-	-	-	-	-
Chilean Central Bank Notes	-	-	-	-	155,044	-	-	155,044
Other securities from the Government and the Chilean Central Bank	241,995	-	-	241,995	-	-	-	-
Subtotal	241,995	-	-	241,995	155,044	-	-	155,044
Instruments from other domestic institutions:								
Time deposits in Chilean financial institutions	1,118	38	-	1,156	56,898	495	-	57,393
Mortgage finance bonds of Chilean financial	-	-	-	-	-	-	-	-

institutions								
Chilean financial institutions bonds	-	-	-	-	-	-	-	-
Chilean corporate bonds	-	-	-	-	-	-	-	-
Other Chilean securities	-	-	-	-	-	-	-	-
Subtotal	1,118	38	-	1,156	56,898	495	-	57,393
Foreign financial securities:								
Foreign government or central bank securities	24,910	-	-	24,910	-	-	-	-
Other foreign Chilean securities	-	-	-	-	-	-	-	-
Subtotal	24,910	-	-	24,910	-	-	-	-
Investments in mutual funds:								
Funds managed by related entities	-	-	-	-	-	-	-	-
Funds managed by other	-	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-	-
Total	268,023	38	-	268,061	211,942	495	-	212,437

c) Below is the detail by portfolio of collateral associated with repurchase agreements as of December 31, 2017 and 2016, value at fair value:

	As of December 31, 2017			2016		
	Available for sale portfolio MCh\$	Trading portfolio MCh\$	Total MCh\$	Available for sale portfolio MCh\$	Trading for sale portfolio MCh\$	Total MCh\$
Securities from the Chilean Government and the Chilean Central Bank:						
Chilean Central Bank Bonds	-	-	-	-	-	-
Chilean Central Bank Notes	-	-	-	155,044	-	155,044
Other securities from the Government and the Chilean Central Bank	241,995	-	241,995	-	-	-
Subtotal	241,995	-	241,995	155,044	-	155,044
Other Chilean securities:						
Time deposits in Chilean financial institutions	1,156	-	1,156	57,393	-	57,393
mortgage finance bond of Chilean financial institutions	-	-	-	-	-	-
Chilean financial institution bonds	-	-	-	-	-	-
Chilean corporate bonds	-	-	-	-	-	-
Other Chilean securities	-	-	-	-	-	-
Subtotal	1,156	-	1,156	57,393	-	57,393
Foreign financial securities:						

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Foreign Central Bank and Government securities	24,910	-	24,910	-	-	-
Other Foreign financial instruments	-	-	-	-	-	-
Subtotal	24,910	-	24,910	-	-	-
Investment in mutual funds:						
Fondos administrados por entidades relacionadas	-	-	-	-	-	-
Fondos administrados por terceros	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-
Total	268,061	-	268,061	212,437	-	212,437

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Banco Santander Chile and Subsidiaries**Notes to the Consolidated Financial Statements**

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NOTE 07**DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING**

a) As of December 31, 2017 and 2016, the Bank holds the following portfolio of derivative instruments:

	As of December 31, 2017			Fair value	
	Notional amount			Assets	Liabilities
	Up to 3	More than 3	More than	Total	
	Months	months to	1 year		
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Fair value hedge derivatives					
Currency forwards	-	-	-	-	-
Interest rate swaps	-	162,985	1,554,171	1,717,156	23,003
Cross currency swaps	-	715,701	5,362,772	6,078,473	15,085
Call currency options	-	-	-	-	-
Call interest rate options	-	-	-	-	-
Put currency options	-	-	-	-	-
Put interest rate options	-	-	-	-	-
Interest rate futures	-	-	-	-	-
Other derivatives	-	-	-	-	-
Subtotal	-	878,686	6,916,943	7,795,629	38,088
Cash flow hedge derivatives					
Currency forwards	801,093	218,982	-	1,020,075	39,233
Interest rate swaps	-	-	-	-	-
Cross currency swaps	421,428	1,637,604	6,672,566	8,731,598	36,403
Call currency options	-	-	-	-	-
Call interest rate options	-	-	-	-	-
Put currency options	-	-	-	-	-
Put interest rate options	-	-	-	-	-
Interest rate futures	-	-	-	-	-
Other derivatives	-	-	-	-	-
Subtotal	1,222,521	1,856,586	6,672,566	9,751,673	75,636
Trading derivatives					

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Currency forwards	17,976,683	10,679,327	3,091,393	31,747,403	412,994	502,555
Interest rate swaps	9,069,964	14,389,389	46,342,779	69,802,132	467,188	392,366
Cross currency swaps	2,963,641	7,503,144	47,111,371	57,578,156	1,241,632	1,042,120
Call currency options	190,386	37,099	49,853	277,338	1,322	1,950
Call interest rate options	-	-	-	-	-	-
Put currency options	192,722	28,616	50,470	271,808	1,787	4,935
Put interest rate options	-	-	-	-	-	-
Interest rate futures	-	-	-	-	-	-
Other derivatives	-	-	-	-	-	-
Subtotal	30,393,396	32,637,575	96,645,866	159,676,837	2,124,923	