BANCO SANTANDER CHILE
Form 6-K
September 23, 2016

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Issuer

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

Commission File Number: 001-14554

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

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

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

Form 20-Fx 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¨ Nox

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¨ Nox

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

Yes¨ Nox

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

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: September 23, 2016

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UNAUDITED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

	NOTE	As of June 30, 2016 MCh$	**As of December 31,** 2015 MCh$
ASSETS			
Cash and deposits in banks	4	2,164,211	2,064,806
Cash items in process of collection	4	773,774	724,521
Trading investments	5	387,554	324,271
Investments under resale agreements		8,168	2,463
Financial derivative contracts	6	3,001,807	3,205,926
Interbank loans, net	7	236,345	10,861
Loans and accounts receivables from customers, net	8	25,368,817	24,535,201
Available for sale investments	9	2,391,465	2,044,411
Held to maturity investments		-	-
Investments in associates and other companies		22,254	20,309
Intangible assets	10	55,564	51,137
Property, plant, and equipment	11	233,066	240,659
Current taxes	12	-	-
Deferred taxes	12	337,915	331,714
Other assets	13	1,142,827	1,097,826
TOTAL ASSETS		36,123,767	34,654,105
LIABILITIES			
Deposits and other demand liabilities	14	7,238,303	7,356,121
Cash items in process of being cleared	4	529,784	462,157
Obligations under repurchase agreements		31,005	143,689
Time deposits and other time liabilities	14	12,997,791	12,182,767
Financial derivative contracts	6	2,848,418	2,862,606
Interbank borrowing		1,952,761	1,307,574
Issued debt instruments	15	6,369,956	5,957,095
Other financial liabilities	15	216,741	220,527
Current taxes	12	4,796	17,796
Deferred taxes	12	11,136	3,906
Provisions		223,799	329,118
Other liabilities	17	963,571	1,045,869
TOTAL LIABILITIES		33,388,061	31,889,225
EQUITY			

Attributable to the equity holders of the Bank		2,704,685	2,734,699
Capital	19	891,303	891,303
Reserves	19	1,640,112	1,527,893
Valuation adjustments	19	4,053	1,288
Retained earnings		169,217	314,215
Retained earnings from prior years		-	-
Income for the period		241,739	448,878
Minus: Provision for mandatory dividends		(72,522)	(134,663)
Non-controlling interest	21	31,021	30,181
TOTAL EQUITY		2,735,706	2,764,880
TOTAL LIABILITIES AND EQUITY		36,123,767	34,654,105

Banco Santander Chile and Subsidiaries

UNAUDITED CONSOLIDATED INTERIM STATEMENTS OF INCOME FOR THE PERIOD

For the periods ended

	NOTE	For the three months ended June 30, 2016 MCh$	2015 MCh$	Forthe six months ended June 30, 2016 MCh$	2015 MCh$
OPERATING INCOME					
Interest income	22	556,208	562,368	1,074,937	963,083
Interest expense	22	(227,771)	(230,635)	(433,627)	(357,931)
Net interest income		328,437	331,733	641,310	605,152
Fee and commission income	23	105,647	94,181	210,155	188,733
Fee and commission expense	23	(41,775)	(35,907)	(83,292)	(74,998)
Net fee and commission income		63,872	58,274	126,863	113,735
Net income (expense) from financial operations	24	45,706	(50,524)	(133,993)	(191,083)
Net foreign exchange gain	25	(17,846)	80,855	196,115	262,405
Other operating income	30	4,611	5,677	9,859	10,785
Net operating profit before provision for loan losses		424,780	426,015	840,154	800,994
Provision for loan losses	26	(83,436)	(81,592)	(161,362)	(160,818)
NET OPERATING PROFIT		341,344	344,423	678,792	640,176
Personnel salaries and expenses	27	(101,217)	(96,274)	(194,184)	(180,491)
Administrative expenses	28	(54,991)	(56,488)	(113,685)	(111,341)
Depreciation and amortization	29	(15,843)	(12,646)	(30,188)	(24,780)
Impairment of property, plant, and equipment	29	(48)	(20)	(85)	(20)
Other operating expenses	30	(32,010)	(15,770)	(48,244)	(30,416)
Total operating expenses		(204,109)	(181,198)	(386,386)	(347,048)
OPERATING INCOME		137,235	163,225	292,406	293,128

Income from investments in associates and other companies		641	788	1,172	1,273
Income before tax		137,876	164,013	293,578	294,401
Income tax expense	12	(21,114)	(21,531)	(50,776)	(52,849)
NET INCOME FOR THE PERIOD		116,762	142,482	242,802	241,552
Attributable to:					
Equity holders of the Bank		116,300	140,364	241,739	235,841
Non-controlling interest	21	462	2,118	1,063	5,711
Earnings per share attributable to Equity holders of the Bank:					
(expressed in Chilean pesos)					
Basic earnings	19	0.617	0.745	1.283	1.252
Diluted earnings	19	0.617	0.745	1.283	1.252

Banco Santander Chile and Subsidiaries

UNAUDITED CONSOLIDATED INTERIM STATEMENTS OF OTHER COMPREHENSIVE INCOME

For the periods ended

		For the three months ended June 30,		Forthe six months ended June 30,	
		2016	2015	2016	2015
	NOTE	MCh$	MCh$	MCh$	MCh$
NET INCOME FOR THE PERIOD		116,762	142,482	242,802	241,552
OTHER COMPREHENSIVE INCOME - ITEMS WHICH MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS					
Availablefor sale investments	9	4,875	(13,676)	25,393	(20,117)
Cash flow hedge	19	(163)	35,718	(21,588)	(20,692)
Other comprehensive income which may be reclassified subsequently to profit or loss, before tax a la renta		4,712	22,042	3,805	(40,809)
Income tax related to items which may be reclassified subsequently to profit or loss	12	(1,130)	(4,959)	(936)	8,696
Other comprehensive income for the period which may be reclassified subsequently to profit or loss, net of tax		3,582	17,083	2,869	(32,113)
OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS		-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		120,344	159,565	245,671	209,439
Attributable to:					
Equity holders of the Bank		119,879	157,447	244,504	203,732
Non-controlling interest	21	465	2,118	1,167	5,707

Banco Santander Chile and Subsidiaries

UNAUDITED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

For the periods ended June 30, 2016 and 2015

		RESERVES		VALUATION ADJUSTMENTS			RETAINED EARNINGS			
	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 period	Provision for mandatory dividends	Total attributabl equity hol of the Ban
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$
Equity as of December 31, 2014	891,303	1,309,985	(2,224)	21,680	10,725	(6,805)	-	550,331	(165,099)	2,609,896
Distribution of income from previous period	-	-	-	-	-	-	550,331	(550,331)	-	-
Equity as of January 1, 2015	891,303	1,309,985	(2,224)	21,680	10,725	(6,805)	550,331	-	(165,099)	2,609,896
Increase or decrease of capital and reserves	-	-	-	-	-	-	-	-	-	-
Dividends distributions/ withdrawals made	-	-	-	-	-	-	(330,199)	-	165,099	(165,100
Transfer of retained earnings to reserves	-	220,132	-	-	-	-	(220,132)	-		-
Provision for mandatory dividends	-	-	-	-	-	-	-	-	(70,752)	(70,752
Subtotals	-	220,132	-	-	-	-	(550,331)	-	94,347	(235,852
Other comprehensive income	-	-	-	(20,113)	(20,692)	8,696	-	-	-	(32,109

Income for the year	-	-	-	-	-	-	-	235,841	-	235,841
Subtotals	-	-	-	(20,113)	(20,692)	8,696	-	235,841	-	203,732
Equity as of June 30, 2015	891,303	1,530,117	(2,224)	1,567	(9,967)	1,891	-	235,841	(70,752)	2,577,776
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)	-	-	(336,659
Transfer of retained earnings to reserves	-	112,219	-	-	-	-	(112,219)	-	-	-
Provision for mandatory dividends	-	-	-	-	-	-	-	-	62,141	62,141
Subtotals	-	112,219	-	-	-	-	(448,878)	-	62,141	(274,518
Other comprehensive income	-	-	-	25,259	(21,588)	(906)	-	-	-	2,765
Income for the year	-	-	-	-	-	-	-	241,739	-	241,739
Subtotals	-	-	-	25,259	(21,588)	(906)	-	241,739	-	244,504
Equity as of June 30, 2016	891,303	1,642,336	(2,224)	18,294	(12,962)	(1,279)	-	241,739	(72,522)	2,704,685

Period	Total attributable to equity holders of the Bank MCh$	Allocated to reserves MCh$	Allocated to dividends MCh$	Percentage distributed %	Number of shares	Dividend per share (in pesos)
Year 2015 (Shareholders Meeting April 2016)	448,878	112,219	336,659	75	188,446,126,794	1.786
Year 2014 (Shareholders Meeting April 2015)	550,331	220,132	330,199	60	188,446,126,794	1.752

Banco Santander Chile and Subsidiaries

UNAUDITED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

For the periods ended June 30, 2016 and 2015

		For the six months ended June 30,	
		2016	2015
	NOTE	MCh$	MCh$
A – CASH FLOWS FROM OPERATING ACTIVITIES:			
INCOME BEFORE TAX		293,578	294,401
Debits (credits) to income that do not represent cash flows		(519,976)	(501,013)
Depreciation and amortization	29	30,188	24,780
Impairments of property, plant, and equipment	11	85	20
Provision for loan losses	26	200,503	193,990
Mark to market of trading investments		10,077	(3,026)
Income from investments in associates and other companies		(1,172)	(1,273)
Net gain on sale of assets received in lieu of payment	30	(7,965)	(5,710)
Provision on assets received in lieu of payment		5,240	5,556
Net gain on sale of property, plant, and equipment	30	(549)	(119)
Charge off of assets received in lieu of payment	30	6,421	3,268
Net interest income	22	(641,310)	(605,152)
Net fee and commission income	23	(126,863)	(113,735)
Other debits (credits) to income that do not represent cash flows		5,276	78,130
Changes in deferred taxes	12	93	(77,742)
Increase/decrease in operating assets and liabilities		823,931	580,310
(Increase) decrease of loans and accounts receivables from customers, net		(874,155)	(1,063,104)
(Increase) decrease of financial investments		(410,337)	10,967
Decrease (increase) due to resale agreements (assets)		(5,705)	-
Decrease (increase) of interbank loans		(225,655)	27,557
(Increase) decrease of assets received or awarded in lieu of payment		3,428	5,862
Increase (decrease) of debits in customers checking accounts		(47,923)	167,811
Increase (decrease) of time deposits and other time liabilities		815,024	986,283
Increase (decrease) of obligations with domestic banks		165,000	(45,295)
Increase (decrease) of other demand liabilities or time obligations		(69,895)	(26,264)
Increase (decrease) of obligations with foreign banks		480,176	(142,944)
Increase (decrease) of obligations with Central Bank of Chile		11	(41)
Increase (decrease) of obligations under repurchase agreements		(112,684)	(231,965)
Increase (decrease) in other financial liabilities		(3,786)	39,734
Net increase of other assets and liabilities		14,824	(171,648)

Redemption of letters of credit		(25,760)	(12,785)
Redemption of mortgage bonds and payments of interest		(2,503)	(2,661)
Senior bond issuances		2,088,583	402,143
Redemption of senior bonds and payments of interest		(1,710,240)	(154,853)
Interest received		1,074,937	948,707
Interest paid		(433,627)	(359,442)
Dividends received from investments in other companies		28,131	244
Fees and commissions received	23	210,155	188,733
Fees and commissions paid	23	(83,292)	(74,998)
Income tax paid	12	(50,776)	(52,849)
Total cash flow provided by (used in) operating activities		597,533	373,698

Banco Santander Chile and Subsidiaries

UNAUDITED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

For the periods ended June 30, 2016 and 2015

	NOTE	For the six months ended June 30, 2016 MCh$	2015 MCh$
B – CASH FLOWS FROM INVESTMENT ACTIVITIES:			
Purchases of property, plant, and equipment	11	(13,394)	(13,764)
Sales of property, plant, and equipment		318	48
Purchases of investments in associates and other companies		(1,004)	-
Purchases of intangible assets	10	(13,976)	(8,391)
Total cash flow provided by (used in) investment activities		(28,056)	(22,107)
C – CASH FLOW FROM FINANCING ACTIVITIES:			
From shareholder´s financing activities		(340,589)	(335,301)
Redemption of subordinated bonds and payments of interest		(3,930)	(5,102)
Dividends paid		(336,659)	(330,199)
From non-controlling interest financing activities		-	-
Dividends and/or withdrawals paid		-	-
Total cash flow used in financing activities		(340,589)	(335,301)
D – NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD		228,888	16,290
E – EFFECTS OF FOREIGN EXCHANGE RATE FLUCTUATIONS		(147,857)	41,667
F – INITIAL BALANCE OF CASH AND CASH EQUIVALENTS		2,327,170	1,859,002
FINAL BALANCE OF CASH AND CASH EQUIVALENTS	4	2,408,201	1,916,959

Reconciliation of provisions for the Consolidated Interim Statements of Cash Flows for the periods	For the six months ended June 30, 2016 MCh$	2015 MCh$
Provision for loan losses for cash flow purposes	200,503	193,990

Recovery of loans previously charged off		(39,141)	(33,172)
Provision for loan losses - net	26	161,362	160,818

Banco Santander Chile and Subsidiaries

Notes to the Unaudited Consolidated Interim Financial Statements

AS OF JUNE 30, 2016 AND DECEMBER 31, 2015 AND FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

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 herein 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 SantanderChile through its holdings in TeatinosSiglo XXI Inversiones Ltda. and Santander Chile Holding S.A., which are controlled subsidiaries of Banco Santander Spain. As of June 30, 2016 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 gives Banco Santander Spain control over 67.18% of the Bank’s shares.

a) Basis of preparation

These Unaudited Consolidated Interim Financial Statements have been prepared in accordance with the Compendium of Accounting Standards issued by the Superintendency of Banks and Financial Institutions (SBIF), 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 theInternational Accounting Standards Board (IASB). In the event of discrepancies between the 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 InstitutoNacional de Estadísticas (the Chilean National Institute of Statistics) for the previous month.

The Notes to the Unaudited Consolidated Interim Financial Statements contain additional information to support the figures submitted in the Unaudited Consolidated Interim Statement of Financial Position, Unaudited Consolidated Interim Statement of Income, Unaudited Consolidated Interim Statement of Comprehensive Income, Unaudited Consolidated Interim Statement of Changes in Equity and Unaudited Consolidated Interim 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 Unaudited Consolidated Interim Financial Statements

The Unaudited Consolidated Interim Financial Statements as of June 30, 2016 and 2015 and December 31, 2015 and for the three-month periods ended June 30, 2016 and 2015, 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;
II. is exposed, or has rights, to variable returns from its involvement with the investee; and
III. has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities over the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank’s voting rights in an investee are sufficient to give it power, including:

- The size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- The potential voting rights held by the Bank, other vote holders or other parties;
- The rights arising from other agreements; and

Banco Santander Chile and Subsidiaries

Notes to the Unaudited Consolidated Interim Financial Statements

AS OF JUNE 30, 2016 AND DECEMBER 31, 2015 AND FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control over the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the Unaudited Consolidated Interim Statement of Income and in the Unaudited Consolidated Interim Financial Statementof 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 intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between consolidated entities are eliminated in full on consolidation.

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 Unaudited Consolidated Interim Statement of Changes in Equity. Their share in the income for the year is presented as "Attributable to non-controlling interest" in the Unaudited Consolidated Interim 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

			Percent ownership share								
		Place of Incorporation and	As of June 30, 2016			As of December 31, 2015			As of June 30, 2015		
Name of the Subsidiary	Main Activity	operation	Direct %	Indirect %	Total %	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	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	50.59	0.41	51.00
Santander Agente de Valores Limitada	Securities brokerage	Santiago, Chile	99.03	-	99.03	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	99.64	-	99.64

(*) On June 19, 2015, Santander Corredores de BolsaLimitada, our stock broker company has changed its corporate structure to limited liability company. This situation was informed to SVS through an "essential fact" in accordance with the Law 18.045 articles 9° and 10°, and General Regulation (NCG) N°16 and N°30.

The details of non-controlling interest in all the subsidiaries can be seen in Note 21 – Non-controlling interest.

Banco Santander Chile and Subsidiaries

Notes to the Unaudited Consolidated Interim Financial Statements

AS OF JUNE 30, 2016 AND DECEMBER 31, 2015 AND FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

ii. Entities controlled by the Bank through other considerations

The following companies have been consolidated as of June 30, 2016 and 2015 and as of December 31, 2015 based on the determination that the Bank has control as previously defined above and in accordance with IFRS 10, *Consolidated Financial Statements*:

- Santander Gestión de Recaudación y Cobranza Limitada (collectionservices)
- Bansa Santander S.A. (management of repossessed assets and leasing of properties)

During 2015 Multinegocios S.A. (management of sales force), Servicios Administrativos y Financieros Limitada (management of sales force) and Multiservicios de Negocios Limitada (call center) have ceased rendering sales services to the Bank and the Bank no longer controls their relevant activities. Therefore as of June 30, 2015 these entities have been excluded from the consolidation perimeter.

iii. Associates

An associate is an entity over which the Bank has significant influence. Significant influence, in this case, is defined as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate.

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

			Percentage of ownership share		
		Place of Incorporation	As of June 30	As of December 31,	As of June 30,
Associates	Main activity	and operation	2016 %	2015 %	2015 %
Redbanc S.A.	ATM services	Santiago, Chile	33.43	33.43	33.43
Transbank S.A.	Debit and credit card services	Santiago, Chile	25.00	25.00	25.00
Centro de Compensación Automatizado	Electronic fund transfer and compensation services	Santiago, Chile	33.33	33.33	33.33
Sociedad Interbancaria de Depósito de Valores S.A.	Repository of publically offered securities	Santiago, Chile	29.29	29.29	29.28
Cámara de Compensación de Pagos de Alto Valor S.A.	Payments clearing	Santiago, Chile	14.23	14.14	14.14
Administrador Financiero del Transantiago S.A.	Administration of boarding passes to public transportation	Santiago, Chile	20.00	20.00	20.00
Sociedad Nexus S.A.	Credit card processor	Santiago, Chile	12.90	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	11.11	11.11	11.11

In the case of SociedadNexus S.A. and CámaraCompensación de Pagos Alto Valor S.A., Banco Santander Chile has a representative on the Board of Directors. As per the definition of associates, the Bank has concluded that it exerts significant influence over those entities.

Servicios de Infraestructura de Mercado OTC S.A. is considered an associate due to the Bank’s executives being actively involved in the management of the company, including the organization and structuring of this company from the point of incorporation, therefore exercising significant influence over this company.

In the Extraordinary Shareholder meeting held on April 21, 2016, Transbank agreed to increase its capital through the capitalization of the retained earnings, by issuingfree of charge shares and the payment of shares for approximately $4,000 million. The Bank has participated in proportion with its 25% ownership, and therefore has paid shares for approximately $1.000 million. PreivouslyTransbank had agreed an increase in capitalin the Extraordinary Shareholder meeting held in April 2015.The Bank signed the contract maintaining its ownership.

In October 2015, HSBC Bank Chile sold its shares in Camara de Compensación de Pagos de Alto Valor S.A. to Banco Santander Chile, increasing its participation to 14.23%.

iv. Share or rights in other companies

Such entities represent those over which the Bank has no control or significant influences and are presented in this category. These holdings are shown at acquisition value less impairment, if any.

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NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

c) Non-controlling interest

Non-controlling interest represents the portion of net income and net assets which the Bank does not own, either directly or indirectly. It is presented as "Attributable to non-controlling interest" separately in the Unaudited Consolidated Interim Statement of Income, and separately from shareholders' equity in the Unaudited Consolidated Interim 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 expressed as a percentage.

d) Reporting segments

Operating segments with similar economic characteristics often exhibitsimilar 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 10% or more of the greater in absolute amount of: (i) the combined reported profit of all the operating segments that did not report a loss; (ii) the combined reported loss of all the operating segments that reported a loss.

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

Operating segments that do not meet any of the quantitative 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 Unaudited Consolidated Interim 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:

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

e) Functional and presentation currency

According to IAS 21 "The Effects of Changes in Foreign Exchange Rates", the Chilean peso is the currency of the primary economic environment in which the Bank operates and the currency which influences its costs and revenue structure, soit has been defined as the Bank's functional and presentation currency.

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

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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$663.25 per US$1 as of June, 2016 (Ch$638.90 per US$1 as of June, 2015 and Ch$707.80 per US$1 as of December, 2015).

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

g) Definitions and classification of financial instruments

i. Definitions

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

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

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

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

ii. Classification of financial assets for measurement purposes

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. All regular way purchases or sales of financial asset are recognized and derecognized on a trade basis. 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 a financial assets not at fair value through 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 as 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 at fair value through profit or loss.

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NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as FVTPL.

Financial assets FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss 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 any 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.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

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 when the effect of discounting is immaterial.

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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.

- Cash items in process of collection: this item represents domestic transactions in the process of transfer through a central domestic clearinghouse or international transactions which may be delayed in settlement due to timing differences, etc.

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

- Investments under resale agreements: includes balances of financial instruments purchased under resale agreement.

- 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 derecognized in the Bank´s statement of financial position.

- 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

Financial liabilities are classified as FVTPL when the financial liability is either held for trading or it is designated as FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near 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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NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

A financial liability other than a financial liability 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 liability 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 liabilities FVTPL are stated at fair value, with any gains or losses arising on remeasurementrecognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the ‘net income (expense) from financial operations' line item.

Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and interest 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 financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

v. Classification of financial liabilities for presentation purposes

Financial liabilities are classified by their nature into the following items in the Unaudited Consolidated Interim Statementof 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 being cleared: this represents domestic transactions in the process of transfer through a central domestic clearing house or international transactions which may be delayed in settlement due to timing differences, etc.

- 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.

- 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.

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NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

- 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

In general, financial assets and liabilities are initially recognized at fair value, which, in the absence of evidence to the contrary, 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 pursuant to 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* (effective date from January 1, 2013), "fair value" is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When measuring fair value an entity shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either: (a) in the principal market for the asset or liability, or (b) in the absence of a principal market, the most advantageous market for the asset or liability. Even when there is no observable market to provide pricing information in connection with the sale of an asset or the transfer of a liability at the measurement date, the fair value measurement shall assume that the transaction takes place, considered from the perspective of a potential market participant who intends to maximize value associated with the asset or liability.

When using valuation techniques, the Bank shall maximize the use of relevant observable inputs and minimize the use of unobservable inputs as available. If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy (i.e. Level 1, 2 or 3). IFRS 13 establishes a fair value hierarchy that categorizes into three levels the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

All derivatives are recorded in the Unaudited Consolidated Interim Statements of Financial Position at the fair value previously described. This value is compared to the valuation as 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 Unaudited Consolidated Interim Statement of Income.

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

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NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

The “effective interest rate” is the discount rate that exactly matches the initial amount of a financial instrument to all its estimated cash flows over its remaining life. For fixed-rate financial instruments, the effective interest rate incorporates the contractual interest rate established on the acquisition date. Where applicable, the fees and transaction costs that are a part of the financial return are included. For floating-rate financial instruments, the effective interest rate matches the current rate of return until the date of the next review of interest rates.

Equity instruments whose fair value cannot be determined in a sufficiently objective manner and financial derivatives, whose underlying is an equity instrument that are settled by delivery of those instruments, are measured at acquisition cost adjusted for any related impairment loss.

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

ii. Valuation techniques

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

In cases where price quotations cannot be observed in available markets, the Bank's management determines a best estimate of the price that the market would set using its own internal models. In most cases, these models use data based on observable market parameters as significant inputs however for some valuations of financial instruments, significant inputs are unobservable in the market. To determine a value for those instruments, various techniques are employed to make these estimates, including the extrapolation of observable market data.

The most reliable evidence of the fair value of a financial instrument on initial recognition usually is the transaction price, however due to lack of availability of market information, the value of the instrument may be derived from other market transactions performed with the same or similar instruments or may be measured by using a valuation technique in which the variables used include only observable market data, mainly interest rates.

The main techniques used as of June 30, 2016 and 2015 and as of December 31, 2015 by the Bank's internal models to determine the fair value of the financial instruments are as follows:

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

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

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

The fair value of the financial instruments calculated by the aforementioned internal models considers contractual terms and observable market data, which include interest rates, credit risk, exchange rates, quoted market price of shares, volatility and prepayments, among others. 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.

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NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

iii. Hedging transactions

The Bank uses financial derivatives for the following purposes:

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

All financial derivatives that are not held for hedging purposes are accounted for as trading derivatives.

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

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

a. Changes in the value of assets and liabilities due to fluctuations, among others, in 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, and highly probable forecasted transactions ("cash flow hedge");

c. The net investment in a foreign operation ("hedge of a net investment in a foreign operation").

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

a. At the date of arrangement the hedge is expected, under normal conditions, to be highly effective ("prospective effectiveness").

b. There is sufficient evidence that the hedge was actually effective during the life of the hedged item or position ("retrospective effectiveness").

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

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

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

b. For fair value hedges of interest rate risk on a portfolio of financial instruments, gains or losses that arise in measuring hedging instruments and other gains or losses due to changes in fair value of the underlying hedged item (attributable to the hedged risk) are recorded in the Unaudited Consolidated Interim Financial Statement of Income under "Net income (expense) from financial operations".

c. For cash flow hedges, the change in fair value of the hedging instrument is included as "Cash flow hedge" in "Other comprehensive income", until the hedged transaction occurs, thereafter being reclassified to the Unaudited Consolidated Interim Statement of Income, unless the hedged transaction results in the recognition of non–financial assets or liabilities, in which case it is included in the cost of the non-financial asset or liability.

d. The differences in valuation of the hedging instrument corresponding to the ineffective portion of the cash flow hedging transactions are recorded directly in the Unaudited Consolidated Interim 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, where applicable.

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NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

When cash flow hedges are discontinued, any cumulative gain or loss of the hedging instrument recognized under "Other comprehensive income" (from the period when the hedge was effective) remains recorded in equity until the hedged transaction occurs, at which time it is recorded in the Unaudited Consolidated Interim 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 Unaudited Consolidated Interim Statement of Income.

iv. Derivatives embedded in hybrid financial instruments

Derivatives embedded in other financial instruments or in other hybrid 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 hybrid 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 Unaudited Consolidated Interim Statements of Financial Position at their net amount, only if there is a legally enforceable right to offset the recorded amounts and the Bank intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

vi. Derecognition of financial assets and liabilities

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

i. If the Bank transfers substantially all the risks and rewards of ownership to third parties, as in the case of unconditional sales of financial assets, sales under repurchase agreements at fair value at the date of repurchase, sales of financial assets with a purchased call option or written put option deeply out of the money, utilization of assets in which the transferor does not retain subordinated debt nor grants any credit enhancement to the new holders, and other similar cases, the transferred financial asset is derecognized from the Unaudited Consolidated Interim 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 Unaudited Consolidated Interim 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.

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

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

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

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NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Accordingly, financial assets are only derecognized from the Unaudited Consolidated Interim 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 Unaudited Consolidated Interim 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 Unaudited Consolidated Interim Statement of Incomeunless they have been actually received.

This interest and adjustments are generally referred to as “suspended” and they are reported as part of the complementary information thereto and as memorandum accounts (Note 22). This interest is recognized as income, when collected.

The resumption of interest income recognition of previously impaired loans only occurs when such loans become current (i.e. payments were received such that the loans are contractually past-due for less than 90 days) or they are no longer classified under the C3, C4, C5, or C6 risk categories (for loans individually evaluated for impairment).

ii. Commissions, fees, and similar items

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

- Fee and commission income and expenses on financial assets and liabilities are recognized when they are earned.
- Those arising from transactions or services that are performed over a period of time are recognized over the life of these transactions or services.
- Those relating to services provided in a single transaction are recognized when the single transaction is performed.

iii. Non-financial income and expenses

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

iv. Loan arrangement fees

Fees that arise as a result of the origination of a loan, mainly application and analysis-related fees, are deferred and charged to the Unaudited Consolidated Interim Statement of Income over the term of the loan.

j) Impairment

i. Financial assets:

A financial asset, other than that at fair value through profit and loss, is evaluated on each 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.

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NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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. Goodwill impairment is not reversed.

k) Property, plant, and equipment

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

i. Property, plant and equipment for own use

Property, plant and equipment for own use 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 (when net carrying amount was higher than 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.

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NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

ITEM	Useful life (Months)
Land	-
Paintings and works of art	-
Carpets and curtains	36
Computers and hardware	36
Vehicles	36
IT systems and software	36
ATMs	60
Other machines and equipment	60
Office furniture	60
Telephone and communication systems	60
Security systems	60
Rights over telephone lines	60
Air conditioning systems	84
Other installations	120
Buildings	1,200

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

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 Unaudited Consolidated Interim 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.

l) Leasing

i. Finance leases

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

When a consolidated entity is the lessor of an asset, the sum of the present value of the lease payments receivable from the lessee, including the exercise price of the lessee's purchase option at the end of the lease term, which is equivalent to one additional lease payment and so is reasonably certain to be exercised, is recognized as lending to third parties and is therefore included under "Loans and accounts receivable from customers" in the Unaudited Consolidated Interim Statement of Financial Position.

When a consolidated entity is a lessee, it reports the cost of leased assets in the Unaudited Consolidated Interim 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.

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NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 Unaudited Consolidated Interim Statement of Income so as to achieve a constant rate of return over the lease term.

ii. Operating leases

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

When 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 Unaudited Consolidated Interim 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 Unaudited Consolidated Interim Statement of Income.

iii. Sale and leaseback transactions

For sale at fair value and operating leasebacks, the profit or loss generated is recorded at the time of sale except in the case of excess of proceeds over fair value, which difference is amortized over the period of use of the asset. 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 Unaudited Consolidated Interim Statement of Incomeusing the effective interest method over the financing period.

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

n) Intangible assets

Intangible assets are identified as non-monetary assets (separately identifiable from other assets) without physical substance which arise as a result of legal or contractual rights or it is separable. 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 36 months.

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 operating, 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.

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NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 net equity and liabilities that are not operating or investing activities.

p) Allowances for loan losses

The Bank has continuously evaluated the entire loan portfolio and contingent loans, as 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) 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 consumerloans.

I. Allowances for individual assessment

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

The analysis of the debtor is primarily focused on their credit quality and their risk category classification of the debtor and of their respective contingent loans and loans These are assigned to one of the following portfolio categories: Normal, Substandard and Impaired. The risk factors considered are: industry or economic sector, owners or managers, financial situation and payment ability, and payment behavior.

The portfolio categories and their definitions are as follows:

i. Normal Portfolio includes debtors with a payment ability that allows them to meet their obligations and commitments. Evaluations of the current economic and financial environment do not indicate that this will change. The classifications assigned to this portfolio are categories from A1 to A6.

ii. Substandard Portfolio includes debtors with financial difficulties or a significant deterioration of their payment ability. There is reasonable doubt concerning the future reimbursement of the capital and interest within the contractual terms, with limited ability to meet short-term financial obligations. The classifications assigned to this portfolio are categories from B1 to B4.

iii. Impaired Portfolio includes debtors and their loans where repayment is considered remote,with a reduced or no likelihood ofrepayment. 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 restructuration, 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.

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NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Normal and Substandard Compliance Portfolio

As part of individual assessment, the Bank classifies debtors into the following categories, assigning them a probability of non-performance (PNP) and severity (SEV), which result in the expected loss percentages.

Portfolio	**Debtor's Category**	**Probability of Non-Performance (%)**	Severity (%)	**Expected Loss (%)**
	A1	0.04	90.0	0.03600
	A2	0.10	82.5	0.08250
Normal portfolio	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
	B1	15.00	92.5	13.87500
Substandard portfolio	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 guarantor is a person qualified in aassimilable 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% of loans and contingent loans in the normal portfolio.

Impaired Portfolio

The provision for an impaired portfolio is calculated by determining the expected loss ratefor the exposure, adjusting for amounts recoverable throughavailable 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 debtor can be classified into categories C1 to C6. Using this classification system 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	%

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NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 relat to individuals or small companies.

Group assessments require the formation of groups of loans with similar characteristics by type of debtor and loan conditions, in order to establish both the group payment behavior and the recoveries of their defaulted loans, using technically substantiated estimates and prudential criteria. The model used is based on the characteristics of the debtor, payment history, outstanding loans and default among other relevant factors.

The Bank uses methodologies to establish credit risk, based on internal models to estimate the allowances for the group-evaluated portfolio. This portfolio includes commercial loans with debtors that are not assessed individually, mortgage and consumer loans (including installment loans, credit cards and overdraft lines). These methods allow the Bank to independently identify the portfolio behavior and establish the provision required to cover losses arising during the year.

The customers are classified according to their internal and external characteristics into profiles, using a customer-portfolio model to differentiate each portfolio's risk in an appropriate manner. This is known as the profile allocation method.

The profile allocation method is based on a statistical construction model that establishes a relationship through logistic regression between variables (for example default, payment behavior outside the Bank, socio-demographic data) and a response variable which determines the client's risk, which in this case is over 90 days overdue. Hence, common profiles are established and assigned a Probability of Non-Performance (PNP) and a recovery rate based on a historical analysis known as Severity (SEV).

Therefore, once the customers have been profiled, and the loan's profile assigned a PNP and a SEV, the exposure at default (EXP) is calculated. This exposure includes the book value of the loans and accounts receivable from the customer, plus contingent loans, less any amount that can be recovered by executing guarantees (for credits other than consumer loans).

Notwithstanding the above, on establishing provisions, 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.

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NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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**
	PNP(%)	1.0916	21.3407	46.0536	75.1614	100
LTV≤40%	Severity (%)	0.0225	0.0441	0.0482	0.0482	0.0537
	Expected Loss (%)	0.0002	0.0094	0.0222	0.0362	0.0537
	PNP(%)	1.9158	27.4332	52.0824	78.9511	100
40%< LTV ≤80%	Severity (%)	2.1955	2.8233	2.9192	2.9192	3.0413
	Expected Loss (%)	0.0421	0.7745	1.5204	2.3047	3.0413
	PNP(%)	2.5150	27.9300	52.5800	79.6952	100
80%< LTV ≤90%	Severity (%)	21.5527	21.6600	21.9200	22.1331	22.2310
	Expected Loss (%)	0.5421	6.0496	11.5255	17.6390	22.2310
	PNP(%)	2.7400	28.4300	53.0800	80.3677	100
LTV >90%	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.

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 restructuration orpartial 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.

Loans are maintained in the impaired portfolio until their payment ability is normal, notwithstanding the charge-off of each particular loan 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 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.

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NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

As of December 31, 2015 the Bank established additional loan provisions for an amount of Ch$35,000 million presented in "Provisions" in the Unaudited Consolidated Interim Statements of Financial Position. As of June 30, 2016, the Bank has reversed these provisions and registered the effects of applying Circular N°3,573 as loan risk provisions.

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 Unaudited Consolidated Interim Statements of Financial Position of the respective loan, including any not yet due future payments in the case of installment loans or leasing transactions (for which partial charge-offs do not exist).

Charge-offs are always recorded as a charge to loan risk allowances according to Chapter B-1 of the Compendium of Accounting Regulations, no matter the reason forthe charge-off. Any payment received related to a loan previously charged-off will be recognized as recovery of loan previously charged-off within Provision for loan losses at the Unaudited Consolidated Interim 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 recovery within “Provision for loan losses” in the Unaudited Consolidated Interim Statement of Income.

q) Provisions, contingent assets, and contingent liabilities

Provisions are liabilities of uncertain timing or amount. Provisions are recognized in the Unaudited Consolidated Interim 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 if one or more uncertain future events that are not wholly within control of the Bank.

Banco Santander Chile and Subsidiaries

Notes to the Unaudited Consolidated Interim Financial Statements

AS OF JUNE 30, 2016 AND DECEMBER 31, 2015 AND FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The Unaudited Consolidated Interim Financial Statementsreflect all significant provisions for which it is estimated thatthe probability of having to meet the obligation is more than likely. 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 mandatorydividends
- 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.

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 coverprobable 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 Unaudited Consolidated Interim 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 7, 8, and 26)
- Impairment losses of certain assets (Notes 6, 7, 8, 9, and 29)
- The useful lives of tangible and intangible assets (Notes 10, 11 and 29)
- The fair value of assets and liabilities (Notes 5, 6, 7, 9 and 32)
- Commitments and contingencies (Note 18)

- Current and deferred taxes (Note 12)

Banco Santander Chile and Subsidiaries

Notes to the Unaudited Consolidated Interim Financial Statements

AS OF JUNE 30, 2016 AND DECEMBER 31, 2015 AND FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 June 30, 2016 and 2015 and December 31, 2015 the Bank has not classified any non-current assets as held for sale.

Assets received or awarded in lieu of payment

Assets received or awarded in lieu of payment of loans and accounts receivable from clients are recognized at their fair value (as determined by an independent appraisal). 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.

The excess of the outstanding loan balance over the fair value is charged to net income for the period, under "Provision for loan losses". Any excess of the fair value over the outstanding loan balance, less costs to sell of the collateral, is returned to the client. These assets are subsequently adjusted to their net realizable value less cost to sale (assuming a forced sale). The difference between the carrying value of the asset and the estimated fair value less costs to sell is charged to net income for the period, 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, 2015 the average selling cost has been estimated at 5.0% of the appraisal value (4.8% as of December 31, 2014).

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

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 June 30, 2016 and 2015 andDecember 31, 2015 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 Unaudited Consolidated Interim Statements of Financial Positionas 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 Unaudited Consolidated Interim Statement of Financial Position. Management fees are included in "Fee and commission income" in the Unaudited Consolidated Interim Statement of Income.

x) Provision for mandatory dividends

As of June 30, 2016 and 2015and December 31, 2015 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 Unaudited Consolidated Interim Statement of Changes in Equity with offset to Provisions.

Banco Santander Chile and Subsidiaries

Notes to the Unaudited Consolidated Interim Financial Statements

AS OF JUNE 30, 2016 AND DECEMBER 31, 2015 AND FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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:

a. Aimed at the Bank's management.
b. The general requirementis that the beneficiary must still be employed by the Bank when reaching 60 years old.
c. 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.
d. 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.

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 theUnaudited Consolidated Interim Statement of Income.

The post-employment benefits liability, recognized in the Unaudited Consolidated Interim 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.

Banco Santander Chile and Subsidiaries

Notes to the Unaudited Consolidated Interim Financial Statements

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NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 Unaudited Consolidated Interim 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 StandardsIssued by the SBIF

Circular N°3.573. Compendium of Accounting Standards. Chapter B-1, B-2 and E. Sets the standard method for residential mortgage loans that will apply from 2016. This Circular was issued on December 30, 2014 and establishes a standardized method for measuring provisions on residential mortgage loans that will apply from January 1, 2016. Also it provides complementary information for loans and provisions in the impaired portfolio.

In addition the SBIF issued Circular No. 3,584 and 3,598, which correct and supplement Chapter B-1 of the Compendium of Accounting Standards.

The application of this regulation generated an effect on net income of Ch$ 35,000 million, see Note 27.

Circular N°3,583. Compendium of Accounting Standards.Chapter C-3. Student loans. Amending and supplementing instructions. This Circular was issued on May 25, 2015 and amends Chapter 3 of the Compendium of Accounting Standards. The amendments establish a new classification of loans for higher education, within Commercial Loans. This new classification will include:

- Loans for higher education according to Law 20.027
- Loans with CORFO guarantees (CORFO is the Chilean Economic Development Agency)
- Other higher education loans

These modifications are obligatory as of January 1, 2016. *The implementation of those modifications did not have material impact on the Unaudited Consolidated Interim Financial Statements of the Bank.*

Circular No. 3,601Compendium of Accounting Standards. Chapter C-3. Additional information. Add instructions to report losses related to operational risk events. This Circular was issued on February 18, 2016 and requires the Bank to report losses incurred related to operational risk. Additional line items have been added in the complementary information reported monthly to the SBIF in relation to operational risk quantification and identification of exposures following the Baselguidelines.

The new instructions will apply for the first time to the MC1 and MC2 reports as of March 31, 2016, including the amendments introduced by Circular No. 3,602.

The Bank has implemented the instructions of these circulars, which did not have a material impact on the Unaudited Consolidated Interim Financial Statements of the Bank.

Circular N° 3,604 Compendium of Accounting Standards. Chapter B-3. Modifies the equivalent percentage of credit for Available on demand credit lines– This circular was issued on March 29, 2016. The SBIF has concluded that for available on demand credit lines where the debtor has no impaired loans the credit equivalent can be set at 35% of its available value. This modification is obligatory as of May 2016. *The Bank has implemented the instructions of these circulars, which did not have a material impact on the Unaudited Consolidated Interim Financial Statements of the Bank.*

2. New Standards issued by the International Accounting Standards Board

IFRS 14, Regulatory Deferral Accounts – On January 30, 2014, the IASB issued IFRS 14, this standard specified disclosure requirements for regulatory deferral accounting balances generated by entities that provide goods and services to customers at a price or rate set by legislation. The regulations require:

- Changes are limited to the accounting policies that the company implemented according to its old GAAP accounting balances for deferred regulatory changes;

- Disclose that the amounts recognized in the financial statements of the entity generated by standard rates are identified and explained;

- Disclosesupport for users of financial statements to understand the amount, timing and uncertain future cash flows from any regulatory deferral accounting balance.

IFRS 14 is effective for entity's that apply IFRS for the first time on or after January 1, 2016.*The implementation of those modifications did not have material impact on the Unaudited Consolidated Interim Financial Statementsof the Bank.*

Banco Santander Chile and Subsidiaries

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NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Amendments to IFRS 11 - Accounting for Acquisitions of interests in Joint Operations - The IASB issued this amendment on May 6, 2014,which clarify the accounting for acquisitions of an interest in a joint operation when the operation constitutes a business. It amends IFRS 11 Joint Arrangements to require an acquirer of an interest in a joint operation in which the activity constitutes a business to:

- apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11;
- disclose the information required by IFRS 3 and other IFRSs for business combinations.

The amendments are effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted but corresponding disclosures are required. The amendments apply prospectively.*The implementation of those modifications did not have material impact on the Unaudited Consolidated Interim Financial Statementsof the Bank.*

Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortization - The IASB issued these amendments onMay 12, 2014, which provide additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. They are effective for annual periods beginning on or after 1 January 2016, with earlier application being permitted. *The implementation of those modifications did not have material impact on the Unaudited Consolidated Interim Financial Statementsof the Bank.*

Amendments to IAS 27 - Equity Method in Separate Financial Statements -The IASB issued these amendments onAugust 12, 2014, which reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

The amendments are effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted but corresponding disclosures are required. The amendments apply prospectively.*The implementation of those modifications did not have material impact on the Unaudited Consolidated Interim Financial Statementsof the Bank.*

Amendments to IAS 1 - Disclosure initiative - The IASB issued these amendments onDecember 18, 2014. The IASB added an initiative on disclosure to its program in 2013 to complement the Conceptual Framework project. The initiative is made up of a number of smaller projects that aim at exploring opportunities to see how presentation and disclosure principles and requirements in existing Standards can be improved. They are effective for annual periods beginning on or after 1 January 2016, with earlier application being permitted. *The implementation of those amendments did not have material impact on the Unaudited Consolidated Interim Financial Statementsof the Bank.*

Amendments to IFRS 10, IFRS 12 and IAS 28 - Investment Entities: Applying the Consolidation Exception - The IASB issued these amendments onDecember 18, 2014, to address issues that have arisen in the context of applying the consolidation exception for investment entities. They are effective for annual periods beginning on or after 1 January 2016, with earlier application being permitted. *The implementation of those modifications did not have material impact on the Unaudited Consolidated Interim Financial Statementsof the Bank.*

Annual Improvements 2012-2014 Cycle. These were issued by the IASB on September 25, 2014 and cover four standards.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, - Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution are accounted for as discontinued operations.

IFRS 7 Financial Instruments: Disclosures - Adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required.

IAS 19 Employee Benefits– Clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.

IAS 34 Interim Financial Reporting - Clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference.

The improvements are effective for annual periods beginning on or after 1 January 2016, with earlier application being permitted.*The implementation of those modifications did not have material impact on the Unaudited Consolidated Interim Financial Statementsof the Bank.*

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NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

ii. New accounting regulations and instructions issued by the SBIF as well as by the IASB not yet mandatory as of June 30, 2016

At the end date of these financial statements new IFRS had been published as well as interpretations of these regulations by the SBIF that were not mandatory as of June 30, 2016. Although in some cases the IASB has allowed earlier application, the Bank has not done so at this date.

1. New standards issued by the IASB

IFRS 9 Financial Instruments - The IASB issued IFRS 9 on November 12, 2009.This Standard introduces new requirements for the classification and measurement of financial assets and is effective from 1 January 2013 with early adoption permitted. IFRS 9 specifies how an entity shall classify and measure its financial assets. This Standard requires that all financial assets be classified on the basis of an entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are either measured at amortized cost or at fair value. Only those financial assets measured at amortized cost are tested for impairment. Additionally, on 28 October 2010, the IASB published a revised version of IFRS 9.

The revised standard retains the requirements for classification and measurement of financial assets that were published in November 2009 but adds guidance on the classification and measurement of financial liabilities. As part of its restructuring of IFRS 9, the IASB also copied the guidance on derecognitionof financial instruments and related implementation guidance from IAS 39 to IFRS 9. This new guidance concludes the first part of Phase 1 of the Board's project to replace IAS 39. The other phases, impairment and hedge accounting, had not yet been completed.

The guidelines included in IFRS 9 on the classification and measurement of financial assets have not changed from those set out in IAS 39. In other words, financial liabilities continue to be measured either at amortized cost or at fair value through net income. The concept of bifurcation of derivatives embedded in a contract for a financial asset has not changed. Financial liabilities held for trading continue to be measured at fair value through net income, and all other financial assets will be measured at amortized cost unless the fair value option is applied using the existing criteria in IAS 39.

Notwithstanding the above, there are two differences 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 derivative liabilities to be settled by delivery of not traded equity instruments.

On December 16, 2011, the IASB issued Mandatory Effective Date of IFRS 9 and Transition Disclosures, deferring the mandatory effective date of both the 2009 and 2010 versions to annual periods beginning on or after January 1, 2015. Prior to the amendments, application of IFRS 9 was mandatory for annual periods beginning on or after January 1, 2013. The amendments modify the requirements for transition from IAS 39 Financial Instruments: Recognition and Measurement to IFRS 9. In addition, the amendments also modify IFRS 7 Financial Instruments: Disclosures to add certain requirements in the reporting period containing the date of initial application of IFRS 9.

The amendments are effective for annual periods beginning on or after January 1, 2015, with earlier application being permitted. Subsequent amendments to this standard have changed the mandatory application date of this standard for annual periods beginning on January 1, 2018.*Management will not apply this standard early, in accordance with instructions from the SBIF, unless the SBIF compulsorily require all banks to apply this standard*.

IFRS 9, Financial Instruments - Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39 – The IASB issued this amendment on November 19, 2013, which includes a new general model for hedge accounting, which is aligned more closely with risk management, providing more useful information to users of financial statements. Moreover, the requirements relating to the fair value option for financial liabilities were changed to address own credit risk. This improvement provides that the effects of changes in credit risk of a liability should not affect net income for the period unless the liability is held for trading. Early application of this amendment is permitted without applying the other requirements of IFRS 9. In addition, it determines the effective date for the final IFRS 9 project, thereby allowing its application. *Management is assessing the potential impact of applying these amendments with respect to IFRS 7 and IAS 39, as those relating to IFRS 9 do not apply, by express instruction of the SBIF, while the SBIF does not compulsorily require all banks to apply this standard.*

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NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

IFRS 9, Financial Instruments - The IASB published IFRS 9 - Financial Instruments on July 24, 2014. This final document includes existing standards and a new model of expected loss and minor changes 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 income for certain debt instruments. It also includes additional guidance on how to implement the business model and test characteristics of contractual cash flow.

This standard is effective for periods beginning on or after 1 January 2018. Earlier application is permitted. *Management will not apply this standard early, in accordance with instructions from the SBIF, unless the SBIF compulsorily require all banks to apply this standard.*

IFRS 15, Revenue from Contracts with Customers –

The IASB issued IFRS 15 on May 28, 2014, which aims to establish principles for reporting useful information for users of financial information about the nature, amount, timing and uncertainty of revenue and cash flows generated from contracts with an entity’s customers. IFRS 15 eliminates IAS 11 Construction Contracts, IAS 18, IFRIC 13 Customer loyalty programs IFRIC 15 Agreements for construction of real estate IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

This standard is effective for periods beginning on or after 1 January 2017. Earlier application is permitted.*Management is assessing the potential impact of applying these amendments.*

Amendments to IFRS 10 and IAS 28 - Sale or Contributions of Assets between an Investor and its Associate or Joint Venture –The IASB published this amendment on September 11, 2014, which clarifies the scope of recognized gains and losses in a transaction involving an associate or joint venture, and that this depends on whether the asset sold or the contribution is a business. Therefore, the IASB concluded that all of the gain or loss should be recognized when losing control of a business. Also, gains or losses resulting from the sale or the contribution of a subsidiary that is not a business (defined in IFRS 3) to an associate or joint venture should be recognized only to the extent of unrelated interests in the associate or joint venture.

This standard was initially effective from January 1, 2016, however, on December 17, 2015 IASB issued "Effective date Amendment to IFRS 10 and IAS 28" postponing indefinitely the effective date of this standard. *Management is waiting for the new effective date to assess the potential effects of this change*.

IFRS 16 Leases – The IASB published its new standard for leases on January 13, 2016, which replaces IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC15 Operating leases and SIC27 Evaluating the substance of transactions in the legal form of a lease. The main purpose of this standard applies to lessee accounting, mainly because it eliminates the dual accounting model: operating or finance lease, this means that lessees should recognize "the right to use an asset" and a leasing liability (the present value of future lease payments). Lessor continue to classify leases as finance and operating leases. This standard is effective for periods beginning on or after January 1, 2019, with earlier application permitted,provided IFRS 15 “Revenue from Contracts with Customers” has also been applied. *Management is assessing the potential impact of applying this standard.*

Amendments to IAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses. The IASB published this amendment on January 19, 2016, to clarify to clarify the recognition of deferred assets relating to debt instruments measured at fair value, due to the various practices in recognizing deferred tax assets. Therefore it clarified that:

- Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument’s holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimated for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

The amendments are effective for annual periods beginning on or after January 1, 2017. *Management is assessing the potential impact of applying this standard*.

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NOTE 01

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Amendments to IAS 7 – Cash Flow Statement, Disclosure Initiative The amendments were published on January 29, 2016, to improve information provided to users of financial statements related to the financing activities of entities. The aim of the amendment is to provide disclosures that enable users of financial statements to assess changes in the liabilities arising from financing operations. One way to meet this new disclosure is to provide a reconciliation between the beginning and ending balance in the Cash Flow Statement for liabilities arising from financing activities.

This standard is applicable from January 1, 2017, with early application permitted. *Management is assessing the potential impact of applying this standard.*

Clarifications to IFRS 15 Revenue from Contracts with Customers- The amendments were published on April 12, 2016 and do not change the underlying principles of the Standard. They just clarify and and provide alternatives for the transition. The ammendmentclarifies identification of performance obligations, determination ofprincipal and agent licences.

These modifications are applicable from January 1, 2018, with early application permitted. *Management is assessing the potential impact of applying this standard.*

Amendments to IFRS 2 Classification and measurement of share-based payment transactions – These amendments were published June 20, 2016, to address issues with:

- The accounting of share- based payment transactions paid in cash that include a performance condition
- The classification of share-based transactions
- Accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

This standard is applicable from January 1, 2018, with early application permitted. *Management is assessing the potential impact of applying this standard.*

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Notes to the Unaudited Consolidated Interim Financial Statements

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NOTE 02

SIGNIFICANT EVENTS

As of June 30, 2016, the following significant events have occurred and affected the Bank`s operations and Unaudited Consolidated Interim Financial Statements.

a) The Board

Due to the resignation of Víctor Arbulú Crousillat in the Ordinary Board Meeting of Banco Santander Chile held on March 15, 2016 and of Lisandro Serrano Spoerer in the Ordinary Board Meeting of Banco Santander Chile held on October 20, 2015, the Board of Directos appointed Andreu Plaza López and Ana Dorrego de Carlos were appointed as directors. Additionally, Mauricio Larraín Garcés was appointed a member of the Audit and Director Committee, arising from the resignation of VíctorArbulúCrousillat.

b) Use of Profits and Distribution of Dividends

The Ordinary Board Meeting of Banco Santander Chile held on April 26, 2016 was attended by the President Vittorio CorboLioi, Oscar con Chrismar Carvajal (First Vice President), Roberto Méndez Torres (Second Vice President), the directors Marco Colodro Hadjes, Lucía Santa Cruz Sutil, Ana Dorrego de Carlos, Mauricio Larraín Garcés, Juan Pedro Santa María, Orlando Poblete Iturrate, Andreu Plaza López and Blanca Bustamante Bravo. The CEO, Claudio Melandri Hinojosa, and the Strategical Planning Manager Raimundo Monge also attended.

In accordance with the information presented in the previous meeting, the income for the year (in "Income attributable to equity holders of the Bank") for 2015 was $ 448.878 million. The distribution of 75% of this income, yielding a Ch$1.786 dividend per share to paid from April 29, 2016. The remaining 25% will be retained in the Bank's reserves.

c)Appointment of external Auditors

In the meeting previously mentioned, PricewaterhouseCoopers Consultores, Auditores y Compañía Limitada were appointed as external auditors for the Bank and its subsidiaries.

d)Capital increase of Transbank S.A.

In the Extraordinary Shareholder meeting held on April 21, 2016, Transbank agreed to increase its capital through the capitalization of retained earnings, by issuing free of charge shares and the payment of shares for approximately $4,000 million. The Bank has participated in proportion with its 25% ownership, and therefore has paid shares for approximately $1.000 million.

e) Issuance of bonds – As of June 30, 2016

In the period ended June 30, 2016 the Bank has issued senior bonds for UF42,000,000 and CLP100,000,000,000, USD 20,000,000 and JPY 3,000,000,000.. Placement information is included in Note 15.

e.1) Senior bonds as of June 30, 2016

Series	Currency	Issued amount	Term	Issuance rate	**Issuance date**	**Maturity date**
R1	UF	15,000,000	5.5 years	2.50% biannually	01-28-2016	03-01-2021
R2	UF	10,000,000	7.5 years	2.60% biannually	01-28-2016	03-01-2023
R3	UF	10,000,000	10.5 years	3.00% biannually	01-28-2016	03-01-2026
R6	UF	7,000,000	8.4 years	2.65% anual	04-07-2016	12-01-2024
Total	UF	42,000,000				
R4	CLP	100,000,000,000	5.5 years	5.50% biannually	01-28-2016	03-01-2021
Total	CLP	100,000,000,000				
DN	USD	10,000,000	4.9 years	Libor-USD trimestral	06-02-2016	06-09.2021
DN	USD	10,000,000	5.0 years	Libor-USD trimestral	06-09-2016	06-17-2021

Total	USD	20,000,000				
JPY	JPY	3,000,000,000	5.0 years	0.12% semestral	06-22-2016	06-29-2021
Total	JPY	3,000,000,000				

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NOTE 02

SIGNIFICANT EVENTS, continued

e.2) Subordinated bonds as of June 30, 2016

During the first semester of 2016, the Bank did not issue subordinated bonds.

c.3) Mortgage bonds as of June 30, 2016

During the first semester of 2016, the Bank did not issue mortgage bonds.

c.4) Repurchased bonds

In the six months ended June 30, 2016 the Bank has repurchased the following bonds:

Date	Currency	Repurchase amount
01-13-2016	Senior	USD 600,000
01-27-2016	Senior	USD 960,000
03-08-2016	Senior	USD 481,853,000

03-08-2016	Senior	USD	140,104,000
05-10-2016	Senior	USD	10,000,000

C.5) Mortgage bonds as of June 30, 2016

During the first semester of 2016, the Bank did not issue mortgage bonds.

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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.

Due to changes aimed at improving relations with its customers and streamlining processes, the Bank has modified its internal structure: these changes consist in internal components (the aggregation of subsegments) but do not modify the existing segments or their managers. For this reason, the disclosure has been adapted (simplified) to reflect how the Bank is currently managed.

Under IFRS 8, the Bank has aggregated operating segments with similar economic characteristics according to the aggregation criteria specified in the standard. A reporting segment consists of clients that are offered differentiated but, considering how their performance is measured, are homogenous, thus they form part of the same reporting segment. Overall, this aggregation has no significant impact on the understanding of the nature and effects of the Bank's business activities and the economic environment.

The information relating to 2015 has been prepared using the current criteria so that the figures presented are comparable.

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$2,000 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$2,000 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.

<u>Corporate Activities (“Other</u>”)

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.

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NOTE 03

REPORTING SEGMENTS, continued

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.

Below are the tables showing the Bank's results by business segment, for the periods ending as of June 30, 2016 and 2015, and in addition to the corresponding balances of loans and accounts receivable from customers as of December 31, 2015:

For the three months ended June 30, 2016					
Net interest income	**Net fee and commission income**	**Financial transactions, net (1)**	**Provision for loan losses**	**Support expenses (2)**	Segment`s net contribution
MCh$	MCh$	MCh$	MCh$	MCh$	MCh$

Individuals and SMEs	231,757	50,251	6,184	(76,740)	(133,320)	78,132
Companies and Institutions	58,817	7,787	5,377	(8,984)	(20,815)	42,182
CommercialBanking	290,574	58,038	11,561	(85,724)	(154,135)	120,314
Global banking and markets	22,953	5,973	14,000	1,736	(12,714)	31,948
Other	14,910	(139)	2,299	552	(5,202)	12,420
Total	22,953	5,973	14,000	1,736	(12,714)	31,948
Other operating income						4,611
Other operating expenses						(32,058)
Income from investments in associates and other companies						641
Income tax expense						(21,114)
Net income for the period						116,762

(1) The sum of net income (expense) from financial operations and foreign exchange gains or losses.

(2) The sum of personnel salaries and expenses, administrative expenses, depreciation and amortization.

Banco Santander Chile and Subsidiaries

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NOTE 03

REPORTING SEGMENTS, continued

	For the six months ended June 30, 2016						
	Loans and accounts receivable from customers (1)	**Net interest income**	**Net fee and commission income**	**Financial transactions, net (2)**	**Provision for loan losses**	**Support expenses (3)**	Segment`s net contribution
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$
Individuals and SMEs	17,945,030	457,751	99,305	10,252	(159,545)	(260,521)	147,242
Companies and Institutions	6,134,698	118,940	15,522	10,438	(11,520)	(40,804)	92,576
Commercial Banking	24,079,728	576,691	114,827	20,690	(171,065)	(301,325)	239,818
Global Corporate Banking	2,237,493	45,594	12,553	24,931	2,253	(25,435)	59,896
Other	83,346	19,025	(517)	16,501	7,450	(11,297)	31,162
Total	26,400,567	641,310	126,863	62,122	(161,362)	(338,057)	330,876
Other operating income							9,859
Other operating expenses							(48,329)
Income from investments in associates and other companies							1,172
Income tax expense							(50,776)

Net income for the period	242,802

(1) Loans and accounts receivable from customers, 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.

	For the three months ended June 30, 2015					
	Net interest income	**Net fee and commission income**	**Financial transactions, net (1)**	**Provision for loan losses**	**Support expenses (2)**	**Segment`s net contribution**
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$
Individuals and SMEs	216,382	47,597	3,765	(71,968)	(133,272)	62,504
Companies and Institutions	56,446	6,644	4,903	(8,092)	(18,550)	41,351
CommercialBanking	272,828	54,241	8,668	(80,060)	(151,822)	103,855
Global banking and markets	22,134	2,968	13,934	156	(11,275)	27,917
Other	36,771	1,065	7,729	(1,688)	(2,311)	41,566
Total	331,733	58,274	30,331	(81,592)	(165,408)	173,338
Other operating income						5,677
Other operating expenses						(15,790)
Income from investments in associates and other companies						641
Income tax expense						(21,531)
Net income for the period						142,482

(1) The sum of net income (expense) from financial operations and foreign exchange gains or losses.

(2) The sum of personnel salaries and expenses, administrative expenses, depreciation and amortization.

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NOTE 03

REPORTING SEGMENTS, continued

	For the six months ended June 30, 2015						
	Loans and accounts receivable from customers (1)	**Net interest income**	**Net fee and commission income**	**Financial transactions, net (2)**	**Provision for loan losses**	**Support expenses (3)**	**Segment`s net contribution**
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$
Individuals and SMEs	15,928,938	432,564	90,787	7,297	(143,524)	(254,978)	132,146
Companies and Institutions	6,013,970	109,705	13,598	8,934	(12,963)	(36,306)	82,968
Commercial Banking	21,942,908	542,269	104,385	16,231	(156,487)	(291,284)	215,114
Global Corporate Banking	2,263,481	42,263	7,311	29,033	(692)	(23,245)	54,670
Other	50,858	20,620	2,039	26,058	(3,639)	(2,083)	42,995
Total	24,257,247	605,152	113,735	71,322	(160,818)	(316,612)	312,779
Other operating income							10,785
Other operating expenses							(30,436)
Income from investments in associates and other companies							1,273
Income tax expense							(52,849)

Net income for the period	241,552

(1) Loans and accounts receivable from customers, 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

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NOTE 04

CASH AND CASH EQUIVALENTS

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

	As of June 30, 2016 MCh$	As of December 31, 2015 MCh$
Cash and deposit in banks		
Cash	607,103	632,435
Deposit in the Central Bank of Chile	170,608	184,510
Deposit in domestic banks	223	192
Deposit in foreign banks	1,386,277	1,247,669
Subtotal	2,164,211	2,064,806
Cash in process of collection, net	243,990	262,364
Cash and cash equivalents	2,408,201	2,327,170

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 monthin accordance with the regulations governing minimum reserves.

b) Cash in process of collection:

Cash items in process of collection and in process of being cleared represent domestic transactions which have not been processed through the central domestic clearinghouse or international transactions which may be delayed in settlement due to timing differences. These transactions are as follows:

	As of June 30, 2016 MCh$	As of December 31, 2015 MCh$
Assets		
Documents held by other banks (document to be cleared)	180,036	296,634
Funds receivable	593,738	427,887
Subtotal	773,774	724,521
Liabilities		
Funds payable	529,784	462,157
Subtotal	529,784	462,157
Cash in process of collection, net	243,990	262,364

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NOTE 05

TRADING INVESTMENTS

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

	As of June 30, 2016 MCh$	As of December 31, 2015 MCh$
Chilean Central Bank and Government securities		
Chilean Central Bank Bonds	82,301	159,767
Chilean Central Bank Notes	-	-
Other Chilean Central Bank and Government securities	254,036	123,469
Subtotal	336,337	283,236
Other Chilean securities		
Time deposits in Chilean financial institutions	-	-
Mortgage finance bonds of Chilean financial institutions	-	-
Chilean financial institutions bonds	-	-
Chilean corporate bonds	6,576	22,681
Other Chilean securities	-	-
Subtotal	6,576	22,681
Foreign financial securities		
Foreign Central Banks and Government securities	44,641	14,948
Other foreign financial instruments		-
Subtotal	44,641	14,948

Investments in mutual funds		
Funds managed by related entities	-	3,406
Funds managed by third parties	-	-
Subtotal	-	3,406
Total	387,554	324,271

As of June 30, 2016 and December 31, 2015, there were no trading investments sold under contracts to resell to clients and financial institutions.

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NOTE 06

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

a) As of June 30, 2016 and December 31, 2015 the Bank holds the following portfolio of derivative instruments:

	As of June 30, 2016					
	Notional amount				Fair value	
	Up to 3 Months	**More than 3 months to 1 year**	**More than 1 year**	Total	Assets	Liabilities
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$
Fair value hedge derivatives						
Currency forwards	-	-	-	-	-	-
Interest rate swaps	452,806	14,700	951,528	1,419,034	10,274	10,282
Cross currency swaps	30,289	823,312	1,882,195	2,735,796	79,245	7,128
Call currency options	-	-	-	-	-	-
Call interest rate options	-	-	-	-	-	-
Put currency options	-	-	-	-	-	-
Put interest rate options	-	-	-	-	-	-
Interest rate futures	-	-	-	-	-	-
Other derivatives	-	-	-	-	-	-
Subtotal	483,095	838,012	2,833,723	4,154,830	89,519	17,410
Cash flow hedge derivatives						
Currency forwards	305,095	-	-	305,095	11,999	-
Interest rate swaps	-	-	-	-	-	-
Cross currency swaps	1,888,737	5,360,707	3,940,944	11,190,388	81,142	127,298

Call currency options	-	-	-	-	-	-
Call interest rate options	-	-	-	-	-	-
Put currency options	-	-	-	-	-	-
Put interest rate options	-	-	-	-	-	-
Interest rate futures	-	-	-	-	-	-
Other derivatives	-	-	-	-	-	-
Subtotal	2,193,832	5,360,707	3,940,944	11,495,483	93,141	127,298
Trading derivatives						
Currency forwards	13,936,551	13,092,283	2,562,337	29,591,171	332,804	367,366
Interest rate swaps	8,316,731	10,807,634	47,903,672	67,028,037	827,659	858,947
Cross currency swaps	3,022,029	8,037,313	47,896,024	58,955,366	1,657,159	1,476,373
Call currency options	81,522	25,976	3,979	111,477	1,404	192
Call interest rate options	-	-	-	-	-	-
Put currency options	32,897	3,449	3,979	40,325	121	832
Put interest rate options	-	-	-	-	-	-
Interest rate futures	-	-	-	-	-	-
Other derivatives	-	-	-	-	-	-
Subtotal	25,389,730	31,966,655	98,369,991	155,726,376	2,819,147	2,703,710
Total	28,066,657	38,165,374	105,144,658	171,376,689	3,001,807	2,848,418

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NOTE 06

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING, continued

	As of December 31, 2015					
	Notional amount				Fair value	
	Up to 3 months	**More than 3 months to 1 year**	**More than 1 year**	Total	Assets	Liabilities
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$
Fair value hedge derivatives						
Currency forwards	-	-	-	-	-	-
Interest rate swaps	327,955	1,184,795	630,970	2,143,720	5,480	6,364
Cross currency swaps	9,441	30,040	1,842,421	1,881,902	181,557	1,483
Call currency options	-	-	-	-	-	-
Call interest rate options	-	-	-	-	-	-
Put currency options	-	-	-	-	-	-
Put interest rate options	-	-	-	-	-	-
Interest rate futures	-	-	-	-	-	-
Other derivatives	-	-	-	-	-	-
Subtotal	337,396	1,214,835	2,473,391	4,025,622	187,037	7,847
Cash flow hedge derivatives						
Currency forwards	-	-	-	-	-	-
Interest rate swaps	-	-	-	-	-	-
Cross currency swaps	7,281,184	4,445,006	2,720,520	14,446,710	273,291	69,716
Call currency options	-	-	-	-	-	-
Call interest rate options	-	-	-	-	-	-
Put currency options	-	-	-	-	-	-

Put interest rate options	-	-	-	-	-	-
Interest rate futures	-	-	-	-	-	-
Other derivatives	-	-	-	-	-	-
Subtotal	7,281,184	4,445,006	2,720,520	14,446,710	273,292	69,716
Trading derivatives						
Currency forwards	18,731,575	13,328,727	3,459,386	35,519,688	341,236	318,416
Interest rate swaps	7,272,523	15,677,393	56,140,894	79,090,810	533,416	540,011
Cross currency swaps	5,881,627	5,898,094	44,921,355	56,701,076	1,826,977	1,883,185
Call currency options	49,067	60,380	477,057	586,504	42,325	41,451
Call interest rate options	-	-	264,473	264,473	1148	1,253
Put currency options	48,958	52,682	-	101,640	422	684
Put interest rate options	-	-	-	-	-	-
Interest rate futures	-	-	-	-	-	-
Other derivatives	125,258	-	-	125,258	74	43
Subtotal	32,109,008	35,017,276	105,263,165	172,389,449	2,745,598	2,785,043
Total	39,727,588	40,677,117	110,457,076	190,861,781	3,205,926	2,862,606

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NOTE 06

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING, continued

b) Hedge accounting

Fair value hedge

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

The hedged items and hedge instruments under fair value hedges as of June 30, 2016 and December 31, 2015, classified by term to maturity are as follows:

	As of June 30, 2016				
	Within 1 year	**Between 1 and 3 years**	**Between 3 and 6 years**	Over 6 years	Total
	MCh$	MCh$	MCh$	MCh$	MCh$
Hedged item					
Available for sale investments					
Yankee bonds	-	-	-	113,877	113,877

Mortgage financing bonds	-	-	6,073	-	6,073
Treasury bonds (BTP)	-	-	-	99,487	99,487
Central bank bonds (BCP)	-	-	-	-	-
Time deposits and other demand liabilities					
Time deposits	1,172,640	65,000	-	-	1,237,640
Issueddebt instruments					
Senior bonds	148,467	824,524	1,185,135	539,627	2,697,753
Total	1,321,107	889,524	1,191,208	752,991	4,154,830
Hedging instrument					
Cross currency swaps	853,601	609,524	791,208	481,463	2,735,796
Interest rate swaps	467,506	280,000	400,000	271,528	1,419,034
Total	1,321,107	889,524	1,191,208	752,991	4,154,830

	As of December 31, 2015				
	Within 1 year	**Between 1 and 3 years**	**Between 3 and 6 years**	Over 6 years	Total
	MCh$	MCh$	MCh$	MCh$	MCh$
Hedged item					
Available for sale investments					
Yankee bond	-	-	-	92,106	92,106
Mortgage finance bonds	-	-	-	6,460	6,460
Treasury bonds (BTP)	-	-	-	-	-
Central bank bonds (BCP)	-	-	-	-	-
Time deposits and other demand liabilities					
Time deposits	1,542,789	65,000	-	-	1,607,789
Issueddebt instruments					
Senior bonds	9,442	573,960	867,865	868,000	2,319,267
Total	1,552,231	638,960	867,865	966,566	4,025,622
Hedging instrument					
Cross currency swaps	39,481	548,960	567,865	725,596	1,881,902
Interest rate swaps	1,512,750	90,000	300,000	240,970	2,143,720
Total	1,552,231	638,960	867,865	966,566	4,025,622

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NOTE 06

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING, continued

Cash flow hedges

The Bank uses cross currency swaps to hedge the risk from variability of cash flows attributable to changes in the interest rates of mortgages, bonds and interbank loans at a variable rate. To cover the inflation risk in some items, both forwards as well as currency swaps are used.

The notional values of the hedged items as of June 30, 2016 and December 31, 2015, and the period when the cash flows will be generated are as follows:

	As of June 30, 2016				
	Within 1 year	**Between 1 and 3 years**	**Between 3 and 6 years**	Over 6 years	Total
	MCh$	MCh$	MCh$	MCh$	MCh$
Hedged item					
Loans and accounts receivables from customers					
Mortgage loan	3,916,475	258,380	895,636	742,349	5,812,840
Commercial loans	305,095	-	-	-	305,095
Available for sale investments					

Time deposits (ASI)	-	-	-	-	-
Yankee bond	-	-	77,405	537,098	614,503
Chilean Central Bank bonds	117,638	26,047	-	-	143,685
Time deposits and other time liabilities					
Time deposits	283,470	-	-	-	283,470
Issued debt instruments					
Senior bonds (variable rate)	906,119	396,382	26,929	-	1,329,430
Senior bonds (fixed rate)	607,355	-	250,122	-	857,477
Interbank borrowings					
Interbank loans	1,418,387	730,596	-	-	2,148,983
Total	7,554,539	1,411,405	1,250,092	1,279,447	11,495,483
Hedging instrument					
Cross currency swaps	7,249,444	1,411,405	1,250,092	1,279,447	11,190,388
Forward	305,095	-	-	-	305,095
Total	7,554,539	1,411,405	1,250,092	1,279,447	11,495,483

	As of December 31, 2015				
	Within 1 year	**Between 1 and 3 years**	**Between 3 and 6 years**	Over 6 years	Total
	MCh$	MCh$	MCh$	MCh$	MCh$
Hedged item					
Loans and accounts receivables from customers					
Mortgage loan	8,098,639	157,462	158,649	-	8,414,750
Commercial loans	564,800	-	-	-	564,800
Available for sale investments					
Time deposits (ASI)	50,023	-	-	-	50,023
Yankee bond	-	-	80,078	585,386	665,464
Chilean Central Bank bonds	123,962	20,467	-	-	144,429
Time deposits and other time liabilities					
Time deposits	-	-	-	-	-
Issued debt instruments					
Senior bonds (variable rate)	963,829	1,176,383	-	-	2,140,212
Senior bonds (fixed rate)	-	-	14,036	202,562	216,598
Interbank borrowings					
Interbank loans	1,924,937	325,497	-	-	2,250,434
Total	**11,729,190**	1,679,809	252,763	787,948	14,446,710
Hedging instrument					
Cross currency swaps	11,726,190	1,679,809	252,763	787,948	14,446,710
Total	11,726,190	1,679,809	252,763	787,948	14,446,710

Banco Santander Chile and Subsidiaries

Notes to the Unaudited Consolidated Interim Financial Statements

AS OF JUNE 30, 2016 AND DECEMBER 31, 2015 AND FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

NOTE 06

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING, continued

An estimate of the periods in which flows are expected to be produced is as follows:

b.1) Forecasted cash flows for interest rate risk:

	As of June 30, 2016				
	Within 1 year	**Between 1 and 3 years**	**Between 3 and 6 years**	Over 6 years	Total
	MCh$	MCh$	MCh$	MCh$	MCh$
Hedged item					
Inflows	53,991	49,755	16,344	3,868	123,958
Outflows	(54,602)	(25,050)	(5,603)	-	(85,255)
Net flows	(611)	24,705	10,741	3,868	38,703
Hedging instrument					
Inflows	54,602	25,050	5,603	-	85,255
Outflows (*)	(53,991)	(49,755)	(16,344)	(3,868)	(123,958)
Net flows	611	(24,705)	(10,741)	(3,868)	(38,703)

(*)Only includes cash flow forecast portion of the hedge instruments used to cover interest rate risk.

	As of December 31, 2015				
	Within 1 year	**Between 1 and 3 years**	**Between 3 and 6 years**	Over 6 years	Total
	MCh$	MCh$	MCh$	MCh$	MCh$
Hedged item					
Inflows	69,477	23,003	9,466	4,661	106,607
Outflows	(40,521)	(25,018)	(6,216)	(650)	(72,405)
Net flows	28,956	(2,015)	3,250	4,011	34,202
Hedging instrument					
Inflows	40,521	25,018	6,216	650	72,405
Outflows (*)	(69,477)	(23,003)	(9,466)	(4,661)	(106,607)
Net flows	(28,956)	2,015	(3,250)	(4,011)	(34,202)

(*) Only includes cash flow forecast portion of the hedge instruments used to cover interest rate risk.

Banco Santander Chile and Subsidiaries

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AS OF JUNE 30, 2016 AND DECEMBER 31, 2015 AND FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

NOTE 06

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING, continued

b.2) Forecasted cash flows for inflation risk:

	As of June 30, 2016				
	Within 1 year	**Between 1 and 3 years**	**Between 3 and 6 years**	Over 6 years	Total
	MCh$	MCh$	MCh$	MCh$	MCh$
Hedged item					
Inflows	87,337	38,176	-	-	125,513
Outflows	(11,140)	(133)	-	-	(11,273)
Net flows	76,197	38,043	-	-	114,240
Hedging instrument					
Inflows	11,140	133	-	-	11,273
Outflows	(87,337)	(38,176)	-	-	(125,513)
Net flows	(76,197)	(38,043)	-	-	(114,240)

	As of December 31, 2015				
	Within 1 year	**Between 1 and 3 years**	**Between 3 and 6 years**	Over 6 years	Total
	MCh$	MCh$	MCh$	MCh$	MCh$
Hedged item					
Inflows	147,374	10,554	-	-	157,928

Outflows	-	-	-	-	-
Net flows	147,374	10,554	-	-	157,928
Hedging instrument					
Inflows	-	-	-	-	-
Outflows	(147,374)	(10,554)	-	-	(157,928)
Net flows	(147,374)	(10,554)	-	-	(157,928)

b.2) Forecasted cash flows for exchange rate risk:

As of June 30, 2016 and 2015, the Bank did not have cash flow hedges for exchange rate risk.

c) The accumulated effect of the mark to market adjustment of cash flow hedges produced by hedge instruments used in hedged cash flow was recorded in the Unaudited Consolidated Interim Statement of Changes in Equity, specifically within Other comprehensive income, as of June 30, 2016 and 2015, and is as follows:

	For the three months ended June 30		For the six months ended June 30	
Hedged item	2016	2015	2016	2015
	MCh$	MCh$	MCh$	MCh$
Interbank loans	224	8,064	(2,453)	666
Time deposits and other time liabilities	(331)	-	(358)	-
Issued debt instruments	1,280	9,837	1,527	(2,347)
Available for sale investments	(4,434)	5,674	(12,039)	(8,184)
Loans and accounts receivable from customers	3,098	12,143	360	(101)
Net flows	(163)	35,718	(12,963)	(9,966)

Since the inflows and outflows for both the hedged item and the hedging instrument mirror each other, the hedges are nearly 100% effective, which means that the fluctuations of fair value attributable to risk components are almost completely offset. As of June 30, 2016 and 2015, Ch$924 million and Ch$1,891 million respectively, are recognized in income for the ineffective portion.

Banco Santander Chile and Subsidiaries

Notes to the Unaudited Consolidated Interim Financial Statements

AS OF JUNE 30, 2016 AND DECEMBER 31, 2015 AND FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

NOTE 06

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING, continued

During the year, the Bank did not have any cash flow hedges for forecast transactions.

d) The income generated by cash flow hedges that were reclassified from other comprehensive income to the period's net income is as follows:

	For the three months ended June 30		For the six months ended June 30	
	2016	2015	2016	2015
	MCh$	MCh$	MCh$	MCh$
Bond hedging derivatives	6	-	13	-
Interbank loans hedging derivatives	-	-	-	-
Cash flow hedge net income	6	-	13	-

See Note19 “Equity”, letter d)

e) Net investment hedges in foreign operations:

As of June 30, 2016 and December 31, 2015, the Bank does not have any foreign net investment hedges in its hedge accounting portfolio.

Banco Santander Chile and Subsidiaries

Notes to the Unaudited Consolidated Interim Financial Statements

AS OF JUNE 30, 2016 AND DECEMBER 31, 2015 AND FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

NOTE 07

INTERBANK LOANS

a) As of June 30, 2016 and December 31, 2015, balances of "Interbank loans" are as follows:

	As of June 30, 2016 MCh$	**As of December 31,** 2015 MCh$
Domestic banks		
Loans and advances to banks	-	-
Deposits in the Central Bank of Chile - not available	-	-
Non-transferable Chilean Central Bank Bonds	-	-
Other Central Bank of Chile loans	-	-
Interbank loans	22	14
Overdrafts in checking accounts	-	-
Non-transferable domestic bank loans	-	-
Other domestic bank loans	53	36
Allowances and impairment for domestic bank loans	-	-
Foreign interbank loans		
Interbank loans – Foreign	236,457	10,827
Overdrafts in checking accounts	-	-
Non-transferable foreign bank deposits	-	-
Other foreign bank loans	-	-
Provisions and impairment for foreign bank loans	(187)	(16)
Total	236,345	10,861

b) The amount of provisions and impairment of interbank loans in each period is shown below:

	As of June 30, 2016			As of December 31, 2015		
	Domestic banks MCh$	Foreign banks MCh$	Total MCh$	Domestic banks MCh$	Foreign banks MCh$	Total MCh$
Balance as of January 1	-	16	16	-	25	25
Charge-offs	-	-	-	-	-	-
Provisions established	-	175	175	141	42	183
Provisions released	-	(4)	(4)	(141)	(51)	(192)
Total	-	187	187	-	16	16

Banco Santander Chile and Subsidiaries

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AS OF JUNE 30, 2016 AND DECEMBER 31, 2015 AND FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

NOTE 08

LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS

a) **Loans and accounts receivable from customers**

As of June 30, 2016 and December 31, 2015, the composition of the loan portfolio is as follows:

As of June 30, 2016	Assets before allowances				Allowances established			
	Normal portfolio	**Substandard portfolio**	**Impaired portfolio**	Total	**Individual allowances**	**Group allowances**	Total	**Assets net** balance
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$
Commercial loans								
Commercial loans	8,533,154	299,413	579,659	9,412,226	171,590	148,184	319,774	9,092,452
Foreign trade loans	1,669,333	143,305	81,094	1,893,732	69,234	1,178	70,412	1,823,320
Checking accounts debtors	273,167	7,129	12,322	292,618	3,044	6,515	9,559	283,059
Factoring transactions	270,069	2,920	5,489	278,478	6,103	719	6,822	271,656
Leasing transactions	1,370,238	60,304	80,485	1,511,027	20,354	5,463	25,817	1,485,210
	187,567	1,129	26,171	214,867	4,755	20,027	24,782	190,085

Other loans and account receivable								
Subtotal	12,303,528	514,200	785,220	13,602,948	275,080	182,086	457,166	13,145,782
Mortgage loans								
Loans with mortgage finance bonds	36,929	-	1,163	38,092	-	24	24	38,068
Mortgage mutual loans	122,081	-	4,560	126,641	-	237	237	126,404
Other mortgage mutual loans	7,750,023	-	406,870	8,156,893	-	64,867	64,867	8,092,026
Subtotal	7,909,033	-	412,593	8,321,626	-	65,128	65,128	8,256,498
Consumer loans								
Installment consumer loans	2,329,384	-	245,516	2,574,900	-	222,090	222,090	2,352,810
Credit card balances	1,382,635	-	28,077	1,410,712	-	42,015	42,015	1,368,697
Leasing transactions	5,185	-	46	5,231	-	65	65	5,166
Other consumer loans	243,501	-	5,117	248,618	-	8,754	8,754	239,864
Subtotal	3,960,705	-	278,756	4,239,461	-	272,924	272,924	3,966,537
Total	24,173,266	514,200	1,476,569	26,164,035	275,080	520,138	795,218	25,368,817

Banco Santander Chile and Subsidiaries

Notes to the Unaudited Consolidated Interim Financial Statements

AS OF JUNE 30, 2016 AND DECEMBER 31, 2015 AND FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

NOTE 08

LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS, continued

	Assets before allowances				Allowances established			
As of December 31, 2015	**Normal portfolio**	**Substandard Portfolio**	**Impaired portfolio**	Total	**Individual allowances**	**Group allowances**	Total	**Assets net** balance
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$
Commercial loans								
Commercial loans	8,112,912	275,528	597,012	8,985,452	172,452	140,700	313,152	8,672,300
Foreign trade loans	1,929,145	157,359	66,066	2,152,570	70,900	1,421	72,321	2,080,249
Checking accounts debtors	216,751	5,902	12,070	234,723	2,879	6,951	9,830	224,893
Factoring transactions	269,773	869	5,005	275,647	5,611	734	6,345	269,302
Leasing transactions	1,393,851	64,550	75,791	1,534,192	20,320	6,394	26,714	1,507,478
Other loans and account receivable	121,040	729	22,006	143,775	4,937	12,351	17,288	126,487
Subtotal	12,043,472	504,937	777,950	13,326,359	277,099	168,551	445,650	12,880,709
Mortgage loans								
Loans with mortgage finance bonds	42,263	-	1,765	44,028	-	275	275	43,753
Mortgage mutual loans	131,118	-	2,987	134,105	-	695	695	133,410
Other mortgage mutual loans	7,243,322	-	391,395	7,634,717	-	50,190	50,190	7,584,527
Subtotal	7,416,703	-	396,147	7,812,850	-	51,160	51,160	7,761,690
Consumer loans								
Installment consumer loans	2,167,378	-	302,268	2,469,646	-	208,135	208,135	2,261,511

Credit card balances	1,410,036	-	24,573	1,434,609	-	41,604	41,604	1,393,005
Leasing transactions	5,383	-	77	5,460	-	76	76	5,384
Other consumer loans	236,564	-	4,392	240,956	-	8,054	8,054	232,902
Subtotal	3,819,361	-	331,310	4,150,671	-	257,869	257,869	3,892,802
Total	23,279,536	504,937	1,505,407	25,289,880	277,099	477,580	754,679	24,535,201

Banco Santander Chile and Subsidiaries

Notes to the Unaudited Consolidated Interim Financial Statements

AS OF JUNE 30, 2016 AND DECEMBER 31, 2015 AND FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

NOTE 08

LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS, continued

b) Portfolio characteristics

As of June 30, 2016 and December 31, 2015, the portfolio before allowances is as follows, by customer`s economic activity:

	Domestic loans (*)		Foreign interbank loans (**)		Total loans		Distribution percentage	
	As of June 30,	As of December 31,	As of June 30,	As of December 31,	As of June 30,	As of December 31,	As of June 30,	As of December 31,
	2016	2015	2016	2015	2016	2015	2016	2015
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	%	%
Commercial loans								
Manufacturing	1,199,873	1,171,830	-	-	1,199,873	1,171,830	4.54	4.63
Mining	328,279	510,467	-	-	328,279	510,467	1.24	2.02
Electricity, gas, and water	443,265	454,456	-	-	443,265	454,456	1.68	1.80
Agriculture and livestock	1,049,199	1,019,922	-	-	1,049,199	1,019,922	3.97	4.03
Forest	102,342	96,069	-	-	102,342	96,069	0.39	0.38
Fishing	338,469	344,496	-	-	338,469	344,496	1.28	1.36
Transport	893,153	876,329	-	-	893,153	876,329	3.38	3.46
Communications	157,100	160,135	-	-	157,100	160,135	0.60	0.63
Construction	1,618,200	1,462,535	-	-	1,618,200	1,462,535	6.13	5.78
Commerce	2,985,845	3,050,663	236,457	10,827	3,222,302	3,061,490	12.21	12.10

Services	480,992	483,516	-	-	480,992	483,516	1.82	1.91
Other	4,006,306	3,695,991	-	-	4,006,306	3,695,991	15.18	14.61
Subtotal	13,603,023	13,326,409	236,457	10,827	13,839,480	13,337,236	52.42	52.71
Mortgage loans	8,321,626	7,812,850	-	-	8,321,626	7,812,850	31.52	30.88
Consumer loans	4,239,461	4,150,671	-	-	4,239,461	4,150,671	16.06	16.41
Total	26,164,110	25,289,930	236,457	10,827	26,400,567	25,300,757	100.00	100.00

(*) Includes domestic interbank loans for Ch$ 75 million as of June 30, 2016 (Ch$50 million as of December 31, 2015), see Note7.

(**) Includes foreign interbank loans for Ch$ 236,457 million as of June 30, 2016 (Ch$10,827 million as of December 31, 2015), see Note7.

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NOTE 08

LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS, continued

c) Impaired portfolio

i) As of June 30, 2016 and December 31, 2015, the impaired portfolio is as follows**:**

	As of June 30, 2016				As of December 31, 2015			
	Commercial MCh$	Mortgage MCh$	Consumer MCh$	Total MCh$	Commercial MCh$	Mortgage MCh$	Consumer MCh$	Total MCh$
Individually impaired portfolio	463,318	-	-	463,318	486,685	-	-	486,685
Non-performing loans (collectively evaluated)	318,324	158,862	88,991	566,177	346,868	183,133	113,467	643,468
Other impaired portfolio	172,091	253,731	189,765	615,587	108,330	213,014	217,843	539,187
Total	953,733	412,593	278,756	1,645,082	941,883	396,147	331,310	1,669,340

ii) The impaired portfolio with or without guarantee as of June 30, 2016 and December 31, 2015 is as follows:

	As of June 30, 2016				As of December 31, 2015			
	Commercial MCh$	Mortgage MCh$	Consumer MCh$	Total MCh$	Commercial MCh$	Mortgage MCh$	Consumer MCh$	Total MCh$
Secured debt	517,659	367,525	38,801	923,985	410,700	362,326	42,244	815,270
Unsecured debt	436,074	45,068	239,955	721,097	531,183	33,821	289,066	854,070
Total	953,733	412,593	278,756	1,645,082	941,883	396,147	331,310	1,669,340

iii) The portfolio of non-performing loans as of June 30, 2016 and December 31, 2015 is as follows:

	As of June 30, 2016				As of December 31, 2015			
	Commercial	Mortgage	Consumer	Total	Commercial	Mortgage	Consumer	Total
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$
Secured debt	158,306	139,649	9,542	307,497	115,733	158,854	9,144	283,731
Unsecured debt	160,018	19,213	79,449	258,680	231,135	24,279	104,323	359,737
Total	318,324	158,862	88,991	566,177	346,868	183,133	113,467	643,468

Banco Santander Chile and Subsidiaries

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NOTE 08

LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS, continued

d) Allowances

The changes in allowances balances during 2016 and 2015 are as follows:

Activity during 2016	Commercial loans		Mortgage loans	Consumer loans	
	Individual	Group	Group	Group	Total
	MCh$	MCh$	MCh$	MCh$	MCh$
Balance as of December 31, 2015	277,099	168,551	51,160	257,869	754,679
Allowances established	32,017	42,242	22,484	87,227	183,970
Allowances released	(17,859)	(6,361)	(7,307)	(12,037)	(43,564)
Allowances released due to charge-off	(16,177)	(22,346)	(1,209)	(60,135)	(99,867)
Balance as of June 30, 2016	275,080	182,086	65,128	272,924	795,218

Activity during 2015	Commercial loans		Mortgage loans	Consumer loans	
	Individual	Group	Group	Group	Total
	MCh$	MCh$	MCh$	MCh$	MCh$
Balance as of December 31, 2014	232,304	165,697	48,744	254,023	700,768
Allowances established	124,968	71,578	12,149	135,744	344,439
Allowances released	(42,472)	(17,885)	(7,205)	(18,126)	(85,688)
Allowances released due to charge-off	(37,701)	(50,839)	(2,528)	(113,772)	(204,840)
Balance as of December 31, 2015	277,099	168,551	51,160	257,869	754,679

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

i) Country risk to cover the risk taken when holding or committing resources with any foreign country. These allowances are established according to country risk classifications as set for Chapter 7-13 of the Updated Compilation of Rules, issued by the SBIF. The balances of allowances as of June 30, 2016 and December 31, 2015 are Ch311 million and Ch$385 million, respectively.

ii) According to SBIF's regulations (compendium of Accounting Standards), the Bank has established allowances related to the undrawn available credit lines and contingent loans.The balances of allowances as of June 30, 2016 and December 31, 2015 are Ch$13,654 million and Ch$17,321 million, respectively and are presented in liabilities of the Unaudited Consolidated Interim Statement of Financial Position

i) Allowances established on customer and interbank loans

The following chart shows the balance of provisions established, associated with credits granted to customers and banks:

	As of June 30, 2016	As of December 31, 2015
Customers loans	183,970	344,439
Interbank loans	175	183
Total	184,145	344,622

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Notes to the Unaudited Consolidated Interim Financial Statements

AS OF JUNE 30, 2016 AND DECEMBER 31, 2015 AND FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

NOTE 08

LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS, continued

ii) Portfolio by its impaired and non-impaired status

	As of June 30, 2016								
	Non-impaired				Impaired				Tot
	Commercial	Mortgage	Consumer	Total non-impaired	Commercial	Mortgage	Consumer	Total impaired	Co
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MC
Current portfolio	12,449,618	7,655,906	3,767,262	23,872,786	423,557	128,901	98,842	651,300	12
Overdue for 1-29 days	130,962	77,345	121,420	329,727	96,715	17,147	37,648	151,510	22
Overdue for 30-89 days	68,635	175,782	72,023	316,440	120,493	111,722	62,009	294,224	18
Overdue for 90 days or more	-	-	-	-	312,968	154,823	80,257	548,048	31
Total portfolio before allowances	12,649,215	7,909,033	3,960,705	24,518,953	953,733	412,593	278,756	1,645,082	13
Overdue loans (less than 90	1.58 %	3.20 %	4.88 %	2.64 %	22.77 %	31.23 %	35.75 %	27.09 %	3.0

days) presented as portfolio percentage													
Overdue loans (90 days or more) presented as portfolio percentage	-	-	-	-	32.82	%	37.52	%	28.79	%	33.31	%	2.3

Banco Santander Chile and Subsidiaries

Notes to the Unaudited Consolidated Interim Financial Statements

AS OF JUNE 30, 2016 AND DECEMBER 31, 2015 AND FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

NOTE 08

LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS, continued

	As of December 31, 2015								
	Non-impaired				Impaired				Tot
	Commercial	Mortgage	Consumer	Total non-impaired	Commercial	Mortgage	Consumer	Total impaired	Co
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MC
Current portfolio	12,207,967	7,125,404	3,617,676	22,951,047	441,308	146,909	134,700	722,917	12
Overdue for 1-29 days	98,692	80,621	120,912	300,225	61,626	11,990	45,280	118,896	16
Overdue for 30-89 days	77,817	210,678	80,773	369,268	108,743	61,962	59,754	230,459	18
Overdue for 90 days or more	-	-	-	-	330,206	175,286	91,576	597,068	33
Total portfolio before allowances	12,384,476	7,416,703	3,819,361	23,620,540	941,883	396,147	331,310	1,669,340	13
Overdue loans (less than 90 days) presented as portfolio	1.43 %	3.93 %	5.28 %	2.83 %	18.09 %	18.67 %	31.70 %	20.93 %	2.6

percentage									
Overdue loans (90 days or more) presented as portfolio percentage	-	-	-	-	35.06 %	44.25 %	27.64 %	35.77 %	2.4

Banco Santander Chile and Subsidiaries

Notes to the Unaudited Consolidated Interim Financial Statements

AS OF JUNE 30, 2016 AND DECEMBER 31, 2015 AND FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

NOTE 09

AVAILABLE FOR SALE INVESTMENTS

As of June 30, 2016 and December 31, 2015, details of instruments defined as available for sale investments are as follows:

	As of June 30, 2016 MCh$	As of December 31, 2015 MCh$
Chilean Central Bank and Government securities		
Chilean Central Bank Bonds	574,152	687,292
Chilean Central Bank Notes	-	-
OtherChilean Central Bank and Government securities	28,664	145,603
Subtotal	602,816	832,895
Other Chilean securities		
Time deposits in Chilean financial institutions	1,119,384	712,859
Mortgage finance bonds of Chilean financial institutions	27,487	29,025
Chilean financial institution bonds	-	-
Chilean corporate bonds	-	-
Other Chilean securities	-	-
Subtotal	1,226,871	741,884
Foreign financial securities		
Foreign Central Banks and Government securities	103,450	-
Other foreign financial securities	458,328	469,632
Subtotal	561,778	469,632
Total	2,391,465	2,044,411

As of June 30, 2016 and December 31, 2015, the item *Chilean Central Bank and Government securities* item includes securities sold under repurchase agreements to clients and financial institutions for Ch$33,719 million and Ch$72,901 million, respectively.

As of June 30, 2016 and December 31, 2015, the item *Other Chilean Securities* includes securities sold to customers and financial institutions under repurchase agreements totaling Ch$5,454 million and Ch$68,321 million, respectively.

As of June 30, 2016 available for sale investments included a net unrealized profit of Ch$18,300 million, recorded as a "Valuation adjustment" in Equity, distributed between a profit of Ch$18,294 million attributable to equity holders of the Bank and a profit of Ch$6 million attributable to non-controlling interest.

As of December 31, 2015 available for sale investments included a net unrealized loss of Ch$7,093 million, recorded as a "Valuation adjustment" in Equity, a loss of Ch$6,965 million attributable to equity holders of the Bank and a loss of Ch$128 million attributable to non-controlling interest.

Banco Santander Chile and Subsidiaries

Notes to the Unaudited Consolidated Interim Financial Statements

AS OF JUNE 30, 2016 AND DECEMBER 31, 2015 AND FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

NOTE 10

INTANGIBLE ASSETS

a) As of June 30, 2016 and December 31, 2015 the composition of intangible assets is as follows:

				As of June 30, 2016		
	Years of useful life	Average remaining useful life	Net opening balance as of January 1, 2016	Gross balance	Accumulated amortization	Net balance
			MCh$	MCh$	MCh$	MCh$
Licenses	3	2	2,060	10,932	(9,035)	1,897
Software development	3	2	49,077	273,476	(219,809)	53,667
Total			51,137	284,408	(228,844)	55,564

				As of December 31, 2015		
	Years of useful life	Average remaining useful life	Net opening balance as of January 1, 2015	Gross balance	Accumulated amortization	Net balance
			MCh$	MCh$	MCh$	MCh$
Licenses	3	2	2,006	10,932	(8,872)	2,060
Software development	3	2	38,977	259,500	(210,423)	49,077
Total			40,983	270,432	(219,295)	51,137

b) The changes in the value of intangible assets during the periods ended June 30, 2016 and December 31, 2015 is as follows:

b.1) Gross balance

Gross balances	Licenses	Software development	Total
	MCh$	MCh$	MCh$
Balances as of January 1, 2016	10,932	259,500	270,432
Acquisitions	-	13,976	13,976
Disposals and impairment	-	-	-
Other	-	-	-
Balances as of June 30, 2016	10,932	273,476	284,408
Balances as of January 1, 2015	10,441	232,418	242,859
Acquisitions	491	27,082	27,573
Disposals and impairment	-	-	-
Other	-	-	-
Balances as of December 31, 2015	10,932	259,500	270,432

Banco Santander Chile and Subsidiaries

Notes to the Unaudited Consolidated Interim Financial Statements

AS OF JUNE 30, 2016 AND DECEMBER 31, 2015 AND FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

NOTE 10

INTANGIBLE ASSETS, continued

b.2) Accumulated amortization

Accumulated amortization	Licenses	Software development	Total
	MCh$	MCh$	MCh$
Balances as of January 1, 2016	(8,872)	(210,423)	(219,295)
Amortization for the period	(163)	(9,386)	(9,549)
Other changes	-	-	-
Balances as of June 30, 2016	(9,035)	(219,809)	(228,844)
Balances as of January 1, 2015	(8,435)	(193,441)	(201,876)
Amortization for the period	(437)	(16,982)	(17,419)
Other changes	-	-	-
Balances as of December 31, 2015	(8,872)	(210,423)	(219,295)

c) The Bank has no restriction on intangible assets as of June 30, 2016 and December 31, 2015. Additionally, the intangible assets have not been pledged as guarantee to secure compliance with financial liabilities. Also, the Bank has no debt related to Intangible assets as of those dates.

Banco Santander Chile and Subsidiaries

Notes to the Unaudited Consolidated Interim Financial Statements

AS OF JUNE 30, 2016 AND DECEMBER 31, 2015 AND FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2016 AND 2015

NOTE 11

PROPERTY, PLANT, AND EQUIPMENT

a) As of June 30, 2016 and December 31, 2015 the property, plant and equipment balances is as follows:

	As of June 30, 2016	
Net opening balance as of January 1, 2016	Gross balance	Accumulated depreciati