



**ANNUAL REPORT**  
Banco Santander Chile  
2016

Contributing towards the  
progress of people and  
companies.







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Banco Santander Chile  
2016





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## CHILE TODAY

Banco Santander has adapted its short and medium-term strategy, which has enabled it to maintain its leadership in the financial industry and maintain its position as the leading chain of banks in the country.

### Environmental sustainability

	2014	2015	2016
Consumption of paper (tons)	2,534	2,191	2,124
Consumption of power (Kwh)	33,919,980	33,404,726	30,865,037
Consumption of water (m3)	243,888	210,439	154,068
Total CO2 emissions	19,842 <sup>1</sup>	18,477	19,044
Land travel (km)	4.1 mills.	3.3 mills.	2.5 mills.
Air travel (km)	9.2 mills.	9.2 mills	13.2 mills.
Recycling of electronic waste (tons)	18.6	22.4	47.8

### Social sustainability

	2014	2015	2016	
Santander Universities	N° scholarships	405	451	461
	N° collaboration agreements	56	52	52
Universia	Jobs for graduates <sup>2</sup>	68,481	59,666	49,142
Sanodelucas	Visits to the website	206,678	785,836	962,234
Community	No. corporate volunteers	469	1,051	225
	Benefitted by corporate volunteering work	1,421	5,167	1,175

**10.5%**

core capital ratio

**17.0%**

ROE

**55.5**

US\$ thousand million in assets

**1,295**

ATMs

**3.6**

million clients

**11,354**

employees

### Market share ranking

(At December 31, 2016) <sup>3</sup>	MMUS \$	Ranking	Market share (%)
Total assets	55.5	1	17.5
Total loans <sup>4</sup>	40.3	1	19.1
Loans to individuals <sup>5</sup>	19.6	1	22.2
Income attributable to the Bank's shareholders	708	2	24.2

	N°	Ranking	Market share (%)
Checking accounts <sup>6</sup>	899 thousand	1	21.6
ATMs <sup>7</sup>	1,295	3	17.0
Branch offices <sup>7</sup>	434	1	19.2
Employees <sup>7</sup>	11,354	2	17.9

1. In 2016 the figures published for previous years was corrected to bring it in line with the new calculation standards. / 2. Jobs found for students and university graduates through the websites of universities in Chile. Includes first job, internships, part-time jobs, and includes second or more jobs found through the websites of Chilean universities / 3. All figures at December 31, 2016 or latest information available. / 4. Excludes interbank loans, gross of provisions. Market share excludes investment by Corpbanca in Colombia and Bci in U.S.A. / 5. Market share excludes investment by Corpbanca in Colombia and Bci in U.S.A. / 6. Source: Superintendencia of Banks and Financial Institutions at November 2016. / 7. Source of market share: Superintendencia of Banks and Financial Institutions at November 2016.

Balance sheet and income statement (millions of pesos)	2016	2015	VAR. 16/15
<b>&gt; BALANCE SHEET</b>			
Commercial loans	13,867,465	13,326,361	4.1%
Mortgage loans	8,619,356	7,812,849	10.3%
Consumer loans	4,446,803	4,150,671	7.1%
Gross Loans and accounts receivables from customers	26,933,624	25,289,881	6.5%
Allowances	(820,139)	(754,679)	8.7%
Total Net loans and accounts receivables from customers <sup>1</sup>	26,113,485	24,535,201	6.4%
Financial investments <sup>2</sup>	3,785,893	2,368,682	59.8%
<b>TOTAL ASSETS</b>	<b>37,006,645</b>	<b>34,654,105</b>	<b>6.8%</b>
Total deposits	20,691,024	19,538,888	5.9%
Issued debt instruments	7,326,372	5,957,095	23.0%
Equity	2,898,047	2,764,880	4.8%
<b>&gt; INCOME STATEMENT</b>			
Net interest income	1,281,366	1,255,205	2.1%
Net fee and commission income	254,424	237,627	7.1%
Net income (expense) from financial operations	140,358	145,499	(3.5%)
Operating income	1,694,447	1,653,973	2.4%
Net operating profit before provision for loan losses	(343,286)	(413,694)	(17.0%)
Support expenses and other operating expenses	(772,337)	(715,425)	8.0%
Operating income	578,824	524,854	10.3%
<b>CONSOLIDATED NET INCOME FOR THE YEAR</b>	<b>474,716</b>	<b>452,141</b>	<b>5.0%</b>
<b>INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK</b>	<b>472,351</b>	<b>448,878</b>	<b>5.2%</b>

Profitability and efficiency	2016	2015	VAR. 16/15
Net interest margin	4.45%	4.79%	- 34 BP
Return on average equity	17.0%	17.0%	- 2 BP
Profitability over average assets	1.33%	1.36%	- 3 BP
Eficiencia (costs / revenue)	42.7%	41.3%	+ 137 BP
Recurrence (commissions / costs)	37.0%	35.9%	+ 110 BP
<b>&gt; PORTFOLIO QUALITY</b>			
Cost of credit (expenses for provisions / loans)	1.26%	1.64%	- 37 BP
Non-performing portfolio / loans	2.07%	2.54%	- 46 BP
Provisions / loans (expected loss)	3.02%	2.98%	+ 3 BP
Provisions / non-performing portfolio (coverage)	145.4%	117.6%	+ 2,783 BP
<b>&gt; CAPITALIZATION AND CAPITAL STRUCTURE</b>			
Effective equity / risk-weighted assets	13.4%	13.4%	+ 6 BP
Core capital / risk-weighted assets	10.5%	10.3%	+ 20 BP
Core capital / assets	7.2%	7.3%	- 9 BP
Loans to customers / total deposits <sup>1</sup>	94.8%	98.9%	- 418 BP
Loans to customers / total assets	72.8%	73.0%	- 20 BP

1. Does not include inter-bank loans. Gross of provisions. / 2. Includes trading and available for sale instruments.

# AWARDS



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## 1\_CORPORATE TRANSPARENCY

Banco Santander was awarded first place in the Corporate Transparency Ranking 2016, prepared by the consultant Inteligencia de Negocios (IdN). The company obtained 96 points, which, according to the report, is an "extraordinary and unprecedented score for these measurements, higher than any measurement of any international company used up to this point in building the global benchmark".



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## 2\_ THE BEST BANK IN CHILE

For the fifth year in the past decade, Banco Santander was chosen as the Best Bank in Chile by the prestigious English magazine, Euromoney. The award recognizes the management of Santander Chile and in particular the specialized advice model for high-equity customers. This model is based on the Bank's strengths and skills, which are nourished from its commercial networks, specialists in multi-disciplines and the technological tools it has developed to help customers in investment decision-making. The Group also was awarded the Best Bank in Latin America for Equity Management and the Best Bank Worldwide for Small and Medium-Sized Businesses.

## 3\_ GREAT PLACE TO WORK

Banco Santander was recognized as one of the Best Companies to Work in Chile, ranking fourth among companies with over five thousand employees and going from 25th to 18th place in the general ranking prepared by the Great Place to Work Institute.

## 4\_ FIRST PLACE IN COMMITMENT WITH COLLABORATORS

Banco Santander obtained first place in the Large Company category in the Best Company for Employee Financial Future awards, organized by Principal, People First and the La Tercera newspaper. The objective of this recognition, which is awarded for the first time in our country, is to recognize companies with the most commitment in contributing to the wellbeing and financial future of their collaborators, in the short as well as the long term.

## 5\_ BANK OF THE YEAR

The magazine LatinFinance awarded Banco Santander the Bank of the Year 2016 in Chile. The award is given by the magazine editors, taking into consideration qualitative and quantitative aspects, as well as the opinion of market analysts.

## 6\_ TWENTY YEARS ON THE NYSE

It has been twenty years since Banco Santander Chile began to trade on the New York Stock Exchange (NYSE) in the United States. This instrument has increased 710% in value in pesos, while in dollars this valuation is around 441%.

## 7\_ CONTRIBUTION TO FINANCIAL EDUCATION

In the framework of the 3rd Financial Education Fair, organized by the Superintendence of Banks and Financial Institutions (SBIF), Banco Santander received an award for its contribution in this subject, driving initiatives such as the Financial Education in Schools Program and the Sanodelucas.cl digital platform.

## 8\_ AWARD FOR INNOVATION

The consultant Best Place to Innovate recognized Banco Santander in the financial sector area as one of the fifty companies that are effectively managing innovation in Chile. The InnovAcción Perception Ranking 2016 is done along with Best Place to Innovate, the Innovation, Entrepreneurship and Technology Center (Centro de Innovación, Emprendimiento y Tecnología (CIET)) of the Business School of Universidad Adolfo Ibáñez, GfK Adimark and Imagine Business Lab by Microsoft Innovation Center. It is based on a perception survey conducted of professionals over 18 years of age throughout Chile, who have been working for at least one year and know something of the areas being studied.

## 9\_ GOOD LABOR RELATIONS

The Fundación Carlos Vial Espantoso awarded a special distinction to Banco Santander for its outstanding work in building good labor relations. Specifically, it recognized that Santander promoted a motivating leadership style that delegates and empowers, which is capable of integrating different cultures and is present throughout the entire organization. This is in the framework of the award that the foundation annually gives to companies who build participative labor relationships, based on respect and transparency.

## 10\_ DOW JONES SUSTAINABILITY INDEX

In the second version of this sustainability index, Santander was again one of the companies included, also improving its score with respect to 2015 and obtaining above-average scores in the economic and social dimensions.

## 11\_ BEST ANNUAL REPORT OF THE FINANCIAL AND BANKING SYSTEM

The 2015 annual report of Banco Santander Chile was distinguished as the best of the financial and banking system, according to the Informe Reporta 2016, realized by IP-FinancialCom, a company specializing in the management of financial communication, along with the Spanish agency DEVA and the Business Sustainability Center (Centro de Sostenibilidad Empresarial) of the Universidad Adolfo Ibáñez. The study measures the quality of companies' annual reports regarding financial and non-financial (environmental, social, corporate governance or ESG) information.

## 12\_ GOLD EFFIE FOR SANTANDER

Banco Santander was recognized in the Effie Awards 2016 - the most important awards in the marketing and advertising industry in Chile - with a gold prize for its internal campaign "El Encuestador". This campaign arose due to the need for in-depth and valuable information on the collaborators, their demands and concerns, and so proactively manage internal supply.

## THE BOARD



“ We have a clear vision contained in a demanding Strategic Plan that responds to current demands. ”

Dear shareholders, I have the honor to present you with the Annual Report and the Income Statement corresponding to the Banco Santander Chile 2016 financial year.

In the financial year 2016, the income attributable to the Bank's shareholders was \$ 472,351 million, which translates into a profit of \$ 2.51 per share and US\$ 1.50 per ADR. At the end of the financial year, Santander was situated as the largest Bank in the country in assets and is listed on the Santiago and New York stock exchanges. It had a market value at that date of US\$ 10,303 million, total assets of US\$ 55,458 million, book value of equity of US\$ 4,343 million, Core capital (Tier I) of 10.5% and a solid structural liquidity position of over US\$ 3,600 million, which situates it in an outstanding position in the Chilean banking system and internationally.

In 2016 the Chilean economy completed a third year of low growth, with an expansion of 1.6% that year and an average of 1.9% in the period 2014-2016. Much has been discussed regarding the reasons for this situation, in particular the role of the external factors associated with the end of the super-cycle of primary products and the related internal factors associated with problems of design, implementation and effects on incentives and expectations of a battery of reforms introduced recently. There is no doubt that both circumstances have had an effect. But now that primary product prices are improving and worldwide commerce is experiencing a cyclical upturn, our recovery continues to be affected by depressed expectations, deterioration in the labor market and uncertainty regarding the future rules of the game (pensions, health, education, institutionality for the approval of projects, etc.).

Regarding activity, the most recent activity gives rise to concern that the deceleration of

the economy intensified towards the end of the year, with the fourth quarter ending with an annual growth of 0.5% and a contraction regarding the third quarter at an annualized rate of 1.4%. Regarding demand, this lesser dynamism is mainly due to a limited annual increase in internal demand of 1.1%, while annual real fixed capital investment has fallen to 5.0%, completing two consecutive quarters of contraction. In annual terms, the gross fixed capital formation has fallen for three continuous years, which has taken the investment rate to its lowest level in the last decade.

Regarding expectations, business confidence has improved in the last months, and consumer confidence suffered a slight drop in February. However, both measurements remain on pessimist ground. On the other hand, the February Business Perception Report published by the Central Bank of Chile (BCCh), shows that businesses do not expect great changes in the short-term, since these forecast a 2017 similar to 2016, delaying the perspectives of recovery of growth for 2018. The investment they make is associated with repositioning capital or automating processes, while new projects continue at a standstill due to the political-economic uncertainty.

The labor market continues to show signs of weakness, linked to the annual drop in salaried jobs, the low growth of total employment, as well as the large share of part-time work.

Regarding the growth perspectives for this year, the external scenario is forecast as more auspicious than expected some months ago – better exchange terms, higher growth globally and in Latin America. Regarding the internal scenario, this is profiled as mixed. On the negative side, there will be a lower fiscal drive, low growth and the adjustment of construction will lead to a

higher deterioration of the labor market, which is added to the political uncertainty associated with the elections at the end of the year. On the positive side, this year we will have a greater monetary impulse due to the reductions already done and future reductions in the monetary policy rate, lower inflation, expectations of businesses and consumers somewhat more optimistic than those we had last year, and an improvement in the Stock Exchange.

In short, Chile has solid macro foundations on which to resume growth, with an agenda oriented towards creating a better environment for private investment and that accelerates infrastructure projects.

Regarding regulatory changes that will have an impact on industry, Law N°. 20.950 was approved in October, after almost three years of processing, which authorizes non-banking entities to issue and operate payment methods with the provision of funds. This law authorizes the habitual collection or receipt of resources from the public, which up until now was restricted only to the banks. These issuers, which must have an exclusive line of business, will be subject to the new legislation and the prudential regulations issued by the Chilean Central Bank, and will answer to the Superintendence of Banks and Financial Institutions (SBIF).

This law seeks to develop and provide universal access to electronic payments, and to generate higher financial inclusion, increasing competition in payment methods, which without a doubt poses an additional challenge to banking.

The law to drive productivity, passed in October 2016, includes some measures associated with the financial sector. These include the increase of the overseas

Chile has solid macro foundations on which to resume growth, with an agenda oriented towards creating a better environment for private investment and that accelerates infrastructure projects.

investment limit for insurance companies, as well as new investment alternatives for pension and unemployment funds. Also, it facilitates the installation of international custodians in Chile, which could facilitate the participation of foreign investors and contribute towards the liquidity and depth of the local fixed-income market, lowering financing costs.

Within the framework of the improvement of the financial regulation and supervision system, the creation of the Financial Market Commission (CMF) was proposed in 2016. This entity would be run by a collegiate body, passing from an insular model with a specific regulator and supervisor according to the type of entity regulated, to an integrated model. In a first instance, the CMF will replace the current Superintendence of Securities and Insurance, while the banks' supervisor will be incorporated in the future through a modification to the General Law on Banks (LGB), which has been under study for some time and would also include the migration of the present regulation to one more in line with the Basel III principal guidelines. The integrated supervision system chosen has the great benefit of offering a systemic vision.

However, the resolution of several aspects remains pending: the potential conflict between the objectives of solvency and market behavior, one of the main difficulties of this type of supervision; legal challenges (due to the modifications necessary to the LGB); interaction with the Financial Stability Council (CEF), the Chilean Central Bank and other entities that regulate aspects of the financial sector; and the organizational problems inherent in joining two entities that have vast experience in working independently.

Finally, in 2016 the results of the international evaluation of the Chilean financial market infrastructure were delivered, a study that was conducted jointly by the World Bank and the IMF, at the request of the Treasury Department and the Central Bank. The results indicate that the infrastructure for the country's financial market meet most of the international principles. This is something that we should be proud of and also confident that the risks are low. However, some gaps were also detected, whose resolution depends on the regulatory authorities and the government, as well as on the institutions that manage them. The first steps for this have

already been taken with the recent creation of a Technical Committee – in the framework of the Financial Stability Council – that seeks to correct the shortcomings detected.

During 2016, the Board continued its work to strengthen the Bank's Corporate Governance, taking into account national and international best practices in this regard. The work of the Board's committees was strengthened in this direction. The Compliance Manager was included as a permanent guest of the Integral Risks Committee, so adding the function of review compliance and reputation risks to the risks map. The Committee for Analysis and Resolution and Prevention of Money Laundering was also strengthened, enriching the information for analysis in the framework of the prevention of money laundering and financing of terrorism. Along the same lines, a new map of conflicts of interest was prepared over the course of a year, selecting the most sensitive areas and identifying potential problems, in order to establish the controls necessary to prevent and manage them along with assessing their effectiveness. As a result, a dashboard was structured that establishes the eventual conflicts of interest and the mitigating actions.



Banco Santander Chile continues to be an industry leader due to its constant efforts to carry out top-quality management, complying with the highest corporate governance standards.

In regard to the relationship with the Bank's groups of interest, a dividends reinvestment program was launched in 2016, oriented towards Banco Santander's retail shareholders. The program offers reinvesting the dividends received by the Santander Chile shares into shares of the Bank itself, without costs or commissions. It must be noted that throughout the year the Investor Relations area and the Shareholders Department of Banco Santander generated an active agenda with the objective of keeping shareholders, analysts, institutional investors as well as retail investors informed regarding the progress of the Bank and the country. This involved meetings, webcasts, telephone conferences and other events, with a total of over 739 instances of communication taking place in 10 countries.

The efforts made by the Bank to improve Corporate Governance have again been recognized. Santander obtained first place in the Corporate Transparency Ranking 2016, prepared by the consultant Inteligencia de Negocios (IdN), obtaining a score that is "unprecedented for these measurements, higher than any measurement of any international company used as a global benchmark", according to the consultant.

In addition, in the framework of the Third Financial Education Fair organized by the SBIF, Banco Santander received an award for its contributions in this subject, driving initiatives such as Financial Education in Schools, along with the Public Policies Center of the Universidad Católica, the digital platform Sanodelucas.cl and the launch of the Sanodelucas PLAY financial education App.

Lastly, Santander was again one of the companies that are part of the second version of the Dow Jones Sustainability Chile Index of the Santiago Stock Exchange, also improving its score with respect to 2015, with scores above average in the economics and social dimensions. Without a doubt these recognitions make us proud and motivate us to continue to make the greatest efforts to maintain our high performance while facing the challenges reflected here.

Banco Santander Chile is an industry leader because of its constant efforts to carry out top-quality management, following the highest standards of corporate governance. We have a clear vision reflected in a demanding Strategic Plan that responds to current demands and that will enable us to

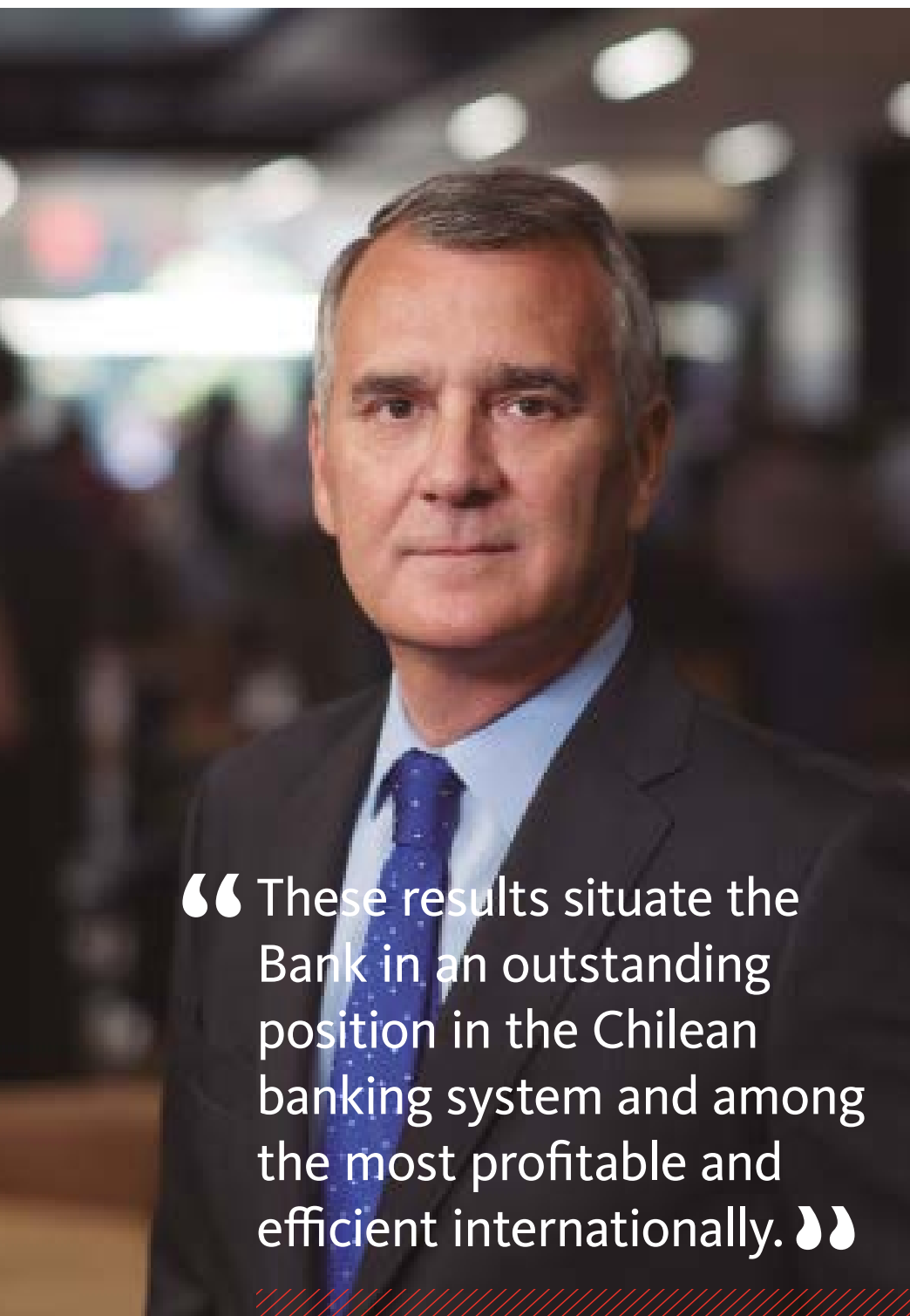
adequately face the continuous changes in the environment and the new challenges involved. The performance of a first-class personal team led by the Bank's senior management is fundamental for this, as is a professional, mostly external Board with recognized experience, and the support of the Santander Group.

Best regards,



**Vittorio Corbo Lioi**  
CHAIRMAN OF THE BOARD

## LETTER FROM THE GENERAL MANAGER AND COUNTRY HEAD



“ These results situate the Bank in an outstanding position in the Chilean banking system and among the most profitable and efficient internationally. ”

Dear Shareholders:

I proudly present the progress and main results of Banco Santander Chile during the financial year 2016. In this period we have attained substantial achievements in our strategy, in line with the mission of contributing to the progress of people and companies. As a result, we increased the income for shareholders, grew in loans and deposits in a challenging environment, improved our customer service quality, innovated in new attention models with the new Work Café offices, we were recognized for our financial results and good labor relations, and we continue to contribute to the country in a sustainable manner.

The Bank obtained income attributable to shareholders of \$ 472,351 million, 5.2% higher than that of the 2015 financial year. The ROE or average return on equity reached 17.0%, higher than the 11.6% of the financial system as a whole. The efficiency ratio, that is, the ratio between costs and operating income, was situated at 42.7%, also better than the 50.4% recorded for the entire industry. Core Capital ended the period at 10.5% and the Basel ratio reached 13.4%, easily exceeding industry indexes.

These results were obtained in the environment of an economy that continues to decelerate, with lower inflation and higher uncertainty regarding the various regulatory aspects. Notwithstanding this, in 2016 Santander Chile had a good combination of risk and return, reflected in an adequate capital base and high profitability over equity. These results situate the Bank in an outstanding position in the Chilean banking system and among the most profitable and efficient internationally.

The net contribution of the business segments – understood as the sum of the financial margin plus commissions, plus

the result of financial operations and less provisions for credit risk and operating expenses – which reflects the progress of the Bank's core business, grew by 25.6% in twelve months. These results are a combination of higher commercial activity due to a sustained growth of the client base, an improvement in the funding mix, better portfolio quality, a continuous increase in revenue from commissions, and an effective control of operating expenses.

Regarding the Bank's commercial progress, total loans (excluding interbank loans) increased 6.5% over the year. By product, consumer loans and credit cards increased 7.1%, while mortgage loans expanded 10.3%. Commercial loans grew by 4.1%. The focus of the activity was on segments of individuals with high and medium income levels and medium and large companies, which expanded around 10.0%. Growth was selective in the rest of the segments, and always directed towards maximizing profitability. In the case of the SME (small and medium-sized companies) segment, loans expanded 9.2%, maintaining the rhythm of the previous year, focusing commercial efforts on improving the relationship with the clients.

The growth recorded during the period permitted Santander Chile to close the year increasing its market share in all products. Adjusted for credit investments overseas by some local banks, Santander's market share in total loans (excluding interbank loans and the provisions established) increased to 19.1%, increasing by basis points with respect to 2015. In consumer loans, the market share increased 9 basis points to 23.4%, while in mortgages there was a 15 basis point increase in the year, reaching a market share of 21.6%. Finally, in commercial loans the market share reached 16.9%, increasing 17 basis points with

respect to the previous financial year.

Total deposits increased 5.9% during the period, in line with the growth of loans. As a result, the market share for total deposits increased by 45 basis points to 18.8% (adjusting for the foreign subsidiaries of some local banks). Demand deposits obtained a market share of 21.0%, improving 45 basis points with respect to 2015, while time deposits increased 50 basis points to a market share of 17.8%.

As part of the Bank's financing strategy, funding sources have been diversified over the past years, with greater dynamism in retail deposits and in international markets. Although during 2016, liquidity needs were mainly covered with emissions in the local market, the Bank remained active in the international markets, using existing opportunities to diversify its funding base at competitive rates. Along these lines, in November Santander Chile became the first Chilean issuer in the Taiwan market, also known as Formosa, with a five-year bond for a total of US\$ 185 million. In addition, in the same month the Bank issued a bond in the Swiss market for a total of CHF 125 million, obtaining strong demand and competitive rates in comparison to the local alternative. This shows the capacity to obtain funds in international markets at attractive rates, despite the volatility generated by the elections in the U.S.A.

This strategy allowed us to maintain a competitive cost of funds in comparison to the industry and in part compensated the lower spreads due to the change in the growth mix towards lower-risk, but also less profitable, segments. At the same time, it became possible to have comfortable levels of structural liquidity, understood to be the difference between liquid financial assets

During the financial year, the Bank continued to progress in the four objectives of our Strategic Plan: to substantially improve the experience of our customers, to develop new manners of relating with customers through the continuous transformation of Commercial Banking, to deepen the relationship model in Company and Corporate Banking, and to drive and manage a cultural change, incorporating the new Simple-Personal-Fair (SPF) style.

and non-structural financial liabilities, which at the end of the financial year reached US\$ 3,664 million. All of these figures show our solid competitive position, which is the result of a well-planned and executed strategy.

Regarding the breakdown of our results, the net financial margin grew 2.1%, as a result of the higher loan volumes and good management of the cost of funds, partially compensated by lower inflation in the period.

Revenue from commissions recorded an increase of 7.1% during 2016. The growth was due in part to the Global Corporate Banking segment that won an important share of the financial consultancy business and investment banking in general, to the good work done with customer relationships in the companies segment, to a greater use of the Bank's products thanks to an increased loyalty and transactionality of the retail customer base. This is how the so-called loyal transactional customers, which are those that have more of the Bank's products and use them more, increased by 11.9% and 13.8% in the year, in the high-income and SME segments, respectively.

The expense for provisions decreased 17.0% with respect to the previous year as a consequence of a sustained improvement in portfolio quality to the extent that the Bank continues to grow in lower-risk segments.

The cost of credit (expense on provisions over total loans) was reduced from 1.64% in 2015 to 1.26% in 2016. This was accompanied by a drop in non-performing loans and an increase in coverage for all loan products. The total non-performing portfolio closed the year at 2.07%, a figure that compares favorably with the 2.54% recorded at the end of 2015. The coverage of the non-performing portfolio went from 117.6% to 145.4% in the same period.

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Regarding the first point, improving customer experience, satisfaction with the Bank continued to increase positively, as shown by the satisfaction indicator (percentage of customers who classify our service with scores above 5, on a scale from 1 to 7), which reached 96% in 2016, higher than the 93% obtained in 2015. Customer service channels, branch network as well as VOX and internet maintained high levels of satisfaction, around 96%. Along the same lines and according to the last figures published in the first semester of the year, complaints to the Financial Sernac (Consumer Ombudsman) decreased by 24.0%, going from 12.9 to 9.7 complaints per 10 thousand debtors. However, one of the most important advances was that obtained in the Customer Satisfaction benchmark, in which Santander was able to narrow the gap in satisfaction with respect to its main competitors. Also, the Bank became the most recommended by its customers, moving from fourth place to first place in the category of Recommendation, according to the study conducted by the international consultants, Millward Brown.

Regarding the second point of the Strategic Plan, the continued transformation of Commercial Banking, highlights the fast development of digital capacities, which has profoundly changed the manner in which customers interact with the banks. This has forced us to change as well and in the past few years we have increased the development of our digital banking. We aspire to transform the Bank so that it is omni-channel, that is, have all of its channels completely integrated and offering a uniform experience to the customer; contextual, with a personalized and relevant offer in the context of the customer;

and fully transactional, not only financial, where the customer can carry out all types of operations and transactions and obtain information about offers and benefits.

Another milestone in this transformation process was the launch of the Work Café last October. These are multi-segment branch offices, one hundred percent dedicated to added value activities, and reflect our SPF philosophy, oriented towards putting the customer at the center of everything we do. This new office format seeks to provide a high-quality experience through an innovative form of banking, promoting a meeting-place that is open to the community. The traditional cashiers have been replaced by cutting-edge digital technology that promotes self-service for customers in this way being able to carry out all of their everyday financial operations autonomously or with the help of a specialized executive. The Work Café has a cafeteria, as well as free Wi-Fi, meeting rooms and areas available to customers and non-customers, operating in extended business hours until 18:00 hrs.

The Banco Santander digital channels continue to grow. At the end of the financial year, 960 thousand customers operated digitally, which represent 25.0% of our customer base, showing a compound annual growth of 7.0% since 2014. These customers now have new digital products available to them such as 123 Click, the first completely digital point-to-point product, which allows a consumer loan to be processed in only three steps, through the webpage or the App. At the close of the year, this product represented 28.0% of the installment loans of individuals. Along the same lines, customers can take out and close investment products directly in the Santander App on their mobile phones. Also, with the Push Notifications service in the App, customers are informed through text messages on their mobile phones of all transactions carried out with their credit and debit cards.





Regarding the third point of the Strategic Plan, deepening the relationship model in Company and Corporate Banking, during the year four new business centers were opened, now totaling 16 throughout the country. With this, the cover of customers with a specialized model reached 93.0% of the total at the close of the financial year. Also, a powerful value offer was consolidated, accompanied by a differential experience with closer attention. This contributed towards the growth of the customer base and also client loyalty which recorded an increase of 5.5% in the year. In this way, the Middle-market segment continued to increase its profitability.

Lastly, regarding the fourth point of the Strategic Plan, to progress in the consolidation of an internal culture centered on the customer, significant progress was made in the cultural change process begun in 2015, which is implicit in the SPF style and its eight behaviors. This transformation is fundamental for converting Santander Chile into the best bank for our customers, as said by the customers themselves, and in the best company to work, as said by our collaborators.

During 2016, important steps were taken along these lines: the vision of cultural change was disseminated, the teams committed to the process, and the stage of internalization began, where it is hoped to obtain visible modifications in behaviors and processes that begin to positively impact the business. Throughout the year, over 90% of the collaborators participated in training programs, which included over 470 thousand hours of training and an investment of over \$2,370 million. It must also be highlighted that, as part of its corporate values and basic behavior principals, Santander Chile respects fundamental rights, equal opportunities and non-discrimination. The Bank considers that each of its collaborators can contribute with different talents and skills, and although it has employees with some type of disability – such as blind people working in VOX –

during the financial year a roundtable was formed in order to progress in this subject. Finally, the results of the Commitment and Organizational Support survey show the satisfaction of the collaborators. The dimension of commitment showed an increase from 86.0% in 2015 to 87.0% in 2016, while the organizational support dimension went from 78.0% to 79.0% in the same period.

As in the previous year, our annual report meets the Global Reporting Initiative (GRI) guidelines for suitably reporting on the performance of the Bank's economic, social and environmental areas. Also, it constitutes our Communication on Progress of the Global Agreement, an initiative which we follow since 2003.

The performance of the Bank during the year earned it awards from prestigious domestic and international institutions. We were named the Best Bank by the prestigious English magazine Euromoney for the fifth year in the past decade, while the magazine LatinFinance awarded Santander the Bank of the Year in Chile 2016 award. Also, Santander Chile obtained first place in the Corporate Transparency Ranking 2016 prepared by the consultant Inteligencia de Negocios, obtaining an outstanding score. The market has also recognized the Bank's performance and the progress in our Strategic Plan. During 2016 the Santander Chile share gave its shareholders a return in pesos of 17.2% (23.8% including dividends). Regarding the labor environment, Santander is among the best companies to work for in Chile, obtaining fourth place in the Great Place to Work ranking among companies with over 5 thousand employees, and going from 25th to 18th place in the general ranking. Along with this, the Bank obtained first place in the Large Company category in the Best Company for Employee Financial Future, Awards, organized by Principal, People First and the La Tercera newspaper. Also, the Fundación Carlos Vial Espantoso awarded

Banco Santander a special distinction for its outstanding development in building good labor relationships. We are proud of these awards and humbly receive them. They provide us with parameters to measure our performance and give us information on the aspects we have yet to improve.

To end, I would like to thank the Board and the shareholders for the trust they have placed in this Administration. We have an adequate Strategic Plan that responds to the challenges of the environment and is progressing at a firm pace. The work done in the past few years is already generating tangible results; however, much remains to be done. We have strong competitive advantages – a market leadership position, capacity for innovation, anticipation and flexibility to adapt to changes in the environment – which, along with an experienced team and a solid strategy, will enable us to reach our targets, reaffirming our commitment to create value for our shareholders, customers, collaborators and society.

Best regards,



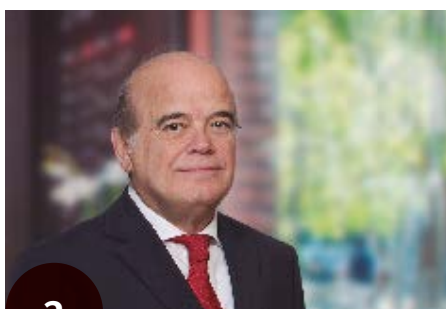
**Claudio Melandri Hinojosa**  
GENERAL MANAGER AND COUNTRY HEAD

## THE BOARD

The Bank's directors actively participate in the management committees and most of them are external to the Santander Group.



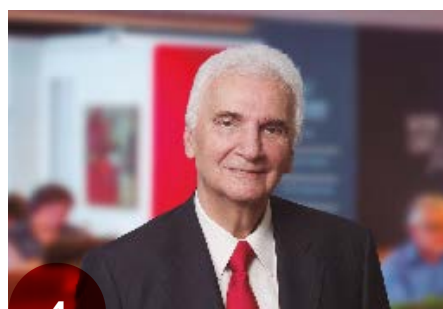
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1 **VITTORIO CORBO LIOI**  
Chairman

2 **ÓSCAR VON CHRISMAR CARVAJAL**  
First Vice-Chairman

3 **ROBERTO MÉNDEZ TORRES**  
Second Vice-Chairman

4 **MARCO COLODRO HADJES**  
Director

5 **ANA DORREGO DE CARLOS**  
Director

6 **MAURICIO LARRAÍN GARCÉS**  
Director



**7 ANDREU PLAZA LÓPEZ**  
Director

**8 ORLANDO POBLETE ITURRATE**  
Director

**9 LUCÍA SANTA CRUZ SUTIL**  
Director

**10 JUAN PEDRO SANTA MARÍA PÉREZ**  
Director

**11 ROBERTO ZAHLER MAYANZ**  
Director

**12 BLANCA BUSTAMANTE BRAVO**  
Alternate Director

**13 RAIMUNDO MONGE ZEGERS**  
Alternate Director



### 1. VITTORIO CORBO LIOI

#### Chairman

He is a senior associate researcher at the Center of Public Studies (CEP). He is also a member of the Resolution Council of Parliamentary Allowances of the Chilean National Congress and a member of the International Advisory Council of the Center for Social and Economic Research (CASE) in Warsaw, Poland.

He was the president of the Chilean Central Bank (2003-2007) and has been an economics professor in universities in Canada, Chile and the United States. He is currently an Economics professor at the Pontificia Universidad Católica de Chile and at the Universidad de Chile.

In the past few years he chaired a commission to update the structural balance regulation. He was a member of the Engel Commission and formed part of a working group named by the treasury minister to make recommendations centered on modernizing banking regulations.

He served in executive positions in the World Bank in Washington, DC (1984-1991), and has advised and worked in over 15 countries and has given seminars in the main universities and central banks worldwide.

In the business area he is the chairman of the Board of Banco Santander Chile, a director of the Grupo Santander México, and director of CCU. He is also an economic adviser to large domestic and foreign companies.

He has published and edited 11 books and over 100 articles in international magazines specialized in economy and in chapters of books. In 2006 he was elected the Central Bank President of the Year worldwide by the magazine Global Finance Report Card. In 2003, the newspaper El Mercurio named him Economist of the Year and in 2004 he received the Business Manager ("Ingeniero Comercial") of the Year award from the Fundación de Egresados de Ingeniería Comercial of the Universidad de Chile. In 2015 he received the Inbest award for his contribution to the development of the Chilean capitals market. He obtained his degree in business management from the Universidad de Chile (with highest honors), and a PhD in Economics from MIT.

### 2. ÓSCAR VON CHRISMAR CARVAJAL

#### First vice-chairman

He joined Banco Santander in 1990 as the general assistant manager of the Financial Area. Between 1995 and 1996 he was the general manager of Banco Santander Peru. In 1997 he became the general manager of Santander in Chile, a position that he left in December 2009 to join the board, of which he is currently the first vice-president. He is a director of the Santiago Stock Exchange and of Santander Consumer Chile, and until 2016 was a director of Banco Santander in Argentina and Peru.

Before joining the Grupo Santander he worked as the manager of the Financial Division at Morgan Bank and manager of the Financial Area at ING Bank. He has over 25 years of experience in banking. He holds a degree in civil engineering from the Universidad de Santiago, with specialization studies in the United States and Europe.

### 3. ROBERTO MÉNDEZ TORRES

#### Second vice-chairman

He is the director and president of Adimark GfK. As well as being the second vice-chairman of the Board of Banco Santander Chile, he is the chairman of the Board of Universia Chile. He was the chairman of the Board of the Instituto Chileno de Administración Racional de Empresas (Chilean Institute for the Rational Administration of Companies), ICARE. He worked on the Advisory Council for Fundación Paz Ciudadana.

He holds a degree in business management from the Pontificia Universidad Católica de Chile, from which he received the Business Manager of the Year award in 2010. He holds an MBA from Stanford University and a PhD from the same university, with a specialization in Consumer Research.

### 4. MARCO COLODRO HADJES

#### Director

He is a director of Telefónica Chile. He was a vice-chairman and member of the Managing Board of Banco Estado, director of the Corporación Nacional del Cobre (CODELCO) and chairman of the board of Televisión Nacional de Chile.

He holds a degree in business management from the Universidad de Chile and has postgraduate studies in the École Pratique des Hautes Études at the University of Paris.

### 5. ANA DORREGO DE CARLOS

#### Director

She has worked in Financial Planning and Corporate Development of the Santander Group during the last eleven years, coordinating the entity's planning processes and the follow-up of the various Group units and projects. In addition, she has participated in the coordination of processes of acquisition and integration of the Santander Group in various geographical locations.

She was a director of e-business Development at Santander and previously worked as a corporate client relationship manager and as a commercial director of Transactional Banking at Bankinter.

She holds a degree in Business Administration from the Universidad Pontificia de Comillas ICAI-ICADE, and holds an International MBA from the Universidad de Deusto-Bilbao, in Spain, and Adolfo Ibáñez, Miami-Chile.

### 6. MAURICIO LARRAÍN GARCÉS

#### Director

He was president of Banco Santander between 2002 and 2014 and its vice-president from 1992 to 2001. He was also the general director of the ESE Business School of the Universidad de Los Andes and is a director of Inversiones Volcán Choshuenco S.A. (Wolf von Appen Family Group).

He participates on the boards of the Corporación Adelanto de Panguipulli, Fundación Huasos Quincheros and the Hospital Clínico of the Universidad de Los Andes. He is also the vice-president of the Board of the Santiago Municipal Theater, and is a director of the Instituto de Obras para la Religión (I.O.R.) of the Vatican State.

He was the banks sub-treasurer, External debt manager of the Chilean Central Bank, and a senior financial specialist at the World Bank in Washington, D.C. He was also president of the Instituto de Capacitación y Administración Racional de Empresas, ICARE.

He is an attorney, holding a masters from the Economy Program of the Pontificia Universidad Católica de Chile, and a masters in Law from Harvard University.

#### 7. ANDREU PLAZA LÓPEZ

Director

He was appointed as responsible for the Technological and Operations Division of the Santander Group in January 2012, when he was a director of Technology and Operations (Retail and Business Banking) in Santander UK.

He holds a degree in Mathematics from the Universidad Autónoma de Barcelona, and holds several Masters degrees in the financial and banking area from Stanford University, Insead, The Warton School and ESADE.

Before joining Santander, he was the executive vice-president and has been a member of the Management Committee of Caixa Catalunya since 1998, a member of the Servired board and also of the Aula Escola Eurpoea.

#### 8. ORLANDO POBLETE ITURRATE

Director

He has worked as a professor of Procedural Law at the Universidad de los Andes since 1991. Between 1997 and 2004 he was dean of the Law faculty of that university and since then to 2014 he was its chancellor. In 2014 he joined, and is still a member of, the Management Board of that educational institution.

He is partner of the law firm Orlando Poblete y Cía., and a member of the arbitration body of the Center for Arbitration and Mediation of the Santiago Chamber of Commerce. Between 1979 and 1991 he worked as a Procedural Law professor at the Universidad de Chile.

He holds a degree in law from the Universidad de Chile and a Masters in law from the same university. He also graduated from the Companies' Senior Management Program PADE at the ESE Business School of the Universidad de los Andes.

#### 9. LUCÍA SANTA CRUZ SUTIL

Director

She is a member of the Academy of Social, Political and Moral Sciences of the Instituto de Chile; a member of the Board of the Universidad Adolfo Ibáñez; director of the Compañía de Seguros Generales and of Vida La Chilena Consolidada, and is a member of the Nestlé Chile advisory council.

She is a member of the Self-Regulation Council of the Insurance Companies She holds a degree in history from London

University and a masters in Philosophy from Oxford University. She obtained a Doctor Honoris Causa in Social Sciences at King's College, London University.

#### 10. JUAN PEDRO SANTA MARÍA PÉREZ

Director

He has been a corporate legal director of the Santander Group in Chile and an inspector of the Banco Santander Chile, Banco O'Higgins, and of Banco Santiago. He has been chairman of the Legal Committee of the Association of Banks and Financial Institutions for over 20 years and the pro tempore chairman of the Financial Law Committee of the Federation of Latin American Banks (FELABAN).

He is a member of the Council of the Santiago Arbitration and Mediation Center of the Santiago Chamber of Commerce and a vice-president of Santander Chile Holding S.A. He holds a degree in law from the Pontificia Universidad Católica de Chile.

#### 11. ROBERTO ZAHLER MAYANZ

Director

He is the president of the consulting firm Zahler & Co. and a consultant at the World Bank, the Inter-American Development Bank (IDB), the Bank for International Settlements (BIS) and at the International Monetary Fund (IMF).

He was a member of the Senior Advisory group to the president of the IDB, of the Latin American Committee on Financial Affairs (CLAAF), and of the Non-G-7 Eminent Persons Group for the new Architecture for the International Financial System. He was a visiting professor at the IMF's Research Department.

He was a director of Air Liquide-Chile and of the Banco Santiago, and Chairman of the Board of Siemens-Chile.

Between 1991 and 1996 he was the President of the Chilean Central Bank, and between 1989 and 1991 he was its Vice-President. Prior to that he was the principal regional adviser on monetary and financial policy of the Economic Commission for Latin America and the Caribbean (ECLAC), of the United Nations, and a professor-researcher at the Economic Sciences Faculty of the Universidad de Chile.

He has provided technical assistance to central banks, finance ministries and financial institution regulating Superintendencies

in Argentina, Barbados, Bolivia, Brazil, Colombia, Costa Rica, Ecuador, Guatemala, Indonesia, Jamaica, Kosovo, Mexico, the Dominican Republic, Uruguay and Paraguay; to the International Fund for Agricultural Development (FIDA) and to the Economic Commission for Africa (CEA), both of the United Nations.

He is the author of over one hundred articles in books and in Chilean and international magazines.

He holds a masters from the University of Chicago and a degree in business management with a minor in Economics from the Universidad de Chile, where he has been a professor of Macroeconomics, International Economics and Theory and Monetary Policy.

#### 12. BLANCA BUSTAMENTE BRAVO

Alternate Director

She holds a degree in business management with a minor in Economics from the Pontificia Universidad Católica de Chile. Her professional experience includes the position of economic analyst in the Chilean Central Bank, studies analyst at Oppenheimer & Co. New York and at IM Trust.

In 1998 she joined Concha y Toro as head of Investor Relations, a position that she held until 2010. In 2001 she also became the assistant manager of corporate communications of that company, and is currently also responsible for community relations.

Since 2013 she has participated as a member of the Management Council of the Concha y Toro Research and Innovation Center.

#### 13. RAIMUNDO MONGE ZEGERS

Alternate Director

He is a corporate director of Strategic and Financial Planning and the general manager of Santander Chile Holding, an entity that groups the investments of the Santander Group in Chile. It is responsible for the coordination and follow-up of the Group's global strategy and of its relationship with investors.

Prior to this he exercised other functions with the Santander Chile Group, which he joined in 1991 from the Central Bank. Among them, he was the financial director and the Planning and Studies Manager.

He holds a degree in business management from the Universidad Católica de Chile, and an MBA from the University of California Los Angeles (UCLA).

## ADMINISTRATION



**1 CLAUDIO MELANDRI HINOJOSA**  
General Manager and Country Head

**2 MIGUEL MATA HUERTA**  
General Assistant Manager

**3 GUILLERMO SABATER MAROTO**  
Financial Controller

**4 FRED MELLER SUNKEL**  
General Director Santander GCB

**5 CRISTIÁN FLORENCE KAUER**  
Legal Division Manager

**6 JOSÉ MANUEL MANZANO TAGLE**  
Company and Institutions Banking Division Manager

**7 CARLOS VOLANTE NEIRA**  
Customers and Quality Division Manager

**8 MATÍAS SÁNCHEZ GARCÍA**  
Commercial Banking Division Manager

Banco Santander has a simple structure, with three large business areas and eight support areas that enable it to operate with efficiency and agility.



**9 EMILIANO MURATORE**  
Chief Financial Officer (CFO)

**10 MARÍA EUGENIA DE LA FUENTE NÚÑEZ**  
Persons and Communications Division  
Manager

**11 FRANCO RIZZA**  
Risks Division Manager

**12 RICARDO BARTEL JEFFERY**  
Technology and Operations Division Manager

**13 SERGIO ÁVILA SALAS**  
Administration Division Manager

**14 RICARDO MARTÍNEZ SÁNCHEZ**  
Audit Division Manager



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# Corporate governance





## CORPORATE GOVERNANCE MODEL

Banco Santander's business activity is supported on a robust corporate governance model that responds to the highest standards and international best practices, and fulfills a key role in risk management. Along these lines, procedures and policies have been established that guarantee the rights of all of the shareholders, with administration practices based on ethical and legal principles. This is fundamental to the Bank's sustainability strategy since it promotes the effective and efficient management of resources, providing a healthy internal control environment that contributes to the creation of value for its shareholders and interested public.

Transparency, effectiveness and the defense of the interests of the company and the shareholders are the principles that guide the corporate governance model. Along with this, it exercises a marked leadership in the Bank's strategy and policies, which enables it to provide confidence to its customers, employees and society as a whole.

### Parameters and standards

**The performance parameters for corporate governance of Banco Santander are governed by the directives proposed by the Basel Committee\_**

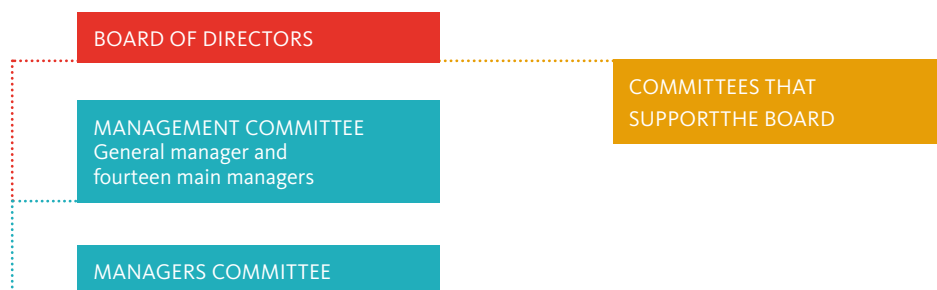
- 1 Close supervision by the board of Directors and senior management.
- 2 Organization structure that is simple and clear.
- 3 Robust system of internal control.
- 4 Constant determination and monitoring of risks.
- 5 Independent internal and external audit.
- 6 Supervision of subsidiaries.
- 7 Design for the compensation of executives with long-term plans.

**The standards defined to achieve these objectives are the following\_**

- 1 **Independence of the directors\_** eight of the thirteen members of the Board are external to the Santander Group.
- 2 **Participation\_** the directors are active members of the management committees.
- 3 **Ethics\_** all staff sign the Banco Santander Ethics Code. The employees directly related to the securities market also sign a Conduct Code especially designed for that area.
- 4 **Separation of functions\_** to effectively handle risks, the commercial and support areas are divided. Risk management is done by teams that are not the commercial teams, and the main credit decisions are made by committees.
- 5 **Independent Audit\_** there is an autonomous area within the Bank that carries out the control activities.
- 6 **Compliance\_** the area of Compliance ensures the application of the Bank's ethics codes, the Chilean corporate governance rules and the Sarbanes Oxley Act of the United States, as well as the Basel criteria in this regard.
- 7 **Supervision\_** the Bank is supervised by the Superintendence of Banks and Financial Institutions of Chile and by the U.S. Securities and Exchange Commission (SEC).

# CORPORATE GOVERNANCE BODIES

Taking into consideration the OECD principles, Banco Santander Corporate Governance is organized into three levels\_



## General shareholders' meetings

This corporate governance entity is governed by the Public Companies Law, other regulations applicable to banking institutions and by the Banco Santander Chile statutes.

The quorum for the meetings is the absolute majority of the issued shares with voting rights (unless the statutes or a specific law determines another quorum), and in a second meeting, with the shareholders present.

In order to hold the Meeting, a series of formal requirements must be met, such as a meeting notice sent by the Board, publications in a newspaper, sending a letter or e-mail to shareholders, quorum and the presence of a notary public, among others.

Among the decisions made in the Ordinary Shareholders' Meeting of April 2016 is the approval of the annual report, balance sheet, financial statements and report by the 2015 external auditors, the approval of

the appointment of external auditors and that of private risk classifiers for 2016, and the approval of the distribution of the 2015 profits. Regarding the latter, the Meeting approved capitalizing 25% of the profits corresponding to the financial year 2015 to reserves, a sum equivalent to \$ 112,219 million. The remaining 75%, equivalent to \$ 336,359 million, was used to pay dividends, a sum which translates into a dividend per share of \$ 1.78649813.

In the same way, it named the directors Ana Dorrego and Andreu Plaza, established the remuneration of the Board, approved the Report of the Directors and Audit Committee, determined the remuneration of its members, and the expense budget for its operation.



The transparency, effectiveness and defense of the interests of the company and of the shareholders are the principles that guide the corporate governance function.

### Composition of the Board

Name	Position	External
Vittorio Corbo Lioi	Chairman	Yes
Óscar von Chrismar Carvajal	First Vice-Chairman	No
Roberto Méndez Torres	Second Vice-Chairman	Yes
Marco Colodro Hadjes	Director	Yes
Ana Dorrego de Carlos	Director	No
Mauricio Larraín Garcés	Director	Yes
Andreu Plaza López	Director	No
Orlando Poblete Iturrate	Director	Yes
Lucía Santa Cruz Sutil	Director	Yes
Juan Pedro Santa María Pérez	Director	No
Roberto Zahler Mayanz	Director	Yes
Blanca Bustamante Bravo	Alternate Director	Yes
Raimundo Monge Zegers	Alternate Director	No

### Board

The Bank's highest governance body is the Board, which represents the interests of all of the shareholders and has a structure in line with the size of the institution.

Its main functions are establishing strategic guidelines, the global monitoring of business and results, and the analysis of opportunities and threats. Also, the Board is especially involved in the management and decision-making regarding all of the risks faced by the Bank. This means that it must approve and monitor the risk framework and the appetite for risk, and its overlap with the business plans, ensure correct reporting by all of the units and ensure the operation of the three lines of defense (business and origin of risks, control of risks and compliance, and internal audit).

In accordance with the statutes, it is comprised of thirteen members, eleven directors and two alternate directors. Of the current members, eight directors are external to the Santander Group. The members have been chosen for their outstanding experience, high degree of knowledge and national and international experience in the financial sector.

All of the directors are members of several working committees, where they are informed in detail of the management of the company. The Board meetings are held once a month and during 2016 attendance by the current directors, including the alternates, was 88%.

### Changes in the Board

In the Board meeting held on March 15, 2016, the director Víctor Arbulú resigned, and Ana Dorrego de Carlos and Andreu Plaza López were proposed as directors (to replace Víctor Arbulú and Lisandro Serrano, who had resigned in October 2015). These directors were formally appointed in the Shareholders' Meeting on April 26, 2016.

### Self-assessment of the Board

The observations made on the previous process carried out by Amrop MV Consulting continued to be implemented during 2016. Amrop MV Consulting is an external company that was requested to support the Board in its self-assessment of international good practice of corporate governance included among the regulations issued by our country's banking authorities and that the Bank has been applying for the past five years. The next self-assessment of the Board will be done in 2017.

### Committees that support the Board

The members of the Board actively participate in industrial management, leading the main policies and strategies, in line with the Bank's Mission and Vision. All of the directors are members of the various committees that support the Board that ensure the application of the governability practices and guarantee the transparency, responsibility, effectiveness and defense of the shareholders' interests. These instances enable them to inform themselves in detail regarding the evolution of the business and decision-making.

The committees meet regularly, with established frequencies, with a subrogation system, formal minutes and follow-up of the decisions made.

There were some changes involving the members of the committees during 2016. Also, the Compliance Manager was permanently invited to the Integral Risks Committee, which incorporated as a function the review of risks regarding compliance and reputational risk.

The functions of the Human Resources Committee and the Analysis and Resolution Committee (CAR) were also strengthened. In relation to the latter, the information was enriched for the analysis of non-habitual customer operations in the framework of the prevention of money laundering and financing of terrorism.

## Committees comprised of directors

### Audit Committee (CDA)

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**MEMBERS\_** Marco Colodro / Chairman, Mauricio Larraín / First Vice-Chairman, Orlando Poblete / Second Vice-Chairman.

**FREQUENCY\_** Monthly, prior to the Board meetings.

**FUNCTIONS\_** The Audit Committee is a body established by the Bank's statutes, whose members are chosen by the Board. It has the primary purpose of supervising Banco Santander Chile and its subsidiaries in the process of generating the institution's financial statements, the management of the internal and external auditors in that process so that the institution delivers adequate information to the shareholders, investors and public in general, and ensuring the efficiency of the company's internal control systems and compliance with the rules and regulations applicable to it.

### Integral Risk (CIR)

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**MEMBERS\_** Óscar von Chrismar / Chairman, Juan Pedro Santa María / First Vice-Chairman, Roberto Méndez / Second Vice-Chairman, Raimundo Monge, Roberto Zahler.

**FREQUENCY\_** Fortnightly.

**FUNCTIONS\_** Supervises as a function of the integral vision of the risks to which the Bank is exposed, and the analysis and assessment of all of the risks defined in the perimeter are subject to analysis and assessment. It also analyzes and assesses the interrelationship between the various risks.

As specific objectives, it reviews behavior, or metrics and indicators, in order to verify compliance with the appetites for risk and/or with limits or thresholds associated with the different risks of the business. It also examines the operation of critical areas and/or processes, in order to identify, when applicable, the implementation of action plans oriented towards mitigating risks.

### Analysis and Resolution (CAR)

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**MEMBERS\_** Juan Pedro Santa María / Chairman, Raimundo Monge / First Vice-Chairman.

**FREQUENCY\_** Monthly, specifically the second Monday of each month.

**FUNCTIONS\_** Its function is to define and monitor compliance with the policies, regulations and general and specific objectives on the issues of prevention of money laundering and the financing of terrorism, in accordance with local and international laws and the regulations applicable to the Bank.

### Assets and Liabilities (ALCO)

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**MEMBERS\_** Vittorio Corbo / Chairman, Óscar von Chrismar / Firstvice-chairman, Roberto Zahler / Second vice-chairman, Marco Colodro, Raimundo Monge.

**FREQUENCY\_** Monthly.

**FUNCTIONS\_** The objective of the ALCO Committee is to make decisions regarding new transactions and changes in the profitability-risk profile of the entity, in accordance with the expectations of the business and the markets. It must also decide on the strategies that will orient the daily work of managing the Bank's structural risks and liquidity.

### Markets

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**MEMBERS\_** Vittorio Corbo / Chairman, Óscar von Chrismar/ First Vice-President, Roberto Zahler / Second Vice-President, Marco Colodro.

**FREQUENCY\_** Monthly, specifically the second Thursday of each month.

**FUNCTIONS\_** Its function is to set out and analyze the main economic and risk factors that directly affect the results of the investment portfolios. Based on this, it makes recommendations regarding the appetite for risk and the positions taken by the Bank.

### Human Resources

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**MEMBERS\_** Vittorio Corbo / Chairman, Mauricio Larraín / Vice-chairman, Óscar von Chrismar, Blanca Bustamante.

**FREQUENCY\_** Bi-yearly, in March and November.

**FUNCTIONS\_** Must generate and validate the line of action of the Persons Division in relation to the general Banco Santander Human Resources policies.

### Strategy

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**MEMBERS\_** Vittorio Corbo / Chairman, Roberto Méndez / Vice-chairman, Óscar von Chrismar, Lucía Santa Cruz, Raimundo Monge / Secretary.

**FREQUENCY\_** Bi-yearly.

**FUNCTIONS\_** Its function is to assess and define the main objectives and guidelines for the preparation of the Bank's Strategic Plan. Additionally, to approve the plan defined by the Bank's Senior Management Bank as a whole and for the various business units, as well as conducting a periodic follow-up of the progress of the plan.

The committees formed by the directors have strengthened their role and have adapted to the new corporate governance requirements.

Among the most important functions of the Audit Committee is informing themselves, analyzing and stating their opinion on the Bank's financial statements, and ensuring the efficiency of the internal control systems.

#### Audit Committee

Law 18.046 for Public Companies requires entities that meet certain conditions to have a directors committee whose functions are also established in that law.

The Superintendence of Banking and Financial Institutions (SBIF) requires that banks must have an audit committee that answers to the Board, and indicates its functions in that regulation.

In addition, the Sarbans Oxley Law of the United States requires companies that are registered in that country, such as Banco Santander Chile, to have an audit committee.

The SBIF allows the directors and audit committees of banks to function as a single entity, and the Board of Banco Santander Chile decided to do this. Pursuant to this, the statutes of the Audit Committee, approved at the time by the Board, contain as its functions the entirety of the task assigned to audit committees by Law 18.046, by the regulations of the Superintendence referred to, and by the provisions of the Sarbanes Oxley law.

In accordance with the statutes of the Audit Committee, it is comprised of three directors that meet the conditions of sufficient independence. During the 2016 financial year, the members of the committee were Marco Colodro Hadjes, chairman; Víctor Arbulú Crousillat, vice-chairman, and Orlando Poblete Iturrate, second vice-chairman.

In March 2016, Víctor Arbulú resigned as director of the Bank and as a consequence his position on the Audit Committee was then vacant, so the Board appointed his replacement, in April 2016, as the director Mauricio Larraín Garcés.

The Committee has met 12 times during the 2016 financial year and has informed the Board regarding the issues addressed, without prejudice to subsequently sending the directors the minutes of the Committee meetings once they were approved.

#### Committee Functions

##### INTERNAL AUDIT

The Bank's Internal Audit unit answers to the Committee and because of this, the annual work program was proposed and approved at the start of the year, following-up on the work planned in each meeting. It must be indicated that the program had been completely complied with by the end of the year.

In each ordinary meeting, the unit director explains in detail each and every one of the audit reports issued, summarizing the conclusions and classifying the unit or process audited with its corresponding rating. He also reports on the status of compliance with the recommendations made and the Committee follows up on its progress.

##### EXTERNAL AUDITORS

The Committee must propose external auditors for each financial year to the Board. In turn, the Board makes a proposal to the Ordinary Shareholders' Meeting, which finally makes the appointment. The Committee proposed the firm PricewaterhouseCoopers Consultores, Auditores y Compañía Limitada for the financial statements of the 2016 financial year. This firm was chosen by the Shareholders' Meeting.

Without prejudice to this, Deloitte Auditores y Consultores Limitada attended the Committee until it finalized its work regarding compliance by the Bank's financial statements and those of its subsidiaries corresponding to the 2015 financial year. In parallel to this, the Committee has met with PwC, beginning by receiving the year's work program and analyzing it with its representatives. The auditors will state their opinion on the financial statements of the Bank and its subsidiaries and will also report on the internal control situation. The observations made by the auditors in their final report give rise to a strict follow-up monitored by the Committee month-by-month, and at the end of the year, all had been complied with.



### **FINANCIAL STATEMENTS AND INTERNAL CONTROL**

Among the most important functions of the Audit Committee are informing itself, analyzing and stating its opinion on the Bank's financial statements and ensuring the efficiency of the internal control systems, and in particular, the sufficiency of provisions. This involves the interim financial statements as well as the final financial statements issued at the end of the financial year. Considering that the Bank is registered in the United States, it must also issue document 20-F, which contains the financial information at the year-end and is submitted to the authorities in that country.

Regarding internal control, during the financial year the Committee received information on the progress of the various processes from the department in charge, which concluded in the methodologically supported affirmation that the Bank's internal control is satisfactory.

### **FOLLOW-UP OF SBIF AUDITS**

The Committee continuously follows up on the progress and timely compliance with all of the recommendations made by the supervising authority as a result of its annual visits. For this it receives a monthly report from the department responsible for coordination with the various areas responsible. If in its opinion an observation is not dealt with adequately in its implementation, management is informed of the subject in order for progress to be made.

### **OPERATIONS WITH RELATED PARTIES**

One of the tasks that Law 18.046 for Public Companies gives to the Directors Committee is to state its opinion on the operations realized by the Bank with companies or people that are linked to it by ownership or by management, in the terms defined by the law. The objective of this analysis is that such business be done under market conditions, that is, that the terms agreed are fair. The Committee has dedicated a fair amount of time to the analysis of these operations, particularly in technological services contracts for the Bank, which the Santander Group provides through specialized professional entities, so achieving technology that is not only homogenous but is also of international level, and also ensuring the best security possible. For each operation presented, the Committee requests a reasoned and professional explanation, and especially, objective documents regarding the values to be paid for the service requested. Also the Technology department must periodically report on the budgets for technology, their compliance and the result, explaining any differences.

The contracts are submitted to the Board for approval, if it considers this applicable, and the Committee chairman formally notes this approval.

### **COMPLIANCE WITH AND PREVENTION OF MONEY LAUNDERING AND FINANCING OF TERRORISM**

During the financial year, the Committee received information from the Compliance department and analyzed the main aspects associated with the applicable regulations or those that affect the Bank, possible penalties that the authorities could apply to it and compliance with the codes of conduct, among others. Also, information has been compiled and analysis done of the system for the prevention of money laundering, whose operation is currently supported through a high-level IT tool named NORCOM.

Linked to the compliance issues, the Committee has been monitoring the regulatory aspects that have an impact on the rules of the United States: FATCA and the Volcker Rule. These regulations, which affect the Bank's commercial and financial relationship with that country, have obligated it to develop a complex control system and train operators in order to comply with the regulation.

### **CONFIDENTIAL INBOX**

The Committee makes a confidential communication system available to Bank employees, through which they can address it directly to report irregular, conflictive or potentially dangerous situations. With the purpose of providing even more privacy to the system, with regards to the organization,

### Award for transparency

Banco Santander obtained first place in the Corporate Transparency Ranking 2016, prepared by the consultants Inteligencia de Negocios (IdN), in which it obtained an unprecedented score.

The ranking considered over 140 variables, highlighting the entities with the most

transparent corporate information through their websites and public report, making available the presentation of the company and its business, corporate governance, financial information for investors, and social and environmental responsibility, among others, available to the various audiences.

a new Complaints inbox was implemented, administered by an external provider, a leader in these subjects internationally, an initiative that was implemented around a dissemination plan to ensure the success of the project.

The inbox has received 194 communications in the past three years. Of them, 192 are closed, with 2 pending.

### JUDICIAL TRIALS THAT MAY AFFECT THE BANK

Every quarter, the Committee received full information on the status of trials that affect the Bank. The legal department explains the issues that could be more risky, as well as any provisions that should be made to face an adverse outcome. Given the importance of the reputational risk for the Bank, the legal department divided each presentation of trials by amount and reputational risk. This information includes all matters in Santiago as well as in the regions, and their corresponding procedural status.

### Management of conflicts of interest

From the point of view of corporate governance, the procedures to avoid possible conflicts of interest in the operation of the Board are established in the "Manual on managing and disclosing information to the market", and the corporation's Code of Ethics.

In the perspective of the Bank's operations, it must be highlighted that a new map of conflicts of interest was prepared during the year. For this the most sensitive areas were selected and the potential problems identified. The existing controls to prevent or manage them were then established, and their effectiveness was analyzed, as well as the level of residual risk once the controls were applied.

In this way a dashboard was structured that established the possible conflicts and mitigating actions for the areas of Corporate Finance, Credit Market, Private Banking and Global Transactional Banking.

### Relationship with shareholders

In 2016 the dividends reinvestment program was launched, oriented towards the Banco Santander retail shareholders. The program offers reinvesting the dividends they receive from their Santander Chile shares in shares of the Bank.

How it operates\_

- Annual reinvestment beginning with the deposit of the last dividend paid.
- The sum of the annual dividend approved by the Ordinary Shareholders' Meeting will be paid to the shareholder in accordance with the payment modality it has registered with the Shareholders Department.

- The Santander Chile shareholder has up to one year to reinvest its dividend in the purchase of Banco Santander Chile shares.
- The investment in Santander Chile shares is done without any cost or commissions for the shareholder.

In the regulatory area, at the end of 2015, the SBIF issued circular 3.597, through which it instructs that the information enabling the identification of the assets and liabilities of the controlling shareholders should be submitted at the latest on July 31 of each year. For this, the banks must send their consolidated financial statements at December 31, duly audited.

This instruction states that the Board must ensure the existence of appropriate channels of communication with the Bank's controlling shareholders, in order to inform them in a timely manner of the contents of the circular and the requirements for information.

It also makes it responsible for organizing the delivery of the information that must be submitted to the SBIF through the Bank.

It must be noted that in 2016, the Banco Santander Investor Relations area and Shareholders Department generated an active agenda to keep the shareholders and investors informed on the progress of the Bank and the country. This included meetings, webcasts, telephone conferences

and other events. In 2016 over 730 instances of communication took place in 10 countries, including analysts and investors, institutional as well as retail.

### SBIF emphasizes the role of the Board

On September 8, 2016, letter 12.293 was received from the SBIF, indicating that: “in aspects of corporate governance, an active role of the Board in the management of the Bank was verified, highlighting an adequate involvement in the management of the entity’s most significant risks.”

Also, the SBIF gave three recommendations to the Directors and Audit Committee, which have already been implemented.

### Retributive Policy policy

In the Ordinary Shareholders’ meeting held in April 2016, it was decided to maintain the monthly fees of each Bank director. This is 230 Unidades de Fomento, with this sum being doubled for the Chairman of the Board and increased by 50% in the case of the Vice-Chairmen.

Regarding the fees paid to the directors as members of any Committee, the following agreement was maintained\_

- 1 For being a member of one committee, the monthly fee for the directors will be 30 Unidades de Fomento.
- 2 For being a member of two committees, the monthly fee got the directors will be 30 Unidades de Fomento for each committee.
- 3 When directors participates in three or more committees, they will not receive any compensation in addition to the above numbers.

Name	Monthly Compensation	Monthly compensation as a committee member	Committees of which they are a member	Total
Vittorio Corbo Lioi	460 UF	120 UF	Chairman ALCO 60 UF Chairman HR 60UF	580 UF
Óscar von Chrismar Carvajal	345 UF	105 UF	Chairman CIR 60 UF Vice-chair. ALCO 45 UF	450 UF
Roberto Méndez Torres	345 UF	90 UF	Vice-chair. CIR 45 UF Vice-chair. Strategy 45 UF	435 UF
Marco Colodro Hadjes	230 UF	183 UF	Chairman CDA 154 UF ALCO 30 UF	413 UF
Ana Dorrego de Carlos <sup>1</sup>	N.A.	N.A.	N.A.	N.A.
Mauricio Larraín Garcés	230 UF	160 UF	Vice-chair. CDA 115 UF Vice-chair. RRHH 45 UF	390 UF
Andreu Plaza López <sup>1</sup>	N.A.	N.A.	N.A.	N.A.
Orlando Poblete Iturrate	230 UF	115 UF	Vice-chair. CDA 115 UF	345 UF
Lucía Santa Cruz Sutil	230 UF	30 UF	Strategic 30 UF	260 UF
Juan Pedro Santa María Pérez	230 UF	105 UF	Vice-chair. CIR 45 UF Vice-chair. CAR 60 UF	335 UF
Roberto Zahler Mayanz	230 UF	75 UF	Vice-chair. Markets 45 UF ALCO 30 UF	305 UF
Blanca Bustamante Bravo	230 UF	30 UF	HR 30 UF	260 UF
Raimundo Monge Zegers	230 UF	60 UF	Vice-chair. CIR 45 UF Vice-chair. CAR 45 UF	290 UF

Regarding the members of the Audit Committee, article 50 bis of the Public Companies Law states that an additional compensation that is not less than one third of the fee to which they have a right as Board members, which is 77 Unidades de Fomento, is obligatory payment for their extra functions.

The compensation of the directors that are members of a committee, including the Audit Committee, will be double for the committee chairman and 50% more in the case of vice-chairmen.

In accordance with that set out above, during 2016 the directors were paid the sum of \$ 1,269 million for the concept of monthly fees, charged to the profits of the financial year.

Regarding senior management, the Board, through the Human Resources committee, determined the main directives and remuneration policies for the primary managers and executives of the Bank. These have designed variable compensation plans linked to obtaining targets and objectives, whose compliance is assessed quarterly and/or annually. In addition, there are pluri-annual variable compensation plans oriented towards retaining and motivating executives,

1. The directors Ana Dorrego de Carlos and Andreu Plaza López have voluntarily waived their compensation as directors of Banco Santander SA.



and whose payment depends on the degree of obtaining targets, collective as well as individual, during a time horizon of over one year. During the 2016 financial year, the main managers of the Bank received \$ 51,594 million for the concept of compensation in line with the policies established by the Board.

### Management Committee and Managers Committee

The Management Committee is focused on obtaining top-quality management and execution. With this objective, it has the functions of coordinating the strategies and businesses, the detailed follow-up of the results, the transmission of the Board's directives, and the analysis of opportunities and threats. This committee is comprised of the general manager and the fourteen

main managers of the Bank, who represent the areas of Business, Risks and Support. This committee meets weekly, and it holds a special bi-annual meeting to review the Bank's progress.

The Managers' Committee is comprised of the Bank's main managers, selected in accordance with their merits and corporate criteria. This is the main instance for the communication of strategies and follow-up of the Bank's results, and one of its most important functions is the dissemination of specific initiatives and business and receiving the corresponding feedback.

It meets monthly and the managers have the obligation to transmit to their teams what was discussed in the meeting within one week. In larger teams, this re-transmission is done in a cascade, since the objective is that all employees receive this information.

### Sustainability management

Santander has socio-environmental policies that define prohibited activities (see page 66), and regulate restricted activities. The latter are only carried out after assessing the impacts of the operation in terms of compliance with the policy and the Ecuador Principles, if applicable. The Integral Risks Committee monitors compliance with and execution of these rules, and reports monthly to the Board.

Meanwhile, the Sustainability Committee, led by the general manager and country head, Claudio Melandri, and formed of senior management, ensures the integration of sustainability in the business model.



# ETHICAL FRAMEWORK

In accordance with its Mission and Vision, Banco Santander has several instruments that define conduct, principles and values that are transversal to the institution. In this way it protects the company's interests and those of its shareholders, and provides confidence to the market. The actions of all of the Bank's managers should be guided by the principles mentioned below.

1

## EQUAL OPPORTUNITY AND NON-DISCRIMINATION

Providing the same opportunities regarding access to work and professional promotion constitutes a basic principle of actions in Banco Santander, ensuring at all times the absence of discrimination due to gender or sexual orientation, race, religion, origin, marital status or social status.

2

## RESPECT FOR PEOPLE

Harassment, abuse, intimidation, lack of respect and consideration or any type of physical or verbal aggression are unacceptable and will not be permitted or tolerated at work, and those employees responsible for personnel in the Bank's organizational units must promote and ensure, with the means they have available, that these situations do not occur. All employees, and especially those who perform management duties, shall at all times promote, at all professional levels, relationships based on respect for the dignity of others, participation, fairness and reciprocal collaboration, providing a respectful working environment in order to achieve a positive working environment.

3

## WORK-LIFE BALANCE

In order to develop the commitment to social corporate responsibility assumed by the Bank to improve the quality of life of its employees and their families, a working environment that is compatible with personal development is promoted, helping people and teams to balance their work requirements with the needs of their personal and family lives in the best way possible.

4

## PREVENTION OF LABOR RISKS

Banco Santander considers that employees' health and safety is fundamental in order to achieve a comfortable and safe working environment, with a primary objective being the continuous improvement of working conditions.

5

## PROTECTION OF THE ENVIRONMENT AND SOCIAL AND ENVIRONMENTAL RESPONSIBILITY POLICIES

All employees, in the area of their skills, must actively and responsibly commit to the conservation of the environment, complying with the legal requirements, and following the recommendations and procedures established by the Bank in order to reduce the environmental impact of their activities and contribute towards improving the sustainability objective contained in the corporate social responsibility principles. The guidelines established in the internal social and environmental responsibility policies will be followed for making decisions on financing projects.

6

## COLLECTIVE RIGHTS

Employees must respect the rights to form unions, associations and collective bargaining, as well as the activities carried out by organizations that represent the employees, in accordance with their legally attributed functions and competencies, with whom a relationship based on mutual respect will be maintained in order to promote an open, transparent and constructive dialog that allows consolidating the objectives of social peace and job stability.



2

## Strategy



## MARKET ENVIRONMENT

In line with worldwide activity, Chile also recorded the lowest dynamism since the financial crisis.

### International and Chilean economies

During 2016, the world economy showed its lowest growth since the 2009 financial crisis, reaching an annual growth of 3.0%. In the first months of the year, the emerging markets were particularly affected by an increase in volatility, accompanied by exits of capital, drops in the prices of raw materials and more restrictive financing conditions. This was the consequence of weak economic figures in the U.S. and some difficulties in the Chinese financial market. This uncertainty decreased throughout the year, and this, along with the recovery of the credibility of the Chinese market and the delay in the increase of the interest rates in the U.S., led to a recovery of investors' appetites for assets with higher returns.

The U.S. grew 1.6%, explained mainly by higher spending on private consumption, and a recovery of investment beginning in the second semester. Inflation showed increased dynamism, reaching figures close to the target of 2.0%, which along with strengthened employment led the Fed to rise the interest rate in December, continuing with the monetary normalization process. In the Eurozone, growth reached 1.7%,

being heterogeneous between the various member countries. Inflation recovered ground, although the monetary stimuli by the European Central Bank continued. Meanwhile, unemployment fell, despite still having high values with respect to the levels prior to the financial crisis. In Asia, the Japanese economy showed a growth of 0.9%, largely explained by higher public spending, while private consumption did not grow. Inflation was negative, leading the Bank of Japan to establish negative interest rates beginning in the second semester. China grew 6.7%, above the lower of the objective range, although its investment component decelerated. Latin America showed a contraction of 0.7%, explained mainly by the economic situation in Brazil. However, inflation was adjusted in the region, although at the cost of higher unemployment.

In the political arena, there were surprises in the results of the vote in favor of the United Kingdom to leave the European Union, and in the U.S. presidential elections, while in Brazil the President was removed from office, all events that contributed to greater political uncertainty.



In line with worldwide activity, Chile also recorded the lowest economic dynamism since the financial crisis. Economic activity expanded 1.6% annually, affected mainly by lower internal demand due to a contraction of investment, although mitigated by a higher growth in consumption. On the other hand, the balance of trade had a positive contribution.

The result shows heterogeneities by economic sector. The mining sector contracted 2.9% in the year due to adjustments in the production of copper explained by the reduction in international prices. During the first three quarters, the price was an average of US\$ 2.14/lb, picking up beginning in November to average US\$ 2.54/lb in the last quarter of the year. The rest of the sectors grew 2.9% in the year, principally due to the performance of services and commerce, which expanded beyond the GDP.

The exchange rate showed an upward trend, reaching \$ 667 per dollar at the close of the period, an increase of 6.0% with respect to the previous year. This figure was below the forecasts made at the beginning of the year, and was mainly explained by the dynamics of the international dollar in the first semester and by higher copper prices during the

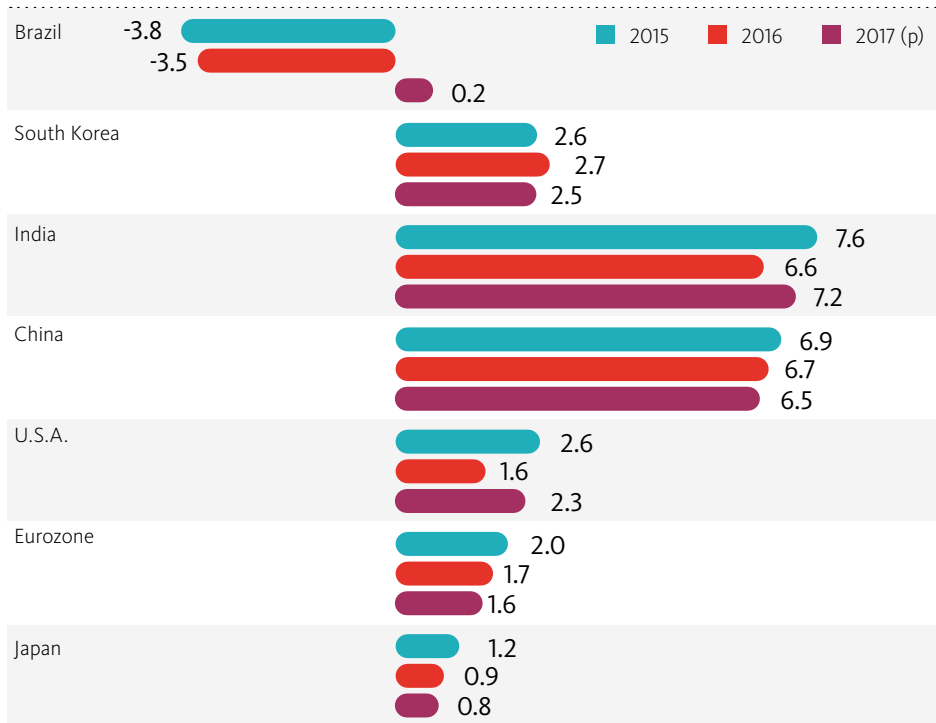
second semester.

After more than two years above the Central Bank target range, inflation decreased its expansion during the second part of the year, closing at 2.7% annually, explained largely by the increase in the exchange rate and by the difficulty in transferring higher costs to prices, given the weak expansion of internal demand. This dynamic generated room for the issuing entity to change the direction of the turn towards a more expansive monetary policy, after keeping the reference rate unaltered for the entire year. In 2017, cuts in the benchmark rate are expected, specifically during the first quarter.

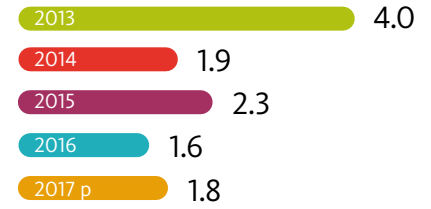
In summary, the economy showed weak growth during 2016, affected by the contraction of the mining sector. This dynamic will gain force throughout the next year, showing an evolution of less to more – mainly driven by internal consumption – finalizing 2017 with growth close to the potential product. Also, inflation should reach its minimum mid-year, to revert during the second part of the year, and end the period at 3.0% annual. If current copper and oil prices are sustained, the terms of exchange will show an improvement, strengthening domestic revenue.

Legislation and regulation showed progress in some areas. The Law on Productivity was passed during the “Year of productivity” driven by the Government, with the objective of deepening the financial system, promoting the export of services and simplifying procedures. The law creating the Financial Market Commission was also approved, in order to improve the supervision institutionality of the entire system, creating a collegiate entity with general regulating authority, the authority to review sanctions and the possibility of proposing regulatory amendments to the executive. A draft General Banking law is expected in the next legislative year, covering three areas in which there are gaps regarding international regulation: strengthening capital, establishing Basel III standards; corporate governance of the SBIF, and banking resolutions.

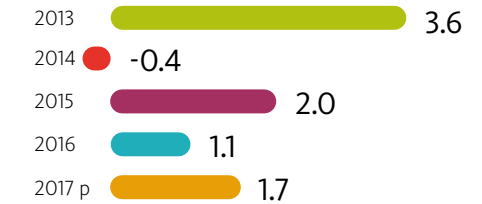
### Real GDP (VAR.% A/A)



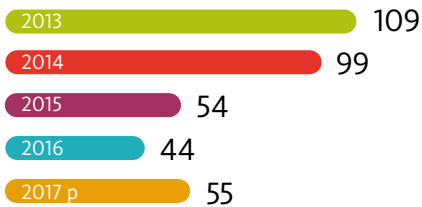
### Real GDP Chile (VAR.% A/A)



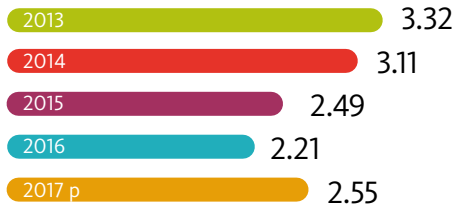
### Internal demand (VAR.% A/A)



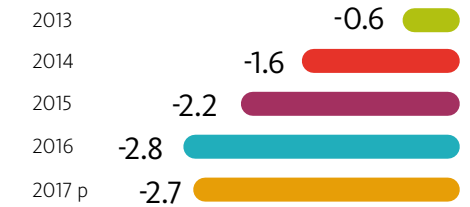
### Average Brent petrol price (US\$/BBL)



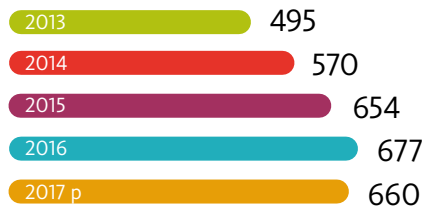
### Average copper price (US\$/LB)



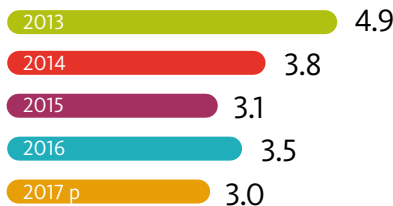
### Effective tax income(%GDP)



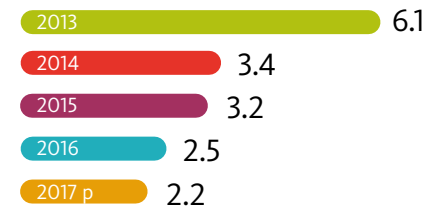
### Nominal average exchange rate (%/US\$)



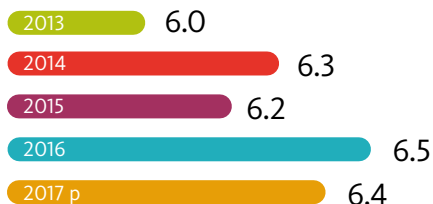
### Monetary policy rate (%)



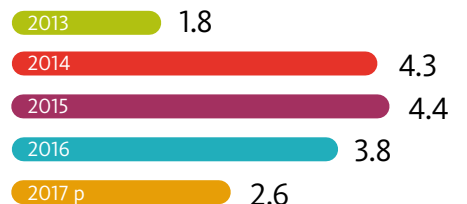
### Labor revenue (VAR.% A/A)



### Average unemployment (%)



### Average inflation (VAR.% A/A)



## Financial system

During 2016 the credit volumes of the financial system continued to grow, although at decreasing rates throughout the period, influenced by the continuous economic deceleration of the country during the year. This is how total loans increased 5.3% in nominal terms excluding the investment by Corpbanca in Colombia and by Bci in the U.S. – below the 11% recorded in 2015. The activity continued to be led by mortgage loans, which expanded 9.6% in nominal terms, less than the 15.0% recorded the previous year. It must be noted that during the first quarter of the year a peak of growth in mortgages was reached of around 17.0% annually, and then decelerated gradually throughout the year. This dynamic is due, in part, to lower inflation recorded in 2016 in comparison to the previous period, but mostly to the effects generated by the tax reform – approved in September 2014 – on the mortgages market. Commercial loans increased 3.0% nominal, less than the 9.2% in 2015. Finally, consumer loans rose 6.7% with a marked deceleration, especially during the first half of the year.

Total deposits increased 3.6% -excluding the Corpbanca investment in Columbia and Bci's investment in the U.S. – below the 10.5% in 2015. The dynamics of savings in the system responded to the global economic scenario and the deceleration of local placements. The low interest rates and lower inflation in the country pushed investors to seek other assets to invest in, such as mutual funds, which expanded 9.5% in the year, higher than the 5.6% in 2015, and fixed income.

In addition, the economic upturn shown by the United States continued to attract flows of capital from Latin America. With this, demand deposits increased 0.4% in comparison to 16.9% the previous year, while time deposits expanded 5.2%, below the 7.7% in 2015.

The portfolio quality remained stable after the improvement seen in 2015, despite the deceleration of the economy, a reflection of the efforts made by the industry to contain non-performing loans. This led to non-performing loans of 1.87% at the end of the year, slightly less than the 1.88% recorded at the end of the previous period. The risk or

expected loss index (understood to be the stock of total provisions over the portfolio of total loans) increased from 2.38% in 2015 to 2.50% at the close of the financial year, in part in response to the higher provisions recorded by the banks after the regulatory change in December 2015.

The results of the industry reflected the lower national economic dynamism, as well as lower inflation, despite the growth of loans and deposits. This led to growth of the financial margin of 0.9%, while net commissions showed an increase of 4.6% for the period. As well as this, a better portfolio quality was

achieved, continuing the trend of the previous year, which translated into a slight increase in net provisions, much below the loan growth. The foregoing was more than compensated by lower results from financial operations (ROF), higher other net operating expenses and higher support expenses. With this, profit before tax decreased by 9.9%. Tax expenses dropped 4.8%, despite the increase in the tax rate, which went from 22.5% in 2015 to 24.0% in 2016, following the 2014 tax reform. Finally, the net profit of the banking system reached \$ 1,964.9 million, 11.0% a less than that recorded the previous year.

### Summarized income statement (thousands of millions of pesos)

	2015	2016	VAR. 16/15
Financial margin	6.152,5	6.207,2	0,9%
Commissions	1.504,3	1.574,0	4,6%
<b>ROF</b>	<b>976,3</b>	<b>941,4</b>	<b>(3,6%)</b>
Other net operating income	(61,8)	(187,8)	203,9%
<b>Gross operating profit</b>	<b>8.571,3</b>	<b>8.534,8</b>	<b>(0,4%)</b>
Net provisions	(1.634,4)	(1.623,2)	(0,7%)
Support expenses	(4.236,4)	(4.486,1)	5,9%
<b>Profit before tax</b>	<b>2.725,1</b>	<b>2.456,4</b>	<b>(9,9%)</b>
<b>Taxes</b>	<b>(516,2)</b>	<b>(491,4)</b>	<b>(4,8%)</b>
<b>Net profit</b>	<b>2.208,9</b>	<b>1.964,9</b>	<b>(11,0%)</b>

### System indicators

	2014	2015	2016
ROA	1.37	1.07	0.93
Return on equity	18.2	14.7	11.6
<b>System BIS ratio</b>	<b>13.19</b>	<b>12.62</b>	<b>13.78</b>
Efficiencies	46.3	47.4	50.4
<b>Non-performing portfolio / total loans</b>	<b>2.08</b>	<b>1.88</b>	<b>1.87</b>
Expected loss	2.42	2.38	2.50
Credits / deposits <sup>1</sup>	95.2	89.7	89.6

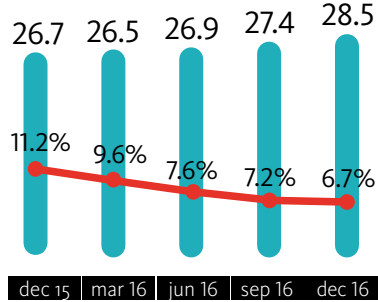
Source: Superintendencia of Banks and Financial Institutions.  
1. Credits excluding portion of mortgages financed with long-term bonds.



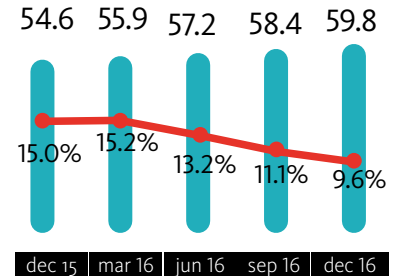
## Evolution of loans in the Chilean financial system

Thousands of millions of US\$ and annual var., %

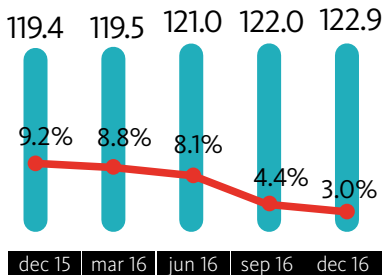
### CONSUMER LOANS



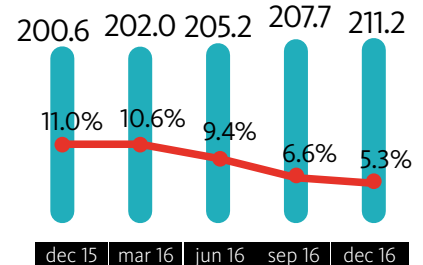
### MORTGAGE LOANS



### COMMERCIAL LOANS



### TOTAL LOANS



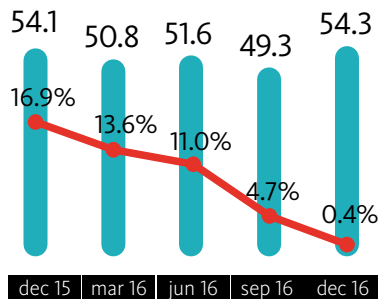
Excludes investment by Corpbanca in Colombia and by Bci in the U.S.A.

■ Variation

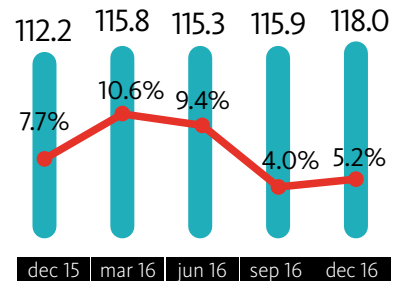
## Evolution of savings in the Chilean financial system

Thousands of millions of US\$ and annual var. %

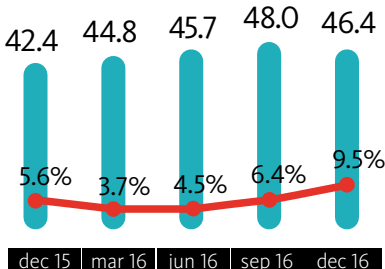
### DEMAND DEPOSITS



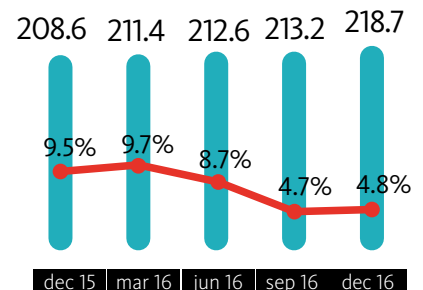
### TIME DEPOSITS



### MUTUAL FUNDS



### TOTAL SAVINGS



Excludes investment by Corpbanca in Colombia and by Bci in the U.S.A.

■ Variation

## STRATEGIC PLAN AND THE CREATION OF VALUE



**Mission\_**  
Contribute to the progress of people and companies.

**Vision\_**  
Be the leading and most valued bank in the country, putting the customer at the center of our raison d'être.

### VALUES

#### 1 LEADERSHIP

We have a vocation for leadership that arises from the valuation of our customers who are at the center of our work; from a country that sees us as important players committed to its progress; from our teams, who can fully develop themselves; and from our shareholders, through a solid institution that is stable in time.

#### 2 EXCELLENCE IN MANAGEMENT

We like work well done. We set clear, challenging and shared objectives that enable us to develop our skills to the utmost, with follow-up and control policies, to be the best Bank for our customers and for the country.

#### 3 ORIENTATION TOWARDS CUSTOMERS

We are a service company and our customers are our raison d'être. We work to generate solutions that simplify their lives and enable them to have the best service experience with us. We want to help them fulfill their dreams and make their ideas and projects a reality in a lasting relationship based on trust and excellence.

#### 4 TALENT

We promote meritocracy, teamwork and self-management, driving top-quality performance. We recognize the potential of each person and generate opportunities for personal and professional development.

#### 5 ETHICS

We carry out our work, assuming tasks and responsibilities, complying with and respecting the law, in form as well as in spirit. We avoid causing physical or moral damage through our individual conduct within or outside the institution, compromising or affecting the image and dignity of people and of the Santander Group.

#### 6 COMMITMENT TO SOCIETY

We contribute towards building a better country through our sustainability policy and our adhesion to fundamental rights, equal opportunities, non-discrimination, protection of the environment and the work-life balance.

PROVIDING VALUE TO OUR AUDIENCES

1

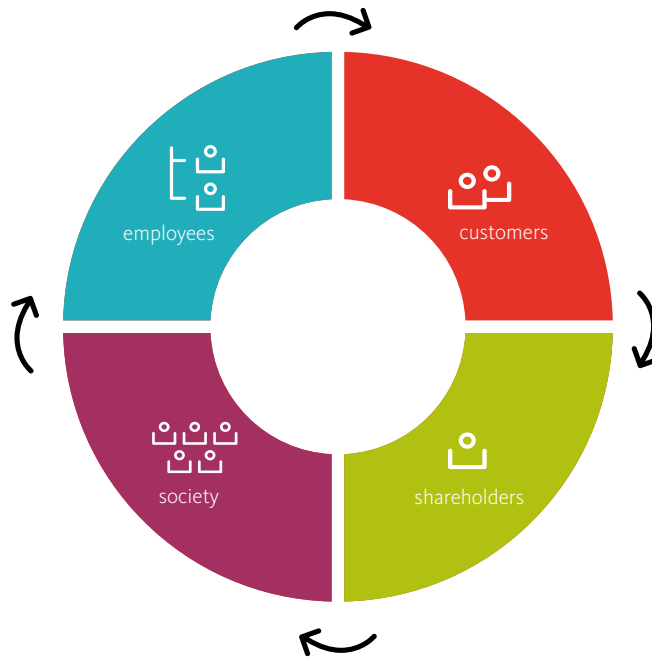
**EMPLOYEES**

Contribute towards professional development and to the improvement of the quality of the working lives of our teams.

4

**SOCIETY**

Collaborate in the development of the country and the progress of the most needy.



2

**CUSTOMERS**

Provide our customers with the best service experience, simplifying their lives and facilitating the realization of their ideas.

3

**SHAREHOLDERS**

Achieve above-average profitability in a sustainable manner and an adequate increase in value of their investment.

For this we have defined four **STRATEGIC OBJECTIVES**

1

Substantially improve the experience of our customers.

2

Develop new manners of relating with customers through the continuous transformation of commercial Banking.

3

Deepen the model of relating in Company and Corporate Banking.

4

Drive and manage a cultural change, incorporating the new Simple-Personal-Fair style.

3

## Business model



Banco Santander has begun a profound transformation process to deal with a more competitive scenario and to be in line with the new expectations and needs of customers.

For this, it has a customer-centered business model, which, in accordance with its mission and vision, orients itself towards the progress of people and companies.

In this scenario, the business areas have adjusted their strategy, seeking to become the best business bank.

# BUSINESS MODEL

## 1

### PART OF THE SANTANDER GROUP

Banco Santander Chile is part of the Santander Group, its main shareholder, with 67.18% of its shares. It is the second most traded share in the country, represents 3.8% of the Group's assets and 6.0% of the consolidated profit. It is a subsidiary that is autonomous in financing, capital and liquidity, and that answers to a local management, which protects it from the problems generated by external crises. It is governed by a robust regulatory framework that establishes strict limits on operations with related entities, and a solid corporate governance, with a mostly external board and an active participation in the business.

3.8%  
of the Group's total assets

6.0%  
of the Group's consolidated profit

2<sup>nd</sup>  
most traded share in Chile

## 2

### A UNIVERSAL BANK

Santander addresses the needs of all types of customers: people with different income levels, different-sized companies, private corporations and public institutions. Its loan portfolio is broadly diversified in multiple sectors of the economy, focusing on housing and consumption. Loans to people constituted 54% of the portfolio, and the remaining 46% corresponds to companies and corporations. It also has a wide range of products to satisfy the needs of its customers, as well as the broadest distribution network (branch offices, internet, call center, ATM, mobiles) with cover throughout the country.

>  
the country's largest network of branch offices and ATMs

54%  
of loans to people

46%  
of loans to SMEs, companies and corporations

## 3

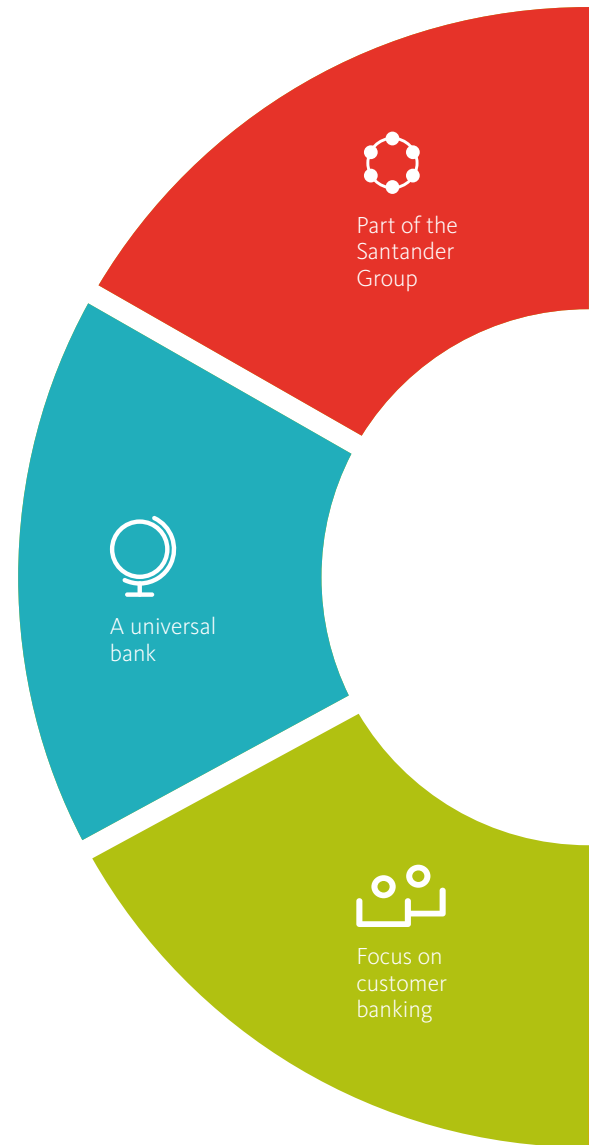
### FOCUS ON CUSTOMER BANKING

Santander bases its activity on commercial Banking, which generates around 65% of net operating income. It is banking with a high presence in the retail segment, and leads the market in consumer and mortgage loans. It tops the ranking in number of checking accounts, bank cards and deposits. Its broad distribution network enables it to attend over 3.6 million customers, which situates it in first place.

65%  
of the net operating income comes from commercial Banking

1<sup>o</sup>  
in customers

1<sup>o</sup>  
in bank accounts, bank cards and deposits



The Banco Santander business model is supported on six pillars\_

4

11,354

employees

55%

women

45%

men

#### THE BEST PERSONNEL TEAM

Banco Santander has 11,354 employees who work to achieve the institution's mission, contribute towards the progress of people and companies. These professionals ensure the sustainability of the company through an internal climate with high levels of satisfaction, a high promotion rate and wide cover in education. Santander placed fourth in the Great Place to Work among companies with over five thousand employees. It drives a customer-centered culture, which integrates technical criteria and bases its activity on three fundamental concepts: Simple, Personal and Fair.

5

42.7%

efficiency

#### EFFICIENT ALLOCATION OF RESOURCES

Santander is the most efficient local bank, continuously seeking an optimal allocation of resources to satisfy the customers' needs, through a simple organization.

6

Aa3

classification

10.5%

core capital

145.4%

coverage

#### BALANCE SHEET STRENGTH AND PRUDENCE IN RISKS

Banco Santander maintains a medium-low and predictable risk profile for all the risks it faces. It is distinguished by its diversification of funds, a solid base of capital above the system average, a well-financed commercial balance sheet and high profitability. It has an advanced risk model and prudent management principles, which translate into suitable levels of non-performing portfolio and a good coverage of loans given the defined risk appetite. The Bank's risk classification, Aa3, is the same as that of the Chilean Government.

  
The best personnel team

  
Efficient allocation of resources

  
Strength of balance sheet and prudence in risks

# SPF STYLE

This business model is accompanied by a style\_



**Simple\_**  
Offer our customers a quality service, easily understandable products and permanent connectivity to address their requirements.



**Personal\_**  
Treat customers as if they are unique, providing them with a custom service.



**Fair\_**  
Treat customers fairly and equitably, with transparency, and resolving their requirements with maximum diligence.

## EIGHT TYPES OF BEHAVIOR REFLECT THE NEW SANTANDER CULTURE

1

**Empathize with our customers\_**  
Everything starts and ends here.

2

**Be respectful\_**  
Treat others as you would like to be treated.

3

**Listen carefully and speak clearly\_**  
This is how we avoid misunderstanding the question and constructively question ourselves.

4

**If you make a promise, keep it\_** There's nothing worse than being incoherent and leaving others waiting.

5

**Collaborate\_**  
Here there are no "others", instead only "us".

6

**Take the initiative\_**  
Things do not happen because of something, but because of someone.

7


**Develop the team\_**  
Grow by making others grow and learn from mistakes.

8

**Play fair\_**  
Yes to transparency and no to shortcuts.





A woman with dark hair, wearing a white long-sleeved shirt and a pink vest, is smiling and gesturing with her right hand towards the right side of the frame. The background is a blurred, colorful wall with shades of orange, yellow, and blue.

The new SPF style driven by the Bank seeks to respond to the expectations of customers, collaborators, shareholders and society.

## BUSINESS AREAS

The business areas have made a transversal effort to drive numerous and innovative initiatives with the SPF seal that have enabled the targets proposed to be reached. Various indicators such as improvements in efficiency

and productivity, the business results and customer satisfaction show the progress obtained from the transformation of the commercial model and the implementation of a new work culture.

### COMMERCIAL BANKING

This division attends the segments of Individuals and SMEs. The former includes the sub-segments Select, Personal Banking and Banefe, which include people with high income, middle income and low income, respectively. SMEs attends small and medium-sized companies with annual sales below \$ 1,200 million.

It has a wide range of products and services for customers: consumer and mortgage loans, credit and debit cards, checking accounts and demand deposits, savings and investment products and insurance. It also offers specialized loans for working capital and foreign trade, loans with state guarantees, leasing and factoring.

During 2016, growth was focused on middle and middle /high income customers, with a selective increase in the low income segments. The SMEs sector was oriented towards those with a more balanced flow in income and an offer oriented towards becoming their primary bank.

In this way, Commercial Banking continued to improve the quality of its portfolio in 2016, contributing with 50% of the net contribution of the business segments (see page 74).

#### 2016 Milestones / Commercial Banking

- **Qualitative leap in quality of service** that made it possible to close the gap with the relevant competition in the customer satisfaction benchmark.
- **Launch of the Work Café**, a new customer attention model.
- **Launch of NEO CLICK and 123 CLICK** to approve consumer loans.
- **SUPERPUNTOS Plan** for medium and low income.
- **Transformation of traditional Banefe branch offices** into Banefe Spaces, located inside the Bank, achieving synergy of equipment and processes.

### COMPANY AND INSTITUTIONAL BANKING (MIDDLE-MARKET)

The Middle-market division groups customers in medium-sized companies with annual sales between \$ 1,200 million and \$ 10 thousand million, large companies with sales over \$ 10 thousand million and real estate developers, which includes all companies in the real estate development sector carrying out projects to sell to third parties and construction companies with annual sales of over \$ 800 million. In addition it attends the institutions segment, corresponding to organizations such as universities, government entities, municipalities and regional governments.

It offers a wide variety of products, including commercial loans, leasing, factoring, foreign trade and mortgages, credit cards, checking accounts, transactional and treasury services, financial consulting and investment banking, savings and investment products and insurance.

Middle-market represents around 30% of the net contribution of the Bank's business segments (see table page 74) and its strategy during the 2016 period was oriented towards medium and large-sized companies, focusing on non-loan products with a higher added value.

The application of the strategy of listening to customers and detecting their needs was clearly involved in the improvement of the satisfaction results in Company and Institution Banking (Middle-market). The formula enabled three segments to obtain significant increases (over 10%) in customer satisfaction: Regional companies 87%, Large Companies 83% and Metropolitan Region Companies 75%, in the bank satisfaction survey. This survey forms part of the annual measurements done of customers in the Middle-market segments to know their satisfaction with the service they are provided.

In order to achieve this result, a close business relationship was established, visits to customers were improved, in number as well as in quality, defining new standards and protocols that are continuously evaluated. At 2016, monitored visits reached a cover of 75%, with an increase in satisfaction regarding frequency of visits going from 53% to 75%.

## 2016 Milestones / Middle-market

- **2016 was a good year for Middle-market as a division\_** the net contribution increased 12% with respect to the previous year thanks to an 8% increase in core income and a decrease in provisions of 22%.
- **Four new Business Centers were opened** -La Serena, Rancagua, Los Ángeles and Punta Arenas- the entire Regional Companies segment has this model of attention. The cover reaches 16 Business Centers throughout the country.
- **A new version of Santander College was held** – heir of the Middle-market School, a training program lasting 54 hours to improve skills and knowledge, in which 98% of collaborators participated, impacting 409 people.

## SANTANDER GLOBAL CORPORATE BANKING (GCB)

Global business unit responsible for corporate and institutional customers that, due to their size, complexity or sophistication, require custom measures or high-added-value wholesale products. It is present in 22 countries where it deals with the needs for financing, investment and cover of risk for institutional and corporate customers.

It has four specialized business units to satisfy customers' needs\_ Corporate & Investment Banking; Global Transactional Banking; Financial Solutions & Advisory; and Global Markets.

Santander GCB represents around 20% of the net contribution of the business segments (see table page 74).

During 2016, Santander GCB consolidated its leadership, participating in the most important operations in the Chilean market in terms of size, complexity and visibility.

In the business of company mergers and acquisitions and capitals market, over 10 transactions were completed that involved investors from America, Europe and Asia, for a sum of approximately 6,100 million dollars.

Regarding financing of Infrastructure products, the commitment of Santander to the growth of the country was reaffirmed, financing four operations with great strategic importance, for an approximate value of 1,800 million dollars.

In turn, customers were able to access the lowest financing costs on the market in the emissions of corporate bonds in local currency. SGCB was the largest issuer in terms of volume during the year, with approximately 878 million dollars in placements.

## 2016 Milestones / GCB

- **State Exclusive advisors in the acquisition of Pacific Hydro\_** State Power Investment Corporation (SPIC) acquired 100% of Pacific Hydro, a renewable energy platform with 19 hydroelectric plants and wind farms in Chile, Brazil and Australia.
- **Advisors of E-CL in the sale of 50% of its subsidiary Transmisora Eléctrica del Norte (TEN) to Red Eléctrica de España\_** both companies will build and commercially operate a new power transmission line that will connect the Sistema Interconectado Central (Central Interconnected System) (SIC) and the Sistema Interconectado del Norte Grande (Far North Interconnected System) (SING), with a total investment of almost US\$ 800 million.
- **Emission of Sovereign Bonds\_** SGCB advised the Treasury Department in the successful placement of two sovereign bonds – in euros and dollars – for a total of US\$ 2,649 million.
- **Autopistas Antofagasta\_** SGCB concluded the refinancing of the main routes that connect the region of Antofagasta, which cover approximately 320 kilometers, concessioned in 2010.
- **Financing of the Félix Bulnes Hospital\_** SGCB completed the financing for the public works concession that will build and operate the new Félix Bulnes Hospital in the Metropolitan Region. Astaldi Concessioni was awarded the works, which will mean an increase in the supply of hospital infrastructure in the region.
- **Financing of the New Arturo Merino Benítez Airport\_** SGCB concluded the financing for the construction of the new Arturo Merino Benítez Airport, works carried out by the Nuevo Pudahuel consortium, comprised of Aéroports de Paris, Vinci and Astaldi.
- **Emission of Codelco Corporate Bonds\_** SGCB led a historical emission of Codelco bonds for UF 10,000,000. The placement became the operation with the most demand generated in the history of the local market, with 2.6 times that offered.
- **Acquisition by Abastible of Repsol assets in Peru and Ecuador\_** The company acquired 100% of the liquid petroleum gas (LPG) assets of Repsol in Peru and Ecuador for a total of US\$ 264 million and US\$ 33 million, respectively. Santander GCB acted as the exclusive financial advisor of Abastible, with this becoming the largest operation in the 60 years of the company's history.
- **Exclusive financial advisor of Endesa Chile in the sale of 20% of GNL Quintero S.A. to Enagás\_** the operation positions the Spanish company Enagás as the largest minority shareholder of the natural liquid gas regasification terminal located in the region of Valparaíso.
- **Acquisition of Duke Energy assets by I Squared Capital\_** the private U.S. investment fund acquired the electricity generating assets of Duke Energy in Peru, Chile, El Salvador, Ecuador, Guatemala and Argentina, for a total of US\$ 1,200 million. Santander GCB acted as the purchaser's exclusive financial adviser.
- **Pre-Delivery Payment for Latam Airlines\_** the Group LATAM Airlines and SGCB signed a financing agreement for US\$ 260 MM, which will be used to purchase 23 Airbus airplanes.

## TECHNOLOGY AND INNOVATION



In the last decades, technological innovations have determined a transformation of the habits and the manner in which individuals interact with banks. In virtue of this, Banco Santander has adapted to the changes, offering new products and services. The great challenge is marked by providing the customer with a connection in accordance with their needs. In this area, the development of digital banking that generates a positive experience for customers and simplifies processes, as well as being efficient and productive, becomes a priority objective.

To face this challenge, Banco Santander created an area that, through a creative and innovative process, seeks to permeate the entire organization with the need to do things differently and have a positive impact and contribute to the customer's experience.

### Innovation Policy

Santander understands innovation to be a continuous process located throughout the Bank, without one single owner, that attempts to capture suitable initiatives that improve developments regarding the experience of customers.

Innovation seeks to generate a significant impact on the business through services or procedures that add value to the customer, whether because they capture their preferences and trends, or because they anticipate them. This improves the perception of service by the customer, produces increases in revenue, and generates efficiency through the optimization of resources, because they are simplified or because the application of new models or technologies allows operating costs to be lowered.

In virtue of this, the Strategic Exploration and Collaboration area was created,

The optimization of the business is founded on four pillars: digitalizing the relationship with customers, developing new markets and businesses, offering the customer a superior service experience, and increasing efficiency.

oriented precisely towards finding a healthy balance between the current business and the implementation of new solutions that guarantee the Bank's competitiveness in the medium and long-term.

The area works on two areas of action:

- 1) Exploration, which helps to understand the surroundings, the signals of change and their complexity, such as 50 to propose, validate and generate new answers, which are included in a new projects portfolio, and 2) The collaborative and inter-area development of these projects.



In order to convert the above into specific solutions, the Bank has multidisciplinary teams from different areas, oriented towards developing specific projects in a expedited manner and in a tight timeframe.

With an approach centered on the business needs of customers, they continuously search for processes, technological solutions, partners, strategies and innovation models to improve the business based on four pillars: digitalizing the relationship with customers, developing new markets and business, offering the customer a superior experience, and increasing efficiency.

#### **Emblematic projects**

Two initiatives implemented in 2016 by other units answer to the logic of work that seeks to systematize: research centered

on customers + collaboration (internal and external) + making things happen.

The first of these is the Work Café, a model of attention that is different and innovative; the consequence of a correct reading of the environment and customers' needs (see page 96).

The second is 123 click, a digital self-attention tool that enables preapproved customers to obtain their consumer credits through the web page in only three steps (see page 99).

#### **Projections**

The systematization of innovation at Banco Santander also points towards creating a culture of innovation, such that in the medium and long-term innovating is not restricted to the area of Strategic Exploration and Collaboration, but is part of the DNA of all of the divisions and

collaborators, translating into sustainable results for the Bank.

#### **Award for innovation**

Santander was recognized as one of the 50 companies who effectively manage innovation in Chile. The consultant Best Place to Innovate gave the award to the Bank in the financial services area, including it within the Perception Ranking of InnovAcción 2016, which is done jointly with the Center for Innovation, Entrepreneurship and Technology (Centro de Innovación, Emprendimiento y Tecnología (CIET) ) of the UAI Business School, GFK Adimark and Imagine Business Lab by Microsoft Innovation Center.

## Technology Policy

There are four objectives, that, in line with the Bank's strategic plan, have been developed since 2015\_

- 1 Improve the quality of service, minimizing operational and technological risks.
- 2 Transform management of technology and operational efficiency.
- 3 Lead digital transformation.
- 4 Advance in the cultural change, incorporating the SPF behaviors.

All of this is on the basis of an integrated vision of transformation or processes, with the mission of simplifying them, always keeping the customer at the center of the process.

During 2016, significant progress was made in structurally strengthening the non-presential channels in order to support the strong growth projected for them within the digital transformation process. The Bank's technological platforms were adapted according to the process architecture, and with the different areas, ambitious plans for new products and digital customer attention fronts were developed – which are self-contained and enable self-attention to collect the requirements that this new form of banking demands.

All of these actions are oriented towards preparing the Bank for a different relationship with customers, determined by a complementary co-existence between a new in-person banking – more relational and advisory – and digital banking, based on four components: contextual, transactional, omni-channel and capable of administrating non-financial aspects in the supply.

# 380

Projects executed

# US\$ 42 million

Investments in development

# US\$ 24 million

Investments in infrastructure

## Developments

The Technology and Operations Division prompted improvements in various processes as well as the development of different products, in collaboration with the various business areas, with the Risks Division and with the legal department. This was done by incorporating the Agile cells methodology, which allows frequent deliveries of services and products that add value to customers.

## 2016 Milestones

### In Quality of Service\_

- The SLAs - the service levels to which a supplier commits – were deepened with regards to customers in 216 internal processes established in 2015, with 98% aggregate compliance in their execution.
- Increasing net product satisfaction levels, highlighting the increase in mortgages from 56% to 65%, and the indicators for Office Banking, international business, consumer loans and transactional banking.
- Reduction by 44% of the response time to requests and requirements by customers and executives, regarding subjects associated with products and complaints.
- Creation of the post-sales department.
- Start-up of the Corporate Payment System.
- Strengthening of the operating platforms of HomeBanking, Office Banking and VOX, reaching levels above 99.8% in the up time added for these channels in the second semester.
- Increase of infrastructure to the App platform, creating it to absorb an increase of 100% in transactions with respect to today.
- Start-up of the virtual folder (see page 99).

### Management of Operating and Technological Risks\_

- Implementation of Plan One, which reduced the number of technological incidences.
- Management in prevention of frauds with a focus on means of payment and shielding of the transactional processes through websites. Debit card fraud decreased 25% with respect to the previous year.
- Decrease by 11% of charges for operating risks with respect to the previous year.

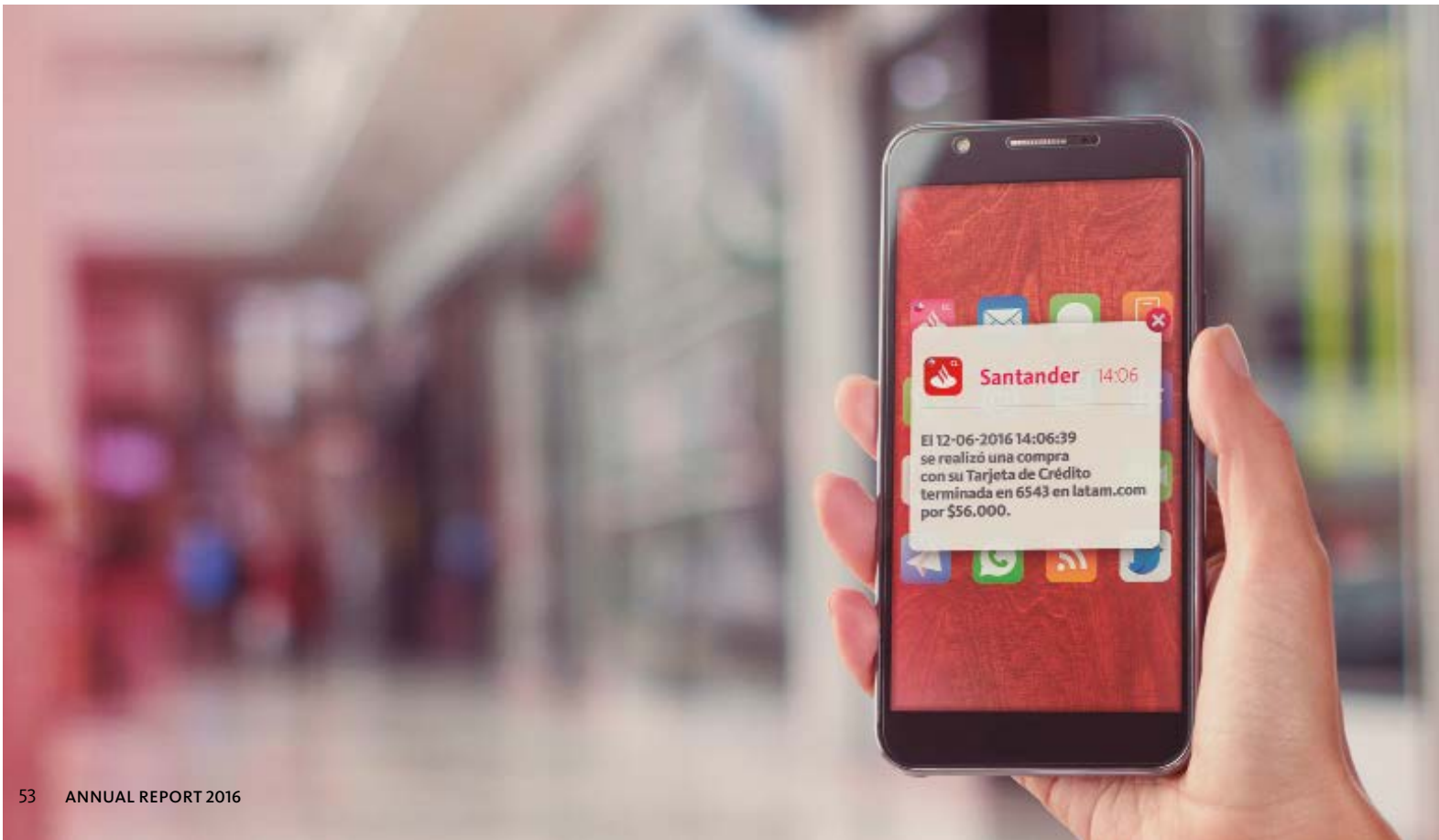
- Strengthening of defenses against external attacks with different firewalls and 24/7 controls in three world-class specialized centers.
- Total annual investment in improvements of around US\$ 20 million.

### **Transformation of Technology and Efficiency\_**

- Change in the development model to improve the time to market, achieving efficiencies of over 60% in time needed for small projects and 40% for medium-sized projects.
- Start-up of the Agile center, with a collaborative methodology of making developments with value to customers in short times and with frequent deliveries.
- Execution of 380 projects for all of the Bank's areas.
- Completion of projects of efficiency in the Technology and Operations expenses structure for US\$ 16 million, with improvements in the service levels.
- Investments in development and infrastructure for over US\$ 42 million and US\$ 24 million, respectively.

### **In Digital Banking and Processes\_**

- Support for the transformation of the network model in over one hundred branch offices.
- Implementation of processes in social networks to address customer requirements or complaints.
- Prioritization of the Mobile First strategy, which considers that the development of innovations should be first for mobile devices and then be transferred to the other platforms.
- Management of client experience with the implementation of closing products via the web and allowing customer complaints via web and App.
- Definition of self-contained processes of VOX with the aim of granting loans that this channel manages.
- Improvements in GCB \_ start of a homepage for corporate clients; optimization of payment process for letter of credit and company cashier's checks with control of confidential information, as well as allowing global clients to do confirming in Chile.



# SUSTAINABILITY

During 2016, Banco Santander assumed the challenge of providing a new impulse to its Sustainability Strategy to reinforce the mission of contributing to the progress of people and companies, and adapting it to the current needs of the company and the business.

With this objective, an internal and external diagnosis was conducted, which established that the following should be done:

- 1 Build a story shared by all of the areas.
- 2 Put sustainability at the center of the business

This motivated the creation of several lines of action to make this purpose tangible and complete the creation of value for all of the groups of interest. This mission was carried out by the Sustainability Area, with a Sustainability model that aligned corporate policy with local needs and challenges.

Sustainability is an everyday challenge that is global in nature. This is reflected by the commitment of the 195 participating countries, plus the European Union (196 signatories), which in 2015 accepted the 17 Sustainable Development Objectives (SDO) of the United Nations. With this end, Banco Santander focuses on the promotion of the economic growth and development of the country through education. These objectives are directly aligned with our Simple, Personal and Fair culture. If products and services are offered that are simple to understand and operate, adapted to a personal offer made to measure for the needs of each customer,

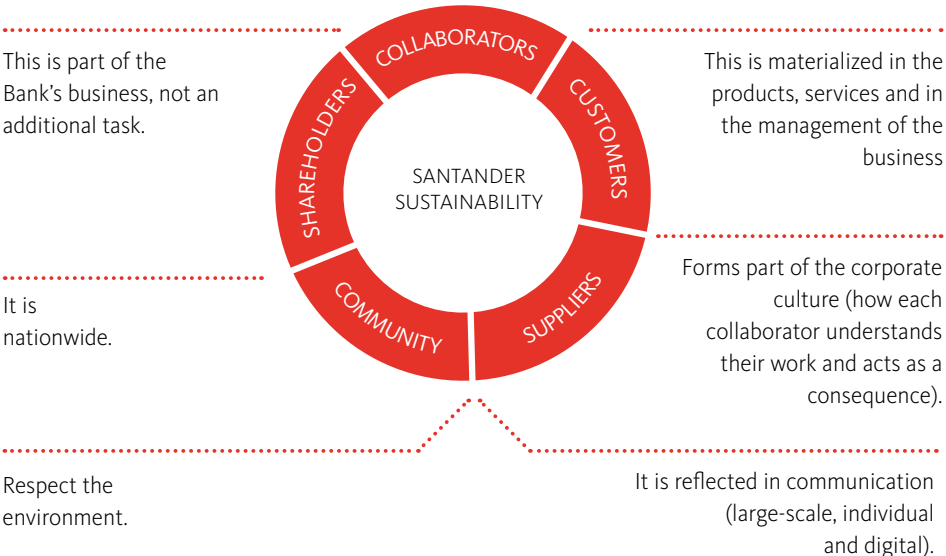
based on fair and transparent treatment, consistent progress will be made towards sustainable development.

Making use of the progress and also capitalizing on one of Santander's largest differentiating milestones in the area of sustainability – education – the new focus of the Bank seeks to motivate passion for learning in each of its groups of interest, promoting the development of people, and through them, that of the country.

Due to this, the new strategy especially emphasized this tool as an essential element to access new and better opportunities to progress, concentrating on the following three areas of support:

1. Financial education
2. Quality school education
3. Higher education

We want to contribute to the progress of people and companies, and aspire to be the best business bank, based on the trust and loyalty of our employees, customers, shareholders, suppliers and society as a whole.





**Relationship with its groups of interest**

The stakeholders constitute a central part of the Banco Santander business model. They were defined corporately and the relationships with them are developed in the context of sustainability, seeking to establish permanent bonds that are mutually beneficial.

	Collaborators	Customers	Shareholders	Suppliers	Community
DESCRIPTION	Diverse people who respect differences, are fundamental to the Sustainability Strategy and to the sustainable development of Banco Santander. Due to this, we are concerned with attracting and maintaining the best talents, who share the mission of contributing to the progress of people and companies. So in this way, the Bank wants to be a bridge for them to contribute to society with their ideas and skills. The main challenge as an employer is to offer them a safe and attractive place to work, where they feel happy, can grow and progress, with a balance between their work, family and personal lives.	They are fundamental for maintaining the sustainability of the business, so the Bank constantly seeks to build long-term relationships with them, based on trust, transparency and loyalty. It offers simple and personalized products and services that are adapted to the specific needs of each customer, with clear and timely information and fair treatment. It seeks to be considered a strategic partner in fulfilling their dreams and projects, or in facing possible difficulties. The challenge is in improving the satisfaction with the service every day, through its collaborators and with a complete omni-channel offer for them to interact with the Bank how, when and where it suits them the most.	Santander creates value for its shareholders through the responsible management of risks, products and services, to generate them income, making their investment profitable and sustainable. At Banco Santander we guarantee the quality of treatment to all shareholders, independent of the percentage they hold in the business. The long-term relationship is supported on the basis of providing all information in a clear, truthful and timely manner, through various communication channels available to the Bank.	Maintaining a stable and mutually beneficial relationship with suppliers is key to the sustainability of the Bank's business. Along with them it seeks to improve its day-to-day processes. It understands that the sustainable development of its suppliers is part of the value chain, so it complies with the Human Rights and United National Global Compact corporate policies, and has the ProPyme seal granted by the Chilean Government.	Banco Santander seeks to contribute to economic and social progress through community investment programs, with education being its main focus of action. It understands education to be the motor for progress for people, which is why it provides tools and learning opportunities in four areas: financial education, quality education in vulnerable environments, formation of professionals for a global world (Higher Education) and development of culture.
CHANNELS OF COMMUNICATION	<ul style="list-style-type: none"> <li>• Global commitment survey.</li> <li>• "Santander Ideas" _ First social network that connects the over 185 thousand Santander employees throughout the world around a common challenge: promote a working culture based on innovation and collaboration, proposing ideas and suggestions on common challenges or categories of subjects</li> <li>• Virtual center of attention (CAV) and in-person attention in office and mobile points (CAP and mobile CAP).</li> <li>• Corporate intranet updated daily.</li> <li>• Mass emails.</li> <li>• Audiovisual capsules.</li> <li>• Ideas Informa magazine and special editions: internal publications in printed and digital formats.</li> <li>• Personnel division news: monthly digital bulletin that reports on sporting and cultural activities, benefits and campaigns.</li> </ul>	<ul style="list-style-type: none"> <li>• Corporate webpage with multiple sections.</li> <li>• "Flash Económico" _ Economic analysis.</li> <li>• Profiles on social networks: Facebook, Twitter, Youtube and Instagram</li> <li>• Santander App</li> <li>• Complaints app and webpage that enable complaints to be channeled in a simple manner with traceability of the status of the solution.</li> <li>• Opinion columns.</li> <li>• VOX customer service.</li> <li>• Mobile internet.</li> <li>• Transparency website.</li> <li>• Branch offices for all segments.</li> <li>• Surveys (via different channels).</li> <li>• Information on campaigns and products sent by e-mail.</li> </ul>	<ul style="list-style-type: none"> <li>• General Shareholders' Meeting (annual).</li> <li>• Quarterly reports.</li> <li>• Shareholders' mailbox and communication via e-mail.</li> <li>• Telephone attention lines.</li> <li>• Publications for shareholders (Annual Report, 20 F).</li> <li>• SMS messages</li> <li>• Investor Relations App.</li> <li>• Santander Investor Relations webpage.</li> <li>• Santander Shareholders webpage</li> </ul>	<ul style="list-style-type: none"> <li>• Process of evaluation and monitoring of services.</li> <li>• Recognition of outstanding suppliers</li> </ul>	<ul style="list-style-type: none"> <li>• Corporate website and Press Room</li> <li>• "Santander Comprometidos": Monthly digital newsletter informing customers about the various actions in which the company and its teams commit to a more sustainable Chile.</li> <li>• Membership and participation in non-governmental organizations.</li> <li>• Social networks.</li> <li>• Santander Universidades section in the corporate webpage.</li> </ul>

## Compliance with initiatives

Santander subscribes to a series of initiatives – at corporate level as well as in each country where it is present – to reinforce the integration of social, ethical and environmental criteria in the development of its business activities.

### AT CORPORATE LEVEL

- United Nations Global Pact
- Banking Environment Initiative (BEI)
- World Business Council for Sustainable Development (WBCSD)
- UNEP Finance Initiative
- Wolfsberg Group
- Ecuador principles
- Roundtable on Responsible Soya
- Responsible Investment Principles (PRI)
- Sustainable Livestock Working Group
- CDP (Carbon Disclosure Project)

### IN CHILE

- United Nations Global Pact
- PROhumana
- Acción Empresas
- Fundación Paz Ciudadana

### Presence in sustainability indexes

Along these lines, the Santander Group also forms part of the principal worldwide stock indexes that analyze and value the actions of companies regarding sustainability. It has been present on the Dow Jones

Sustainability Index (DJSI) and the FTSE4 Good since 2000 and 2003, respectively.

The DJSI arrived in Chile in 2015 to integrate the Santiago Stock Exchange, from which date the Bank has formed part of this index (DJSI Chile). In its second edition – in 2016 – Santander increased its score with respect to the previous year, obtaining results above the financial industry average in the economics and social areas.

At this time, and differently from its first edition, the assessment included all companies that are part of the IGPA, whose free-float adjusted market capitalization is greater than US\$ 100 million, enabling more companies to have the opportunity to be part of the Chilean sustainability index.

## OBJETIVOS DE DESARROLLO SOSTENIBLE



### Commitment of Banco Santander with the SDGs

Among the initiatives to which the Santander Group subscribes are the United Nations Sustainable Development Goals (SDG).

Among the 17 aspects, the business activity and investment in the community by Banco Santander Chile has effects on the following objectives:

1. Promote the eradication of poverty.
3. Have numerous policies that promote the health and wellbeing of collaborators and their families.
4. Drive quality education in the most vulnerable sectors as well as in higher education, to aid the progress of the communities in which it is present.
5. Promote gender equality with the guarantee of no discrimination.

8. Aspire to attract and retain the best talent and that its professionals feel motivated, committed and rewarded.


9. It is the main banking institution financing the country's infrastructure projects.

10. Promote the financial inclusion of communities and drive training, entrepreneurship and the creation of jobs.

11. Contribute towards the progress of people and companies to support the sustainable growth of communities.

12. Ensure the proper integration of ethical, social and environmental criteria for the development of a responsible activity.

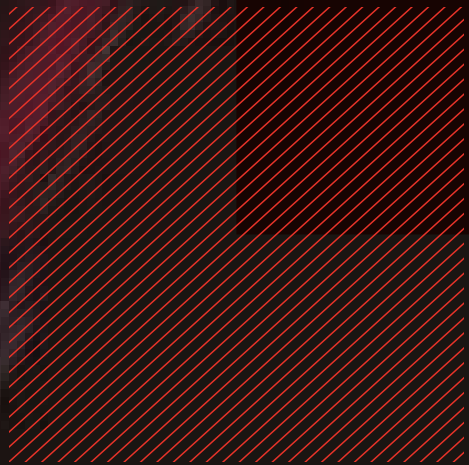
13. Analyze the social and environmental risks of its operations, and drive the financing of renewable energy projects to support the struggle against climate change.



In order to reduce the environmental impact, all renovations and actions associated with infrastructure were approached, planned and carried out such as to produce maximum efficiency in consumption and comply with the latest-generation environmental standards.

# 4

## Risk Management



## PILLARS OF THE RISKS FUNCTION

The efforts of the Santander Chile Risks Division by orienting their task towards more preventive, predictive and proactive actions gave very good results in 2016, especially referring to the performance of the portfolios. Indicators such as the non-performing loan ratio and the coverage ratio, as well as the improvement in the expense on provisions with an inter-annual reduction showed the efficiency of the work done and the system becoming more robust through the early management of all risks.

Aligned with the Santander Chile strategic plan and with the objective of transforming the institution into Simple, Personal and Fair, the Risks Division has been working on four objectives.

- 1. Be a reliable business partner\_** among the roles that Risks must play in the organization is that of contributing positively to the growth of the Bank. For this it is fundamental that the division be valued as a reliable partner. Key measurements that show this valuation are the Internal Customer Survey and the upward assessments. In both cases, Risks was assessed very positively. Specifically, for the first time it was the most valued area in the Internal Customer Survey.
- 2. Excellence in management\_** 2016 was the second year of the execution of the Advance Risk Management (ARM) program, whose main objective is to support the organization in evolving towards an advanced management of risks. The improvement in the financial numbers is sustainable over time depending on when and to what extent management incorporates tools such as forward looking, stress test, advanced analytics in portfolio management and recovery management analytics. Compliance with the targets required by the second stage of ARM has been key for good financial results. Such that its excellence in management is certified by a program that guarantees the efficient manner and proactive focus with which Santander Chile manages the business.
- 3. Regulatory management\_** in a year in which there was a strong emphasis on supervising compliance with regulations, Santander Chile implemented 21 projects referring to regulatory management, on the subjects of liquidity, capital, internal control, provisions, structural risk, operational risk and technological risk, all with a high level of compliance.
- 4. Digital transformation\_** in accordance with the Bank's digital transformation process, the Risks Division began its own transformation, seeking to improve the efficiency of processes and the time to market, reducing response times while strengthening and automating the controls.

## Model of risk control and management- Advanced Risk Management (ARM)

One of 2016's important achievements is associated with the implementation of the ARM program, whose main objective is to contribute in the evolution towards an advanced and integral management of all of the risks whose action lines are identical for all Group subsidiaries, Santander Chile was satisfactorily certified for its work in this regard in 2015 and was also distinguished for its work worldwide in the first stage of the ARM Standard.

Also, this program permits progress in strategic projects that were underway such as the Risk Data Aggregation / Risk Reporting Framework and strengthening a risk culture throughout the organization.

## Main risks

### Credit risk

Is the risk that one of the parties to a financial instrument contract stops meeting its contractual obligations due to insolvency or incapacity, causing a financial loss to the other party.

### Mechanisms

- Responsible for the administration of this risk, delegated by the Board: ALCO, Executive Credit Committee and the Bank's risk departments.
- Provisions for probable losses in loans in accordance with the instructions issued by the SBIF and the credit risk classification and assessment model approved by the Board.

- Provisions for Commercial loans assessed individually. In order to establish them the Bank allocates a risk category to each debtor and its respective loans, considering the following risk factors in the analysis: industry or sector, partners and administration, financial situation and capacity for payment, and payment behavior.
- Group assessment provisions, pertinent in addressing a large number of operations whose individual sums are low and composed of individuals or small companies. These operations include consumer loans, mortgages and commercial loans for non-categorized debtors. The levels of provisions have been established in accordance with the estimated loss of the credits, through the classification of the portfolio using one of two models:
  - a. Based on the characteristics of the debtors and their pending loans, where the debtors and loans with similar characteristics can be grouped, and each group is allocated a risk level.
  - b. Based on the behavior of a group of loans, in which credits with analogous payment histories and similar characteristics are grouped, and a risk level is allocated to each group.

### Market risk

Market risks arise when there are financial instruments whose value could be affected by variations in market conditions. They are grouped into four categories: exchange risk, due to variations in the exchange rate between currencies; fair value risk, due to variations in interest rates; price risk, due to variations in market prices

or due to factors inherent to the instrument or due to factors that affect all instruments; and the inflation risk, due to changes in the inflation indexes in Chile.

### Mechanisms

- Responsible for managing the market risk: ALCO and the Bank's Risk and Financial Management departments.
- Analysis of the management in three primary components: trading portfolio, financial management portfolio in local currency and financial management portfolio in foreign currency.
- The trading portfolio is comprised of fixed income investment and commerce involving foreign currencies. This portfolio is comprised essentially of Chilean Central Bank bonds, mortgage bonds and low-risk corporate bonds issued locally.
- Use of the VaR methodology to measure the market risk of the trading portfolio.
- The financial management portfolios include all financial investments not included in the trading portfolio. That is most of the assets of the Bank and the liabilities that are not part of trading, including the loan portfolio.
- The Bank applies a sensitivity analysis to measure the market risk of the financial management portfolio for local and foreign currency. Through a simulation of scenarios, the present value of the cash flows in the base scenario (current market) is compared against the cash flows under a selected scenario (curve with parallel movement of 100 BP in all of its sections).

One of the 2016's important achievements is associated with the implementation of the ARM program, whose main objective is to contribute to the evolution towards an advanced and integral management of all risks.

- The same simulation is carried out for the net positions in foreign currency and the interest rates in U.S. dollars.
- Fixing limits in relation to the maximum loss that these types of movements in interests rates can have on capital and the net financial income budgeted for the year.

#### Liquidity risk

Refers to the possibility that an entity cannot meet its payment commitments or that in order to meet them it has to recur to obtaining funds in burdensome conditions or that could damage its image and reputation.

#### Mechanisms

- The focus of the Bank on the management of liquidity is to ensure, as far as possible, that it has sufficient funds to meet its obligations upon their maturity, in normal circumstances and in stress conditions.
- The Board establishes limits, understood as a minimum ratio between the funds available and to be received, as well as a minimum level of inter-bank operations and other loan facilities that should be available to cover unexpected levels of withdrawals, which is reviewed periodically.
- Compliance with the regulatory limits issued by the SBIF and the Central Bank for mismatched timeframes.
- Monitoring the liquidity position daily, determining the future income and expenditure flows.

- Stress tests at the end of each month, for which a variety of scenarios is used that cover normal market conditions as well as its fluctuation conditions.

#### Non-financial risks

The Risks Division is responsible for the management and control of non-financial risks to which Santander Chile is exposed. As well as the operational risk, it includes information security, business continuity, technological risk and the risks associated with outsourced processes, also the regulatory risk and the financial reporting risk, as well as the risks of conduct, reputational and model. Additionally, it leads the establishment and display of a risk management culture, mainly in the areas with more exposure. The new organizational model and of control of non-financial risks permits the management responsible to act as a second layer of control, supporting, supervising and reinforcing the first line of defense that corresponds to the business units themselves and their support areas, such that the risks are suitably identified, declared, monitored and mitigated. An adequate governance has been defined to ensure the correct management of the non-financial risks, compliance with the strategies determined to minimize losses and adequate periodic and integral reporting to senior management.

#### Risk governance

Banco Santander has proposed the strategic objective of being a leader in risk management, seeking to anticipate the challenges of an economic, social and regulatory environment in constant change.

In order to meet this strategic objective, it has taken into consideration the recommendations of supervisory and regulatory entities and the best practices of the market. In this way it has strengthened the governance of the function of risks, more clearly outlining the responsibilities of the various committees that supervise and manage risk.

Risk Governance must ensure the adequate decision-making regarding risks and their effective control. It must also ensure that these risks are managed in accordance with the risk appetite level defined by the Board. In order to achieve this objective, the following principles have been implemented:

- Separation of decision-making and control of risks.
- Strengthening of the responsibility of the risk-generating functions in decision-making.
- Ensure that all risk decisions have a formal approval process.
- Ensure an integral vision of all types of risks.
- Strengthen the risk control committees.
- Maintain a simple committee structure

## Lines of defense

Banco Santander follows a risk management and risk control model based on three lines of defense.

- **First line of defense** corresponds to the function of business or activities that take or generate exposure to a risk. The assumption or generation of risks in the first line of defense must be in line with the appetite and limits defined, so there must be means available to identify, measure, address and report the risks assumed.
- **Second line of defense** corresponds to the control and supervision function of the risks and the function of Compliance. Both functions must ensure the effective control of risks and ensure that they are managed in accordance with the risk appetite level defined.
- **Third line of defense** corresponds to Internal Audit and refers to the last stage of control. It periodically assesses whether the policies, methods and procedures are adequate and verifies their implementation.

The risks control function, the function of compliance and the internal audit function are sufficiently separated and independent as well as with the others that they control or supervise for the performance of their duties, and they have access to the Board and/or its committees through their senior members.

## Risk control structure

The management of risk begins with the Board, which to improve its functioning, has established an Integral Risks Committee (CIR), comprised of five directors. The task of this Committee is to define the framework of risks and general policies for the establishment of the risk appetite, supervising the correct identification, measurement and global control of all risks. The main risks monitored include: credit risk, market risk, liquidity risk, operational risk, model risk, reputational risk and legal risk.

The CIR is assisted in its work by the Risk Supervision and Consolidation Area, which constitutes a second line of defense for all of the risk areas, ensuring that all material risks are correctly identified, measured

and controlled. This area applies a global and independent vision of the portfolios and their risk management, keeping senior management informed regarding their management and profile, as well as the CIR in everything related to the relevant aspects in its area of action.

The CIR reviews the integral vision of risks, including credit risks, market risks, liquidity risks, operational risks, compliance risks and conduct risks, as well as the risk appetite. It also addresses a varied agenda of risk issues, structural as well as situational, covering the main milestones and subjects of greatest importance in this area.

## Its main functions include\_

- Verifying compliance with the Group's strategic objectives, as a function of the risks assumed and potential risks, identifying areas of alert.
- Analyze with an integral vision the administration of the risk and the map of recommendations made by local and external regulators, as well as compliance with regulations.
- Analyze and propose eventual changes to policies and procedures used by the





Bank for the administration, control and management of risks, when inconsistencies or vulnerabilities are found.

- Previously review the documents that must then be approved by the Board.

So, a new layer of control is added to the audit controls and internal controls existing in each area, which supervises risk in a consolidated manner, allowing the Board to decide the risk appetite or level with which it wishes to operate. In addition, the area develops independent exercises that test the policies and procedures established for the management of risks and that periodically review the sufficiency of provisions.

In addition to that mentioned, the Board has established the Assets and Liabilities Committee (ALCO) to aid it in carrying out its functions associated with the control and management of risks. This Committee is comprised of six directors, eight members of the Bank's management Committee and three departments (Financial Management, Treasury and Market Risks). The ALCO is responsible for developing and supervising compliance with the Bank's risk management policies in accordance with the directives established by the Board and the regulatory requirements issued by the Chile's Superintendence of Banks and Financial Institutions of (SBIF). In particular, the ALCO establishes and controls compliance with the main directives associated with the interest rate risk, financing, capital and liquidity, as well as the assessment of local and international financial markets and monetary policy.

The Board also has two other key committees: the Markets Committee (CDM) and the Audit Committee (CDA). Each is formed of directors and executive members of the Bank's senior management.

The CDM consists of four Board members, and defines the strategy for the Bank's negotiation portfolio (Treasury), establishing policies, procedures and limits, through the analysis of the national and international situation for taking positions.

The CDA, composed of three directors, is principally responsible for supervising the process of generating the Bank's financial statements and liaises with the internal and external auditors in this process, in benefit of transparency with shareholders, investors and the public in general.

The risk management policies and systems are reviewed regularly to reflect the changes in market conditions and the products and/or services offered. Through the formation and management of standards and procedures, the Bank seeks to create disciplined and constructive control surroundings, in which all of its employees understand their functions and obligations in this regard.

#### Risk Pro

Within the ARM, one of the most important aspects is associated with the consolidation of a Risk Culture inside the Bank (Risk Pro), understanding that the management of risks does not depend only on one division but is the responsibility of all of the collaborators. In order for this culture – which is in perfect line with the Simple, Personal and Fair transformation – to permeate the entire organization, in 2016 a complete training plan was carried out that transversally covered the various lines of the Bank. Three thousand people were trained in specific Risk Culture subjects through e-learning and in-person education.

To some measure, the sustainability of the business depends on all of the Bank's collaborators being capable of managing risks, independently of whether or not they attend customers. Any person associated with people, systems or processes is responsible for knowing and managing the risks inherent in their daily work.

Along these lines it is important that the entire organization guides its actions as a function of the five pillars of risk management.

- 1. Responsibility\_** the identification, management and assessment of risks is everyone's responsibility.
- 2. Challenge\_** we must constantly question whether the manner in which we are managing risks is the most suitable for the Bank.
- 3. Resilience\_** be capable of withstanding uncertainty and overcoming adverse moments, generating synergies to ensure the sustainability of results.
- 4. Orientation towards customers\_** the customers are the center of risk management, and we seek the best for them in the long-term.
- 5. Simple\_** risk management is simple and easily understood by everyone.

In short, the process of implementing the Risk Culture – which is the Simple, Personal and Fair way to manage risks – progresses well. In the last Commitment Survey, in which eight thousand collaborators participated, the Risk Culture was valued at 95%, which is a strength for the organization.

#### Regulatory Agenda

During 2016 there were several regulatory changes that involved significant challenges for Risks. One of the most important is associated with the change of the B' chapter in the Compendium of Accounting Rules that entered into effect in January by local regulations (SBIF), involving modifications to the mortgage provisions model, which includes redefinitions of key concepts in credit risk management with impacts on admission policies and on the provisions of the Bank. Along these lines, at control level and follow-up of results, the definition of non-compliance was affected.

Despite this great change, the steps taken make it possible to reach the budget targets, improving on the indicators of the previous year.

# COMPLIANCE

The function of compliance covers all of the subjects associated with regulatory compliance, the prevention of money laundering and financing of terrorism, the adequate commercialization of products and consumer protection and reputational risk.

In line with the corporate strategy and business model, Banco Santander has a Compliance Department that is responsible for the application of the regulatory framework and the correct ethical and conduct standards, as well as for monitoring the observance thereof. The departments are divided into three areas: Regulatory Compliance, Governance of Products and Defense of the Consumer; Implementation of projects; Rules and Procedures, and Prevention of Money Laundering and the Financing of Terrorism.

Compliance is also responsible for mitigating and controlling the existence of the Reputational Risk of the Santander brand, which is transversal to all of the risks.

During 2016 a program was begun for the transformation of the compliance function named the Target Operating Model (TOM), which will have a duration of three years, and whose objective is to elevate the function of compliance in line with the best standards of the financial industry worldwide. The work of the Compliance Department as a second line of defense is strengthened through this, and will aid in controlling the risks that could affect the institution.

The second line of defense is exercised by the Risks Division and by Compliance, as applicable, and establishes the necessary controls, follow-up and verification of their application. In this way, the first line of control, comprised of the business areas and support areas, periodically reports to Compliance on the incidents that occurred, if any, and this department is responsible for informing senior management so that it processes and puts the necessary corrective and mitigation measures in place.

The Compliance Department is audited by the Internal Audit Division, the third line of defense that periodically evaluates whether the policies, methods and procedures applied by Compliance are adequate and effective considering their parameter of action.

It also conducts the tests and reviews necessary to verify that the appropriate controls and supervision elements are applied, and that the regulations and procedures defined by the Bank are complied with.

## Risks addressed by Compliance

**Regulatory Risk\_** Refers to the possibility that employees do not comply with the internal manuals and external regulations, generating penalties from the regulator or legal actions (regulatory risk) for the company as well as for its executives.

**Conduct risk\_** is that caused by unsuitable practices in the Bank's relationship with its customers, the commercialization of products and/or services, the treatment and products offered to customers, and their adaptation to each specific customer.

**Risk of money laundering and financing of terrorism\_** is the risk that the Bank or any of its subsidiaries is used as a vehicle for money laundering or financing terrorist groups.

**Reputational risk\_** is the risk derived from the perception that the different groups of interest— internal as well as external – have of the Bank when carrying out their activity (includes legal, economic, financial, ethical, social and environmental aspects, among others). In both cases it can cause an adverse impact on results, capital or the expectations for the institution's development of business.

## Governance and organizational model

Compliance reports hierarchically to the Legal Division and functionally reports directly to the Board and the Audit Committee, the Integral Risks Committee and to the Global Compliance Committee.

### It also participates in the following committees, among others\_

1. Regulatory Compliance Committee
2. Analysis and Resolution Committee (CAR) and PreCar Committee
3. Local Commercialization and Product Follow-up Committee
4. Non-financial Risk Committee
5. Portfolios Committee
6. Regulatory Follow-up Committee
7. Suppliers Committee
8. Information Security Committee
9. Donations Committee
10. Complaints Committee

The Regulatory Compliance Committee, the Commercialization Committee, the Product Follow-up Committee and the Regulatory Follow-up Committee are organized directly by the Compliance Department, where each area has the right to be heard, to vote and to make proposals and improvements.

Also, Compliance attends the Audit Committee, the Analysis and Resolution Committee (CAR), the PRECAR and the Integral Risks Committee as a permanent guest.

## Milestones 2016

### 1. Recertification in the crime prevention model of Law 20.393

During the year we obtained new certification, valid until 2018, in the crime prevention model of Law 20.393, through the certifying company ICR Chile Limitada, a company that is registered with the Superintendence of Banks and Financial Institutions.

This certificate attests to the adequate implementation of controls on processes or activities linked with the business that could present potential risks of the crimes indicated in the Law (money laundering, financing of terrorism and bribery of domestic or foreign public officials), in order to prevent and detect them in a timely manner.

Notwithstanding this and adopting the international best practices, Banco Santander started a criminal risk prevention model for the Bank and subsidiaries named Corporate Defense during the year, which has the objective of establishing the guidelines and controls for the suitable management of the crimes established in the Law as well as other crimes, to prevent or detect the materialization of the risks associated with them, ensure the effectiveness of the internal procedures to mitigate them and accredit them to third parties.

The new crimes included in Corporate Defense are: fraud and false advertising; traffic of influences and corruption; IT crimes and stock exchange crimes.

### 2. Incorporation of new internal manuals during 2016

- **Manual of conduct in the use of IT and communication IT (TIC):** \_ its objective is to establish principles and regulations for actions associated with the use of the Bank's IT systems by employees, the use of e-mail, access to the internet or other similar media, and the participation of employees in the creation, application, participation or collaboration in social networks and blog forums on the internet.
- **Commercial communication policy** \_ has the objective of establishing the rules, criteria and procedures to which the advertising activity of banking products and services and financial instruments must be subject in order to protect the legitimate interests of the customers and manage the risks to which they are exposed from the advertising activity.
- **Manual of conduct in the management of purchases** \_ its objective is to provide a guide with the principles, practices, conduct and procedures that should be followed so that at all times, behavior is grounded in integrity and rectitude, so all work and/or services should be carried out in line with the principles contained therein. These principles will be valid and required from employees, managers, officers, directors, service providers and other people that form part of the organization or work for it.

### 3. Training strategy

During the year the in-person training of employees to consolidate the compliance culture was intensified. This was done through various training instances and communication activities transversal to the entire Bank, using the synergies of the various training schools: Santander College, BEI Schools, Risks School and On Boarding, among others.

The objective of the program was to teach employees to identify, through very specific examples, situations that are especially sensitive such as conflicts of interest, relationships with the competition and with the authorities, acceptance of gifts from customers or suppliers, sales of financial products and personal investment by employees.



#### 4. Prevention of collusion

In this aspect the regulations that establish the obligation of the Bank's senior management and its subsidiaries to declare their participation in companies outside the Bank, as well as their links with people that could cause them a conflict of interest, was reinforced. To the foregoing is added the issuance of recommendations on behavior when meeting with employees of competitor companies.

Also, a specific article was included in the general code of conduct, which contains guidelines for the prevention of collusion, which was incorporated into the present training.

#### 5. Adaptation and new regulations

Due to the pyramid scams that shook the financial market locally, Banco Santander incorporated in the general code of conduct a specific paragraph associated with the guidelines for investment that

employees must follow, in order to avoid this type of irregularity. In the same way, the obligation to request prior authorization to operate in the securities market was broadened for all employees that are managers, regardless of the area in which they work.

During the period analyzed, the General Regulation 380 entered into effect, which regulates the contracts of stockbrokers with their customers and imposes higher ethical standards on the financial industry regarding conflicts of interests and loyalty to customers.

#### 6. Survey of risk factors on the subject of personal data of customers and employees

With the support of an external supplier, a survey was done regarding the existing risk factors in the use of information containing personal data of customers and employees. For this purpose, the areas with access to

such information were identified along with their controls and main defects, in order to begin improvements.

#### 7. Reputational risk / Socio-environmental policies

As the result of the transformation of the compliance function in the development of the TOM, very important progress has been made in finalizing the reputational risk model based on a preventive approach, but also on effective crisis management processes. Reputational risk management is to be integrated in the business and support activities as well as in the internal processes that permit an adequate control and supervision of the risk.

Within the reputational risk model, during 2016 the social-environmental policies were approved that establish the criteria that the Santander Group must apply in relation to providing financial products and services in the following sectors: energy, in the search for solutions that are more respectful of

### Socio-environmental policies

	ENERGY	SOFT COMMODITIES	DEFENSE
DEFINITION	Covers all activities associated with the sector (water, carbon, nuclear, bituminous sands, petroleum and gas) and all types of financing, equity and consultancy services.	Involves all activities that impact forestry resources (wood, paper, cellulose, biofuels, palm and soya oil, rubber and livestock and agricultural activities), with all types of financing, equity and consultancy services.	Everything associated with defense and technologies with a double use.
PROHIBITED	Thermal coal plants in development or built, reforms to operating thermal coal plants, nuclear plants that do not comply with the characteristics indicated in the policy, large dams and the development, construction or expansion of bituminous sand projects in non-designated countries per the Ecuador Principles.	Deforestation (areas declared to have a high ecological value), carried out in peatland in non-designated countries per the Ecuador Principles, and the extraction and sale of native species of wood without certificates.	No commercial relationship with organizations (or their subsidiaries) that fabricate, commercialize or distribute defense material or technologies with a double use.
RESTRICTED	Projects for the exploration and production of petroleum and gas, operations with energy groups related to coal, operations associated with the generation of nuclear energy, biomass electricity plants and the development, construction or expansion of bituminous sands projects.	Processes that have an environmental impact on forests with a high ecological and/or social value included in the UNESCO world heritage list. The extraction of native species, carried out in forest areas that have suffered fires or large-scale deforestation in the past five years, operations or customers associated with non-designated countries in the following sub-sectors: wood, cellulose pulp and paper, palm oil, soya, biofuels and livestock activities.	All operations associated with the fabrication, commerce or distribution of defense materials or technologies with a double use that do not comply with the weapons proliferation conventions and treaties.

the environment and energy generated from sustainable sources; commodities, in order to help to improve the sustainability of the agricultural raw materials in the supply chain; and defense, to protect peace, safety, defense and the stability of countries, in compliance with the international conventions that have identified weapons that cause humanitarian damage. Although several of these provisions already existed, they were compiled in a single document. The policy establishes two types of activities, those prohibited and therefore in which the Bank cannot participate (extraction and sale of native species, deforestation, nuclear plants, fabrication of anti-personnel mines, among others), and those that are restricted (activities associated with forestry resources, biomass plants and the generation of nuclear energy, among others), in which the Risks Division and the respective business area must assess the social and environmental impacts of the operation, compliance with this policy, and with the Ecuador Principles when they apply.

These policies are responsible for the first line of defense – business – and for risks that they are responsible for ensuring compliance with. For the purposes of their resolution and/or interpretation, a roundtable led by Compliance has been created, with various areas as members, and with Internal Audit as a permanent guest. In these cases, the opinion of this roundtable is obligatory but not binding.

## 8. Audits

The Bank obtained, an acceptable global rating from the Internal Audit Division in the product commercialization audits, the General Code of Conduct and the Stock Market Code of Conduct and regulatory reports, which implies that it does have suitable controls to mitigate the risk.

## 9. Codes of conduct

Banco Santander has several instruments inspired on international best practices that define the conduct, principles and values that all employees must have in relation to the businesses and the groups of interest.

In specific subjects that need detailed regulation, the rules established in the General Code of Conduct are supplemented with those contained in sectorial codes and manuals that are approved by the Regulatory Compliance Committee and the notes or circulars that develop specific points of those codes and manuals.

The General Conduct and Stock Market Conduct Manuals, the Manual for the Prevention of Money Laundering and the Anticorruption and Bribery Manual are available to all employees on the corporate intranet, for subscription as well as for reading.

The main documents are\_

- **General Code of Conduct\_** is the central element of the organization's compliance program. It defines the Bank's values and principles that all employees must have in their relationship with customers, suppliers, public authorities, hierarchical superiors, work colleagues, the rest of the industry and society, based on a professional conduct, honorable, impartial and honest, in accordance with the Banco Santander principles. New employees who begin work with the company agree to read, accept and sign the code.
- **Stock Market Code of Conduct\_** contains the policies on this subject, seeks to prevent conflicts of interest and the use of privileged information for people that comprise key areas within the Bank. Among others, in general it seeks to: record and control sensitive information known and generated in the Bank; maintain the lists of the securities affected and of the people involved, and supervise operations with these securities; supervise operations with restricted securities per the type of activity, portfolio or collective to which the restriction is applicable, receive and deal with communications and requests for authorization of operations on its own behalf, monitor the operations on behalf of the people subject to them and manage

possible non-compliances with the CCMV; identify, record and resolve conflicts of interest and the situations that could give rise to them; analyze possible suspicious actions constituting market abuse and if applicable, report them to the supervisory authorities. At the end of the year, 695 people were subject to this code.

- **Manual for the Prevention of Money Laundering and the Financing of Terrorism\_** its objective is to inform all people who work at the Bank and its subsidiaries of the policies, regulations, organizations and procedures that must be applied and complied with to establish an adequate system for the prevention of money laundering. Reading this document is obligatory, as are the training courses. This manual was updated in 2016 to adapt it to new needs and the current regulations.
- **Manual for the Prevention of Corruption and Bribery\_** the anti-corruption and bribery policy has the objective of defining the guidelines for conduct to avoid any form of corruption involving Banco Santander. It sets out the regulations that must be complied with by all of the entities that comprise it on the subject of prevention of corruption and bribery.

5

# Results 2016

## RESULTS OF THE FINANCIAL YEAR

Income attributable to the Bank's equity holders reached \$472,351 million in 2016, a figure 5.2% higher than that of the 2015 financial year. Income before tax, which does not include the effects of the increase in the tax rate during 2016, increased 10.3% with respect to the previous year. On its side, the net operating income of the operating segments – understood as the sum of the financial margin plus commissions plus the result of financial operations and less provisions for credit risk – that reflects the progress in the Bank's core business, grew 11.4%. The ROE (measured as the net income over average equity) was 17%, while efficiency was situated at 42.7%.

The results are a combination of increased activities due to a sustained growth of the customer base, with the consequent good growth of loans – especially in the objective segments that the Bank proposed for the period – an improvement in the funding mix, better portfolio quality and a continuous improvement in revenue from commissions.

2016 also presented a favorable situation for the Bank in terms of decreasing interest rates and a stable monetary policy rate by the issuing entity, a situation that was adequately managed by the Bank.

Santander Chile continued to capitalize the efforts made since 2012 – and that continue to be developed – within the framework of the Commercial transformation plan, including the deployment of the new branch office model, the addition of new NEOCRM tools and significant investments in technology and operations to strengthen the Bank's digital transactional capacities, all in order to improve the quality of attention and be the best Bank for its customers.

### Profit attributable to equity holders

\$ million



### Return on average equity

%



### Net contribution of the operating segments

\$ million



Summary of results (\$ million)	2016	2015	VAR. 16/15
Net interest income	1,281,366	1,255,206	2.1%
Net fee and commission income	254,424	237,627	7.1%
<b>Core revenues</b>	<b>1,535,790</b>	<b>1,492,833</b>	<b>2.9%</b>
Result of financial operations	140,358	145,499	(3.5%)
Other operating income	18,299	15,642	17.0%
Operating income	1,694,447	1,653,973	2.4%
Provisions	(343,286)	(413,694)	(17.0%)
<b>Net operating income</b>	<b>1,351,161</b>	<b>1,240,280</b>	<b>8.9%</b>
Operating expenses	(686,905)	(661,208)	3.9%
Other operating expenses <sup>1</sup>	(85,432)	(54,218)	57.6%
<b>Net operating result</b>	<b>578,824</b>	<b>524,854</b>	<b>10.3%</b>
Income after tax	474,716	452,141	5.0%
Non-controlling interest	2,365	3,263	(27.5%)
<b>Income attributable to equity holders</b>	<b>472,351</b>	<b>448,878</b>	<b>5.2%</b>
Income per share (Ch\$)	2,51	2,38	5.2%
Income per ADR (US\$) <sup>2</sup>	1,50	1,35	11.5%
Credits and accounts receivable from customers	26,933,624	25,289,880	6.5%
Interbank loans <sup>3</sup>	272,807	10,877	2.408.1%
Total loans <sup>3</sup>	27,206,431	25,300,757	7.5%
Total deposits	20,691,024	19,538,888	5.9%
Equity	2,898,047	2,764,880	4.8%

1. Includes losses due to impaired loans

2. The variation in the income per ADR can differ with regard to the variation of the income per share due to the exchange rate.

3. Gross with provisions.

Loans by segment (\$ million)	2016	2015	VAR. 16/15
Individuals <sup>1</sup>	14,774,431	13,520,649	9.3%
SMEs	3,830,505	3,514,058	9.0%
<b>Individuals and SMEs<sup>1</sup></b>	<b>18,604,936</b>	<b>17,034,707</b>	<b>9.2%</b>
Companies	6,396,376	6,006,282	6.5%
Global Corporate Banking	2,121,513	2,178,643	(2.6%)
Others	83,606	81,125	3.1%
<b>Total loans<sup>2</sup></b>	<b>27,206,431</b>	<b>25,300,757</b>	<b>7.5%</b>

1. Includes mortgage and consumer loans and other credit loans to people.

2. Includes interbank loans. Gross with provisions

Loans by product (\$ million)	2016	2015	VAR. 16/15
Commercial	13,867,465	13,326,359	4.1%
Individual	13,066,159	11,963,520	9.2%
Mortgage	8,619,356	7,812,850	10.3%
Consumer + cards	4,446,803	4,150,671	7.1%
Consumer	2,998,685	2,716,062	10.4%
Cards	1,448,118	1,434,609	0.9%
<b>Credits and accounts receivable customers</b>	<b>26,933,624</b>	<b>25,289,880</b>	<b>6.5%</b>
Interbank	272,807	10,877	2.408.1%
<b>Total loans<sup>1</sup></b>	<b>27,206,431</b>	<b>25,300,757</b>	<b>7.5%</b>

1. Gross with provisions.

## Loans

Total loans (including interbank loans) increased 7.5% during the year (6.5% excluding interbank loans). This figure is lower than the 10.5% recorded the previous year, in line with the deceleration of the economy and the deceleration of the mortgage market due to the effects of the 2014 tax reform.

This is how housing credits began a slow but gradual deceleration in their rate of expansion throughout the year. For their part, consumer loans maintained a sustained acceleration in the rhythm of growth throughout the entire period, and especially throughout the fourth quarter. Credit card and commercial loans reduced their growth rates in the year, with the latter showing a good recovery during the fourth quarter, in response to the Bank's commercial efforts. Growth is a reflection of the strategy followed during the financial year, concentrating on segments of

customers that offer a higher profitability adjusted by risk, such as middle and high-income individuals – with an acceleration in the middle income segment – and medium and large-sized companies, reaching an expansion of around 10.0% in the year, above the 7.5% of total loans.

The increase was selective for the rest of the loans. In the SME segment, activity centered on larger companies with an integral offer of products, balancing income from credit operations with those that accrue commissions. Regarding the medium and large-sized company segment, the focus was on increasing business not associated with loans, although maintaining loans as an integral part of the relationship with customers. In the corporate segment that covers the largest companies in the country, loans are volatile due to the inherent nature of the business, which is due to large transactions that are not recurrent in time. This is how during the year there was a

drop in total loans, notwithstanding the fact that the segment reached better results by deploying a strategy with a greater focus on non-loan products but with a better margin.

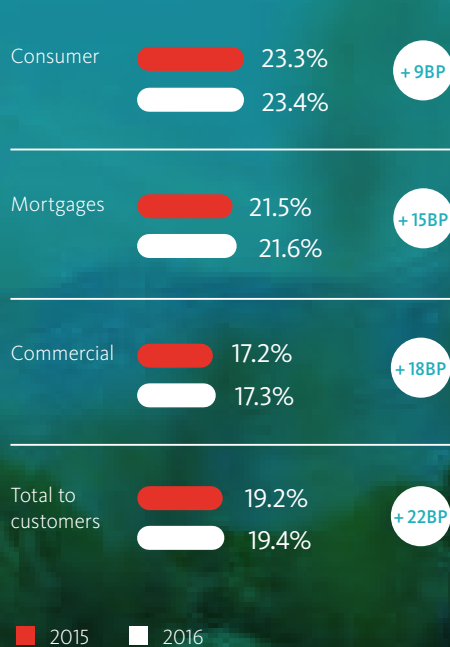
In this way, loans to individuals and SMEs showed an increase of 9.2% in the year. In individuals, growth was driven mainly by the high-income segment, with an increase of 15.6%. Middle-income, meanwhile, grew 4.9% and the lower income showed a deterioration of 13.5% with respect to the previous year. In reference to this last segment, the selective growth approach was maintained. On the other hand, loans to SMEs showed an increase of 9%, similar to the previous year, although with a cautious posture, given the context of economic deceleration.

Loans to medium and large companies, meanwhile, recorded an increase of 6.5%, less than the 10.3% of the previous year. Loans to the Corporate segment, that is, multinationals and the largest companies in the country,



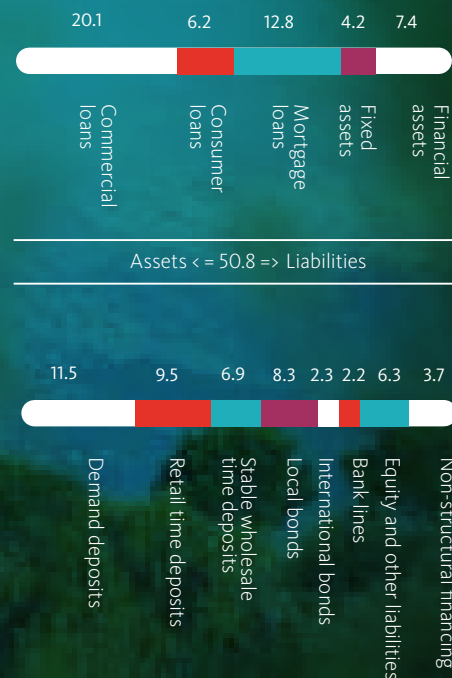
### Market share and annual variation

%, basis points



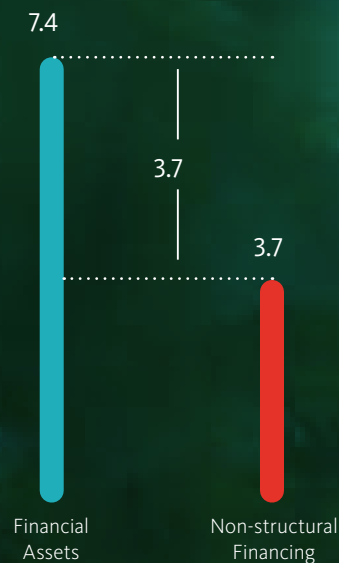
### Consolidated balance sheet at December 31, 2016

US\$ thousands of millions



### Structural liquidity at December 31, 2016

US\$ millions



contracted by 2.6% due to the lower demand associated with the drop in investment, and the maturity of some specific positions during the year. It is important to note that the aforementioned growth does not reflect the performance of the segment during the period, which due to its nature is volatile regarding the loans portfolio.

By product, the performance of mortgage loans stood out with an increase of 10.3% with respect to 2015. This is due mainly to the remainder of the demand driven by the effects of the tax reform in 2014, and to a lesser extent by the effect of inflation on the portfolio. On its side, consumer loans increased 10.4% while Credit cards increased by 0.9%, figures that compare against 6.3% and 5.3% respectively for the previous period. The latter is a reflection of the deceleration of the country's growth throughout the year.

In spite of this, the growth recorded during the period permitted the Bank to continue

to consolidate its leadership position in the industry, gaining market share in all products. Making the adjustments for credit investments made overseas by some local banks in order to permit a suitable comparison, Santander's market share for total loans (excluding interbank loans) increased to 19.1%, gaining 22 basis points with respect to the 18.9% recorded in 2015.

In consumer loans, the share increased 9 basis points to 23.4%, while in mortgages the increase was of 15 basis points, reaching 21.6%.

Finally, the market share for commercial loans reached 16.9%, increasing 17 basis points with respect to the previous financial year.

#### Deposits

The Financial Management division of Banco Santander is responsible for the Bank's

structure of balance and liquidity. This unit, which works autonomously from the treasury, uses its own methodology to define what is called structural liquidity, understood to be the difference between liquid financial assets and non-structural financial liabilities.

The methodology applied distinguishes between commercial assets (loans to customers), fixed assets and liquid financial assets. The first are financed with structural or stable fund sources, including demand deposits, time deposits for retail customers, structural time deposits for wholesale customers, bonds and bank lines. The last three become non-structural sources when their maturity period is less than 120 days. Fixed assets are financed with permanent liabilities (mainly equity and provisions).

Finally, liquid financial assets are financed, on one hand, by non-structural financial liabilities (time deposits of wholesale customers and bonds with a maturity less than 120 days

and commercial paper), while the remainder, corresponding to structural liquidity, is financed by structural financial liabilities.

During the period, structural liquidity was an average of \$2,085 million dollars, ending the financial year at \$3,664 million dollars.

In line with the aforementioned strategy, the Bank continued to make significant efforts to improve the mix of local funding and took advantage of the good liquidity conditions throughout the year. This is how the total deposits increased by 5.9%, in line with the growth of loans. Demand deposits (resources with no cost to the Bank) showed a good growth during the year thanks to the leadership of Santander in the cash management products for companies and an increased connection by retail customers. The foregoing meant that mutual funds were preferred over demand deposits during the second half of the year, generating a higher income from commissions. Time deposits (the second-cheapest source of financing for the Bank) recorded greater dynamism in the period, making use of the existing liquidity, with growth coming from the segments of customer business as well as from institutional wholesalers. During the second half of the year the deposits price policy was adjusted, which reduced the speed of growth a little, but enabled the spread to improve.

As with loans, during the period the Bank earned market share in demand deposits as well as time deposits. At the end of the financial year, and making adjustments for the investments made overseas by some local banks in order to permit an adequate comparison, the market share in demand deposits rose to 21%, 45 basis points above the figure recorded at the end of the previous year. Time deposits recorded a market share of 17.8%, with an increase of 50 basis points with respect to 2015. Finally, total deposits (demand plus time) closed the financial year with a share of 18.8% and an increase of 45 basis points in market share.

As mentioned previously, during the second half of the year the Bank was active in the commercialization of mutual funds, recording an increase of 11.4% in the funds administered. The good performance translated into an increase in the market share of 28 basis points, closing the period with a share of 16.2%.

As part of the Bank's financing strategy, over

Sources of funds (millions of \$)	2016	2015	VAR. 16/15
Demand deposits	7,539,315	7,356,121	2.5%
Time deposits	13,151,709	12,182,767	8.0%
<b>Total deposits</b>	<b>20,691,024</b>	<b>19,538,888</b>	<b>5.9%</b>
Mutual funds <sup>1</sup>	5,026,068	4,510,051	11.4%
<b>Total customer funds</b>	<b>25,717,092</b>	<b>24,048,939</b>	<b>6.9%</b>
Current bonds	6,416,274	5,041,636	27.3%
Subordinate bonds	759,665	745,019	2.0%
Mortgage bonds	104,182	107,582	(3.2%)
<b>Total bonds</b>	<b>7,280,121</b>	<b>5,894,237</b>	<b>23.5%</b>
Letters of credit	46,251	62,858	(26.4%)
<b>Total debt instruments issued</b>	<b>7,326,372</b>	<b>5,957,095</b>	<b>23.0%</b>
<b>Adjusted loan to deposit<sup>2</sup></b>	<b>96.3%</b>	<b>99.3%</b>	<b>- 302BP</b>

1. Santander Chile is the exclusive broker for the mutual funds administered by Santander Asset Management S.A. Administradora General de Fondos, a subsidiary of SAM Investment Holdings Limited.

2. (Loans excluding the portion of mortgages financed with bonds) / (Time deposits plus demand deposits). The Bank's mortgages are primarily long-term fixed-rate loans that are financed by matching with long-term financing and not with short-time deposits. For this reason, in order to calculate the ratio, mortgages are subtracted in the numerator.

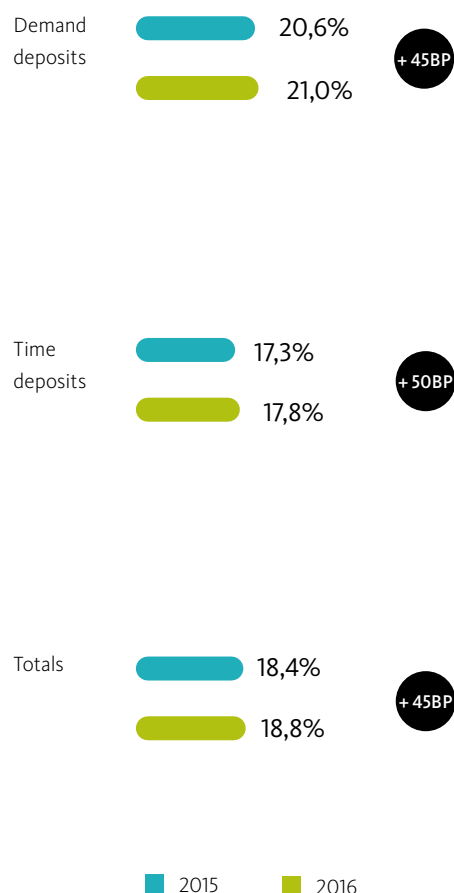
the past years funding sources have been diversified, strongly supported, on one hand, on the basis of retail deposits, and on the other hand, on international markets. In this way, it is sought to increase local funding from investors other than institutional investors, such as the investors, which as the Pension Fund Administrators AFP (local diversification), maintaining a percentage of funds from other markets (geographical and currency diversification). The result is a solid balance structure, with a strong position, that allows us to be prepared in scenarios of less liquidity in the local market, together with an improvement in the funding mix and optimization of the cost of funds.

During the financial year the total retail deposits decreased 3.0%, going from 74.2% of total deposits in December 2015 to 67.6% at the end of the financial year. On the other hand, structural deposits of wholesale customers increased from 18.5% of the total to 22.1% in the same period.

It must be mentioned that during the financial year the retail/shareholder model was reviewed, on which the market risks are based to calculate the core deposits metric. This generated a reclassification of US\$ 1,300 million from retailers to wholesalers. In short, retail deposits are maintained at adequate levels, in line with the Bank's strategy to conserve a principally retail and more permanent funding base, and

### Market share and annual variation

% basis points



more competitive in terms of cost. Regarding financing from international markets, the Bank continued to make use of the existing opportunities to diversify the funding base. Along these lines, the Bank has been a pioneer in the search for new markets and investors such as Taiwan, Switzerland, China, The Middle East, Japan and Australia. During 2016 the year's liquidity needs were mainly covered with emissions in the local market following existing opportunities. However, the Bank also remained active in the international markets, becoming the first Chilean issuer in the Taiwan market – also known as Fomosa – in November, with a five year bond for a total of US\$ 185 million. This shows the capacity of Santander Chile to raise resources on the international markets at attractive rates, despite the volatility generated by the elections in the United States.

Additionally, and also in November, the Bank issued a bond on the Swiss market for a total of CHF 125 million, obtaining strong demand and competitive rates in comparison to the local alternative. On the other hand, in the local market, bonds were issued in unidades de fomento for a total of UF 62 million, and bonds in Chilean pesos for \$ 590 thousand million. Part of these funds were used to refinance more expensive liabilities on the international markets. This is how during the first semester bonds were repurchased for US\$ 570 million in advantageous conditions for the international investors. The transactions, that were well-accepted, also generated a profit for the Bank. These transactions reflect its capacity to access markets in advantageous conditions, maintaining an adequate diversification of the funding base, and the positive perception of domestic and international investors regarding Santander Chile.

All of the foregoing enables the Bank to compensate in part the lower spreads due to the change in the mix of growth towards segments with lower risk, but which are also less profitable, maintaining a competitive cost of funds in comparison to the rest of the industry.

### Profit by business segment

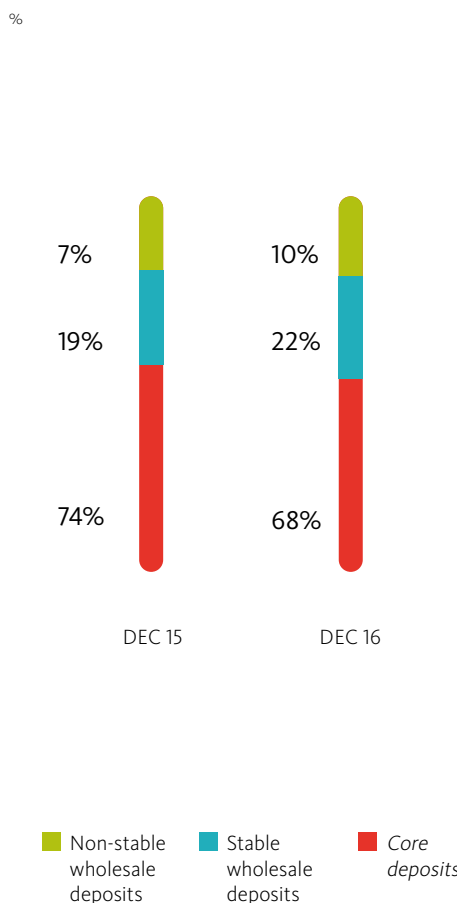
The net operating income from operating segments increased 11.4% in 2016, higher than the 8.6% recorded the previous year. This result includes net interest income, net commissions and fees, result of financial operations and expenses for credit risk provisions, and excludes other corporate activities such as for example the impact of inflation on profits, the variation in the exchange rate and the regulatory changes regarding provisions for credit risk. Including the operating expenses, the net contribution of the operating segments grew 25.6%. This result is the consequence of higher interest income and commissions and fees, better financial operations results, lower expenses for provisions and controlled expenses.

The net contribution of the segment Individuals and SMEs increased 24.3%, reflecting a higher financial margin thanks to

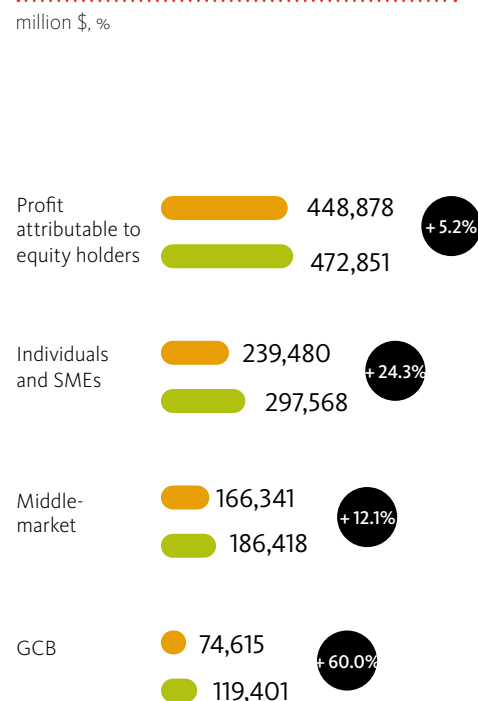
the growth of volumes and a better financing mix, higher commissions associated with the increase of the connections of customers and contained support expenses, a reflection of the efforts made by the Bank to increase productivity and efficiency with investment in technology and rationalization of the distribution network.

This was partially compensated by higher provisions for credit risk, as the consequence of the tightening of the risks policy, especially in the segment of low-income individuals, which translated into more charge-offs and provisions, in the economic deceleration scenario. The results of the Middle-market segment recorded an increase of 12.1% in its net contribution, the consequence of higher core income, a better financing mix, a better connection with customers, higher commissions and less provisions for the risk of credit in line with the improvement in the quality of the portfolio. The foregoing was

### Structure of deposits at December 31, 2016



### Net contribution



partially compensated by higher operating expenses in response to the growth of the business.

The Global Corporate Banking (BCG) segment recorded strong growth in its results, highlighting the increased financial margin (+11.2%), despite the contracting of the drop in loans. The strength of the Bank in the Cash Management and financial consultancy business had driven higher commissions(+64.6%). The growth in core income was accompanied by a lower expense for provisions(-89.7%), thanks to the improvement in portfolio quality, although partially compensated by higher support expenses in line with the growth of activity in the segment.

### Financial margin

The net financial margin grew 2.1% as the result of the growth of the placements and the better financing mix, although partially compensated by the lower inflation of the period, the depreciation of the peso, and the change in the growth mix.

The Bank's focus on growth during 2016 continued in lower-risk and also less profitable segments, which put pressure on the margins due to the change in the mix of the credits portfolio. In addition, and continuing with the trend of the previous financial year, the mortgage portfolio showed significant growth driven by the 2014 tax reform, although at a decreasing rhythm during the period. This is a product that, discounting the inflationary effect, has a tight margin. Finally, although the Bank does not have exchange rate exposure, the appreciation of the peso during the financial year caused a fall in the cost of some short-term liabilities that nonetheless are covered with forwards. The lower cost of these liabilities is recognized as the financial margin, however the corresponding cover is recorded as the result of financial operations, without affecting net profits.

In spite of this, production activities showed growth of 9.9%, slightly lower than the 10.6% of last year. This is the consequence of an increase of 8.3% in

Operating profit by segment (millions of \$)	Individuals and SMEs <sup>1</sup>	Company and Institutional Banking <sup>2</sup>	Global Corporate Banking <sup>3</sup>	Total segments <sup>4</sup>
Net interest income	931,105	244,960	95,105	1,271,170
Annual var. (%)	6.7%	6.6%	11.2%	7.0%
Net fee and commission income	196,845	30,851	25,077	252,773
Annual var. (%)	3.4%	8.1%	64.6%	8.0%
Core income <sup>5</sup>	1,127,950	275,811	120,182	1,523,943
Annual var. (%)	6.1%	6.8%	19.2%	7.1%
ROF <sup>6</sup>	21,141	19,577	55,927	96,645
Annual var. (%)	30.1%	9.4%	11.1%	14.4%
Net provisions for loan losses	(321,614)	(25,558)	(2,773)	(349,945)
Annual var. (%)	4.7%	(-21.7%)	(-89.7%)	(-4.6%)
Net operating profit <sup>7</sup>	827,477	269,830	173,336	1,270,643
Annual var. (%)	7.1%	10.8%	39.6%	11.4%
Operating expenses	(529,909)	(83,412)	(53,935)	(667,256)
Annual var. (%)	-0.6%	8.0%	8.9%	1.1%
Net contribution by segment <sup>8</sup>	297,568	186,418	119,401	603,387
Annual var. (%)	24.3%	12.1%	60.0%	25.6%

1. SMEs: companies with sales below \$1,200 million annually. / 2. Middle-market: companies with annual sales between \$1,200 million and \$10 thousand million, companies of the real estate development sector with sales over \$800 million, and large companies with sales over \$10 thousand million and institutions such as universities, government entities and local regional governments. / 3. Global Corporate Banking: local or foreign multinational companies with annual sales over \$10 thousand million. / 4. Excludes the results of Corporate Activities. / 5. Core income: Financial margin + net commissions of business segments. / 6. Profits from financial operations, net: net income from financial operations + net foreign exchange gain (loss). / 7. Net operating profits: Financial margin plus net commissions plus profits from financial operations less provisions for credit risks of segments. / 8. Net contribution: net operating profit less operating expenses.

Sources of funds (millions of \$)	2016	2015	VAR. 16/15
<b>Net interest income</b>	<b>1,281,366</b>	<b>1,255,206</b>	<b>2.1%</b>
Customers net financial margin	1,271,170	1,188,391	7.0%
Non-customers net financial margin	10,196	66,815	(84.7%)
Average loans	26,335,424	24,312,829	8.3%
Average investments	2,458,720	1,882,974	30.6%
<b>Average productive assets (APP)</b>	<b>28,794,144</b>	<b>26,195,803</b>	<b>9.9%</b>
<b>Net Interest Margin (MIN)</b>	<b>4.45%</b>	<b>4.79%</b>	<b>- 34 PB</b>
Annual inflation <sup>1</sup>	2.80%	4.07%	- 127 PB

1. Annual variation of the UF.



average loans and an increase of 30.6% in the average investment portfolio.

On the other hand, the Bank has more assets than liabilities that are adjustable by inflation, so the financial margin was also positively impacted by the variation in inflation. The Unidad de Fomento (UF), an important indicator for the Bank, again showed a performance lower than last year, especially evidenced during the fourth quarter. This is how the UF recorded a variation of 2.8% in 2016 (0.71% in the first quarter, 0.93% in the second, 0.66% in the third and 0.47% in the fourth quarter), below the 4.07% in 2015. This is due to lower internal inflationary pressures due to the local economic environment and the appreciation of the peso with respect to the dollar (5.7% during 2016). In spite of this, the net interest margin, that is, the net financial margin divided by the average productive assets, decreased slightly from 4.79% to 4.45%.

Despite the negative effect of inflation on the 2016 results, the Bank has continued to correctly execute its business strategy, which is reflected in the good results excluding the effect of inflation. In order to visualize this, we separate the financial margin into customers and non-customers. The former includes all revenue from interest generated by activities with customers, such as credits and deposits, deducting the internal transfer rate corresponding to the theoretical marginal cost of the funds. This is how the customers margin increased 7.0% in the period, showing

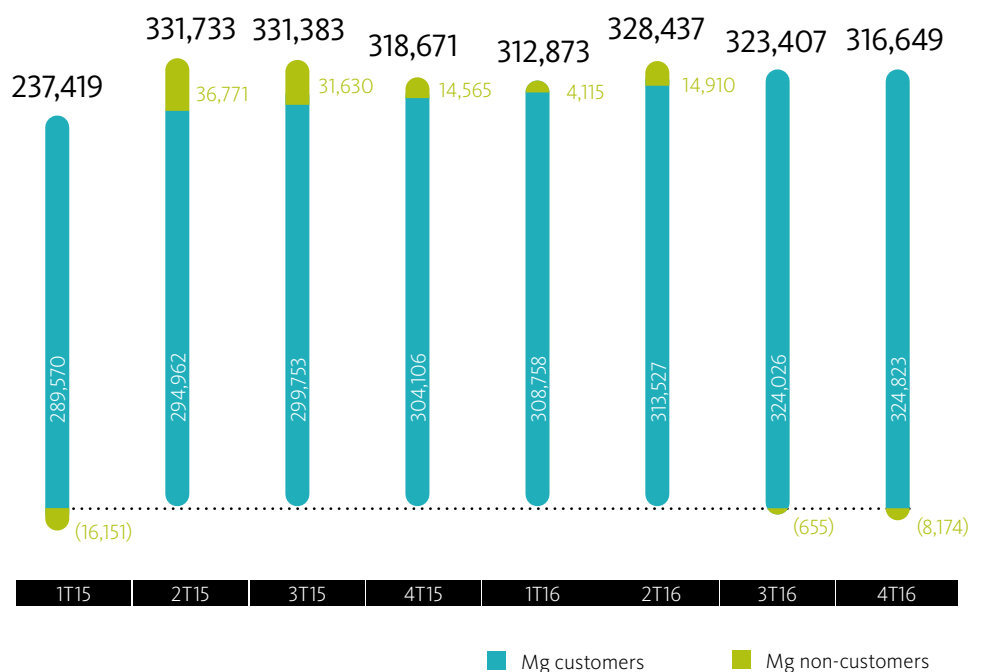
a sustained growth trend throughout the year, following the good general dynamism of all of the business segments.

The non-customers financial margin, on the other hand, reflects the effect of inflation by considering the UF gap (the difference between the assets and liabilities indexed to inflation), as well as the other components of the financial margin such as the financial cost of covers, the financial cost of the Bank's structural liquidity position, the interest

margin of the treasury positions and the financial cost of the financial investments classified as trading (since the financial income of that portfolio is recognized in the Net Profit from Financial Operations line). The Bank was capable of correctly managing the inflationary profile shown by the year, maintaining an average UF gap of \$ 4,527 thousand million during the period. The foregoing implies that for every 100 base points by which inflation increased, the non-customers margin reflected an additional

### Interest margin for customers and non-customers

\$ million



revenue of approximately \$45 thousand million annually, everything else remaining constant. All of the above translates into the net interest margin for customers reflecting the Bank's core commercial business, understood as the financial margin of customers divided by the average credits of the period, excluding the effect of inflation, remained stable, reaching 4.83% at the close of the period in comparison to 4.98% the previous year. This drop is a reflection of the change in the mix of growth and the strong transitory growth of mortgages, compensated by the good management of the cost of funds. The Bank's final objective

is in the net risk interest margin. This is how the continuous improvement in the portfolio quality contributed towards maintaining the total net interest margin, net of provisions, stable at 3.26% in 2016, slightly higher than the 3.21% of the previous year. On the other hand, the net interest margin of customers, net of provisions, improved from 3.19% in 2015 to 3.52% in 2016.

### Commissions

Commissions increased 7.1% in the period, consolidating the trend of the previous

period, which recorded an increase of 4.6%. This was led by a good growth of commissions in the Global Corporate Banking segment, which was responsible for a significant share of the consultancy and bridge financing business generated by the large projects under development in the country, so improving the revenue from financial consultancies and investment banking in general, and from Cash Management. The companies segment recorded good growth of commissions associated with the focus of growth of the segment, which sought to deepen the relationship with customers and the penetration of non-credit products.

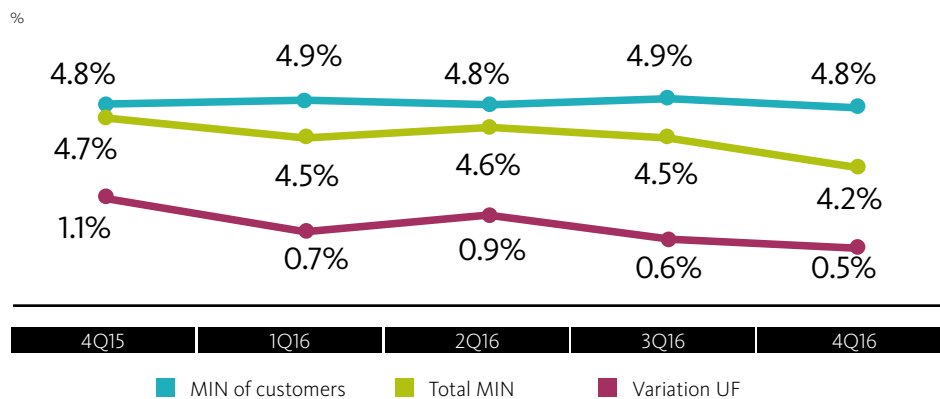
In the case of Individuals and SMEs, the greater connection of the customer base as well as higher transactionality levels translated into a greater use of the Bank's products, emphasizing credit and debit cards. The continued dynamism of mortgage loans drove the commercialization of associated insurance such as fire, earthquake and life, among others. Likewise, commissions for the commercialization of Mutual Funds grew significantly, influenced by the efforts of the Bank to offer the product to customers and the greater attractiveness of this savings and investment alternative above the time deposits given the interest rate situation during the year.

During 2016 the Bank has harvested the fruits of improving the quality of customer attention. To this is added the strong development undergone by the Bank's digital channels such as the Internet, ATMs, POS and

Mobile. All of the above translated into a good growth of the connected customers—understood to be customers with between 2 to 4 products and minimum use and profitability levels according to the segment, which expanded beyond the total customer base, particularly in the Bank's objective segments. This is how the Bank has more customers, who are more connected and who use the Bank's products more.

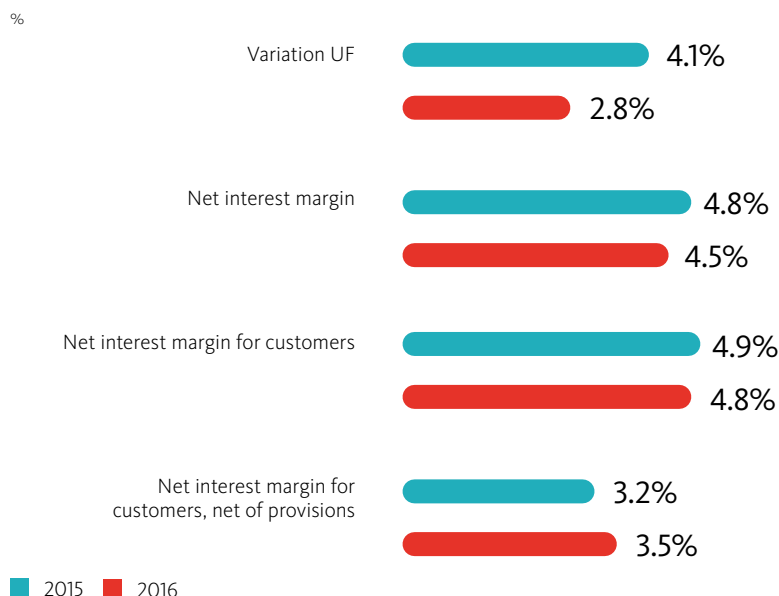
The growth of the total customers base, which exceeded 3.6 million including individuals, SMEs, companies and institutions, was mainly driven by high-income individuals, which increased 8.4%. The SME customers meanwhile increased by 1.2% and company customers by 1.5%, in line with the commercial objectives proposed for each segment during the financial year. During the year, the growth

### Total net interest margin<sup>1</sup> and client margin



1. Annualized figures for the net interest margin and the net interest margin for clients.

### Variation UF; total net interest margin, net interest margin for client, and net interest margin for clients net of provisions



■ 2015 ■ 2016

Net commissions (\$ millions)	2016	2015	VAR. 16/15
Credit and debit cards and ATMs	52,057	46,066	13.0%
Collections	31,376	30,399	3.2%
Insurance brokerage	40,882	39,252	4.2%
International business	35,911	35,276	1.8%
Mutual funds	38,038	35,978	5.7%
Current accounts	31,540	30,291	4.1%
Office Banking	14,145	15,224	(7.1%)
Intermediation and management of securities	8,358	8,685	(3.8%)
LCA and overdrafts	5,754	6,597	(12.8%)
Other commissions	(3,637)	(10,141)	(64.1%)
<b>Total net commissions</b>	<b>254,424</b>	<b>237,627</b>	<b>7.1%</b>

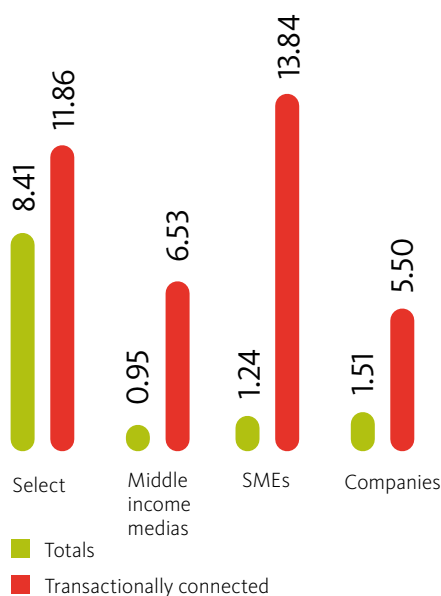
1. Annual variation of the UF.

of the transactionally connected customers stands out, these are customers who have and use the Bank's products more, especially in the high-income segment with 11.9% and in SMEs with 13.8%.

Products also show the good commercial performance of the year in accordance with the figures published by the Superintendence of Banks and Financial Institutions (SBIF). Total current accounts increased 4.0% in the period, while debit and credit cards showed expansions of over 2.0% and 3.0% respectively. All of the foregoing translated into the good performance of commissions associated with products. Commissions for credit and debit cards increased 13.0% in the year. Commissions for brokerage of Mutual Funds continued to show a good performance with an expansion of 5.7% in comparison with the previous year, while commissions for insurance brokerage and current accounts increased by 4.2% and 4.1% respectively. Despite the efforts made by the Bank to compensate the regulatory effects on commissions associated with credit and overdraft lines, these fell by 12.8%.

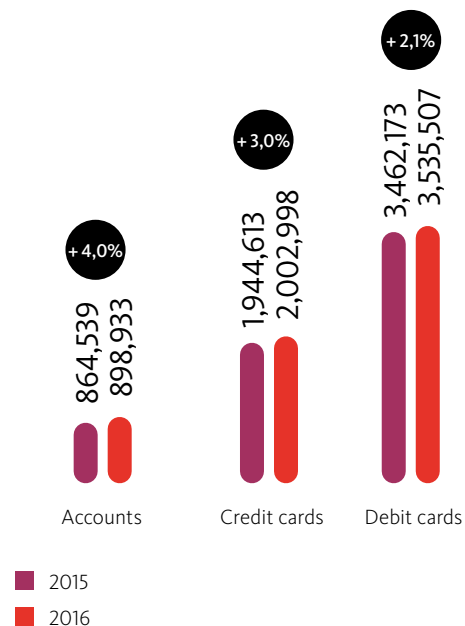
## Customers

Annual growth, %



## Products

thousands; annual growth, %



Source: SBIF. Current accounts and credit cards at November 2016, debit cards at October 2016, latest information available.

## Result of financial operations

The result of financial operations includes the items Net Profit from Financial Operations and Net Foreign Exchange Gain, which jointly showed a decrease of 3.5% in comparison to 2015. It is important to highlight that the Bank as a whole does not maintain a significant gap between assets and liabilities denominated in foreign currency. The Bank's spot position in foreign currency is covered by derivatives that are considered trading or accounting hedges.

In the case of the former, the mark-to-market result, that is the market valuation of the derivative, is recognized as the net profit from financial operations. The accounting hedge derivatives, meanwhile, are reflected at their market value along with the item covered as the net foreign exchange profit (loss). This distorts these lines of revenue, especially in periods of strong appreciation or depreciation of the peso. In order to best understand the Financial Operations Result line, these are presented by business area.

The results of treasury with customers increased 11.0% in the period, which is explained by an increase of 2.3% in the

treasury services offered by the Bank to its customers through the Santander Global Connect platform, in virtue of the volatility of the market during the year and the consequent demand for currency and interest rate hedge products. On its side, Market Making recorded an increase of 19.8%, a reflection of the increased dynamism of the securities market during the period.

On the other hand, the results generated by treasury activities not related to customers dropped by 23.8% with respect to 2015. During the first quarter of the year an extraordinary profit of \$ 5,834 million was recorded due to the repurchase of bonds issued by the Bank in international business, making use of a favorable situation derived from the international movement of interest rates. In addition, the Bank also took advantage of the rates dynamics during the period, realizing profits for the sale of some titles within its portfolio of investments available for sale, which however were substantially lower than those recorded the previous year.

On the other hand, especially during the first quarter, and to a lesser extent during the third

Results of financial operations (\$ million)	2016	2015	VAR. 16/15
Treasury results of customers	94,015	84,716	11.0%
Santander Global Connect	62,404	60,995	2.3%
Market Making	27,382	22,850	19.8%
Others	4,229	871	385.5%
Treasury results non-customers	46,343	60,783	(23.8%)
<b>Result of financial operations</b>	<b>140,358</b>	<b>145,499</b>	<b>(3.5%)</b>

quarter of the year, the appreciation of the peso against the dollar affected the results of treasury not related to customers. The Bank does not have a significant exchange rate risk, which it covers with various mechanisms. Some assets, liabilities and service contracts are denominated or are readjustable in foreign currency. In this way the appreciation of the peso positively affected loan credit risk provisions denominated or readjustable in foreign currency, as well as a portion of the administration expenses denominated in foreign currency (mainly technology). This risk is covered with derivatives whose result is recognized as financial operations, while the change in the value of the element hedged is recognized in another item of the profit and loss statement. Thanks to the hedges there are no impacts at the level of net profit for the Bank.

#### Provisiones

The provisions expense decreased 17.0% during the year. The drop is explained by the lower provisions constituted, which fell 67.1%, and higher recoveries that increased 14.9%, in line with charged off loans that maintained stable throughout the period. This is due to the continued improvement in portfolio quality that translates into a lower constitution of provisions, as a consequence of the focus of growth on lower-risk segments as well as improvements in the admissions and recovery policy. On the other hand, the cost of credit, that is, the expense for net provisions over average credits, fell, going from 1.64% in 2015 to 1.26% in 2016.

It must be mentioned that in 2015 the Superintendence of Banks and Financial Institutions implemented a regulatory change that translated into an extraordinary charge of \$ 35 thousand million in provisions recorded in December that year, as explained the previous year. Excluding this extraordinary charge, net provisions would have fallen 9.4% with respect to 2015. The portfolio quality has

continued to improve during 2016, following the trend of the past years, with decreases in non-performing loans and an increase in coverage. The foregoing reflects the efforts made proactively such as the implementation of greater requirements for accepting and granting credits, a change in the mix of growth towards lower risk segments, the toughening of renegotiation conditions and an increase in collection efforts. In spite of this, the entire non-performing loan portfolio, which includes loans with an unpaid installment that is ninety days or more late –including the carrying forward of the unpaid principal over total gross loans – closed the year at 2.07% of loans, which compares favorably with the 2.54% recorded at the end of 2015. Coverage, understood as the stock of provisions over the non-performing portfolio including interbank credits, reached 145.4% at the end of the year, higher than the 117.6% recorded at the end of the previous period. Likewise, the impaired portfolio, which considers the non-performing loans as well as the renegotiated loans, ended the year at 5.9%, an improvement in comparison to the 6.6% recorded in December 2015. It must be





Provisions for credit risk and portfolio quality (\$ million, %)

	2016	2015	VAR. 16/15
Net provisions constituted	(29,770)	(90,472)	(67.1%)
Charge-offs	(391,814)	(391,362)	0.1%
Provisions plus charge-offs	(421,584)	(481,834)	(12.5%)
Recoveries	78,298	68,140	14.9%
Net provisions	(343,286)	(413,694)	(17.0%)
Total loans	27,206,431	25,300,757	7.5%
Total loan loss allowances (LLA)	(820,311)	(754,695)	8.7%
Reserves credits to customers	(820,139)	(754,679)	8.7%
Reserves inter-bank loans	(172)	(16)	993.0%
Past due loans <sup>1</sup> (PD)	324,312	364,771	(11.1%)
Non-performing loan portfolio <sup>2</sup> (NPL)	564,131	643,468	(12.3%)
Impaired loans <sup>3</sup> (IL)	1,615,441	1,669,340	(3.2%)
Provisions plus charge-offs / loans	1.55%	1.90%	- 35 BP
Cost of credit <sup>4</sup>	1.26%	1.64%	- 37 BP
PD / Total loans	1.19%	1.44%	- 25 BP
NPL / Total loans	2.07%	2.54%	- 46 BP
IL / Total loans	5.94%	6.60%	- 66 BP
Expected loss (LLA / Total loans)	3.02%	2.98%	+ 3 BP
Past due loans coverage ratio	252.94%	206.90%	+ 4.604 BP
NPL Coverage ratio <sup>5</sup>	145.4%	117.3%	+ 2.783 BP

1. Overdue portfolio includes installments 90 or more days late. / 2. Non-performing loans include the sum of installments 90 or more days late and the balance of the principal. / 3. Impaired loans correspond to the non-performing loans plus renegotiated credits. / 4. Cost of credit is equivalent to the expense for net provisions over total loans / 5. NPL coverage ratio is the ratio between the total reserves and the NPL portfolio.

noted that at the close of the financial year, the stock of provisions covers the actual loss 2.6 times, understood as the net charge-offs of recoveries. It is important to mention that the impact of the regulation on provisions of 2015 was recognized in the stock of provisions in 2016, which in part explains the increase of coverage. However, excluding this provision, the cover of the non-performing portfolio was just under 140%, so reflecting the general improvement in the quality of the Bank's portfolio during 2016.

Analyzing by product, the risk of the consumer loans portfolio continued to improve. The foregoing is reflected in the drop in the impaired portfolio (non-

performing loans plus renegotiated loans), which went from 8.0% in 2015 to 6.5% at the end of 2016. Non-performing loans, reached 2.2% in 2015, lower than the 2.7% of 2015. Meanwhile, coverage increased from 227.3% in 2015 to 300.9% in 2016, reflecting the continuous growth of loans and the better portfolio quality. Regarding mortgage loans, the portfolio quality also showed improvements, with non-performing loans decreasing from 2.3% at the close of 2015 to 1.7% at the end of 2016. Similarly, the impaired portfolio reached 4.6% at December 2016, in comparison to 5.1% for the same month in 2015. The Bank has maintained its requirements when granting mortgages, centering on loans with a loan-to-value ratio

(LTV, amount of the loans over the value of the property) below 80%.

On its side, the commercial portfolio continued to improve despite the country's lower economic growth scenario. In effect, the non-performing loans in commercial loans closed the year at 2.3%, in comparison to 2.6% in 2015. Also, the impaired loans reached 6.7% in 2016, less than the 7.1% in 2015. Finally, the coverage of the non-performing loans increased to 144.9% at the close of 2016, higher than the 128.5% in 2015.

## Expenses

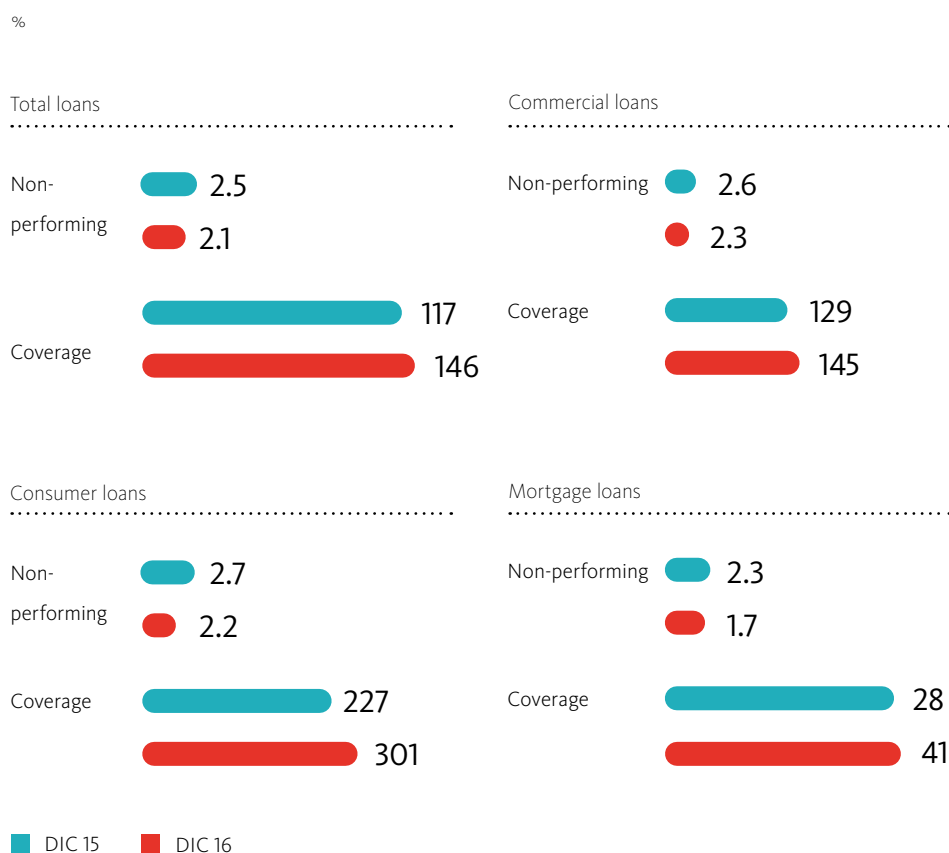
Operating expenses, excluding other operating expenses, increased 3.9% in the period. Including other operating expenses, expenses increased 8.0% with respect to 2015. On its side, efficiency, that is, operating expenses (excluding Impairment and other operating expenses) over operating income, closed the year at 42.7% in comparison to the 41.3% recorded in 2015.

A good part of the Bank's expenses are indexed to inflation or to the exchange rate. Given this, expenses incurred by the Bank, highlighting remunerations and rents, suffered increases during the financial year for this concept, although less than the previous year. Above the effect of inflation and the exchange rate, the Bank recorded a higher level of activity due to good dynamism in the operating segments, which translated into higher technological costs and data processing costs. During the year the Bank continued to progress with the digital transformation plan, which along with the success of the new branch office models accelerated the closure of some points. The latter were replaced by new branch offices adopting two new approaches: the first is a multi-segment approach with smaller branch offices that contain spaces for the various customer segments, while the second, named Work Café, is based on cutting-edge technology without traditional cashiers or back office. The latter are more productive and customer-friendly branch offices.

The effectiveness of NEOCRM has also increased productivity, as well as the implementation of other digital initiatives. Overall, the closure of branches has not affected the volumes of business. This is how although the branch offices have decreased by 8%, the volume of business per branch, including loans and deposits, has increased 32.0%, considering the period from December 2014 to December 2016.

Also, non-profitable ATMs have been eliminated. Over the past years, the volume of transactions has increased significantly as customers use digital channels more. In this way, transactions that were traditionally carried out in ATMs have been replaced by transactions in channels such as Internet and Mobile. The increase in administration

## Evolution of portfolio quality



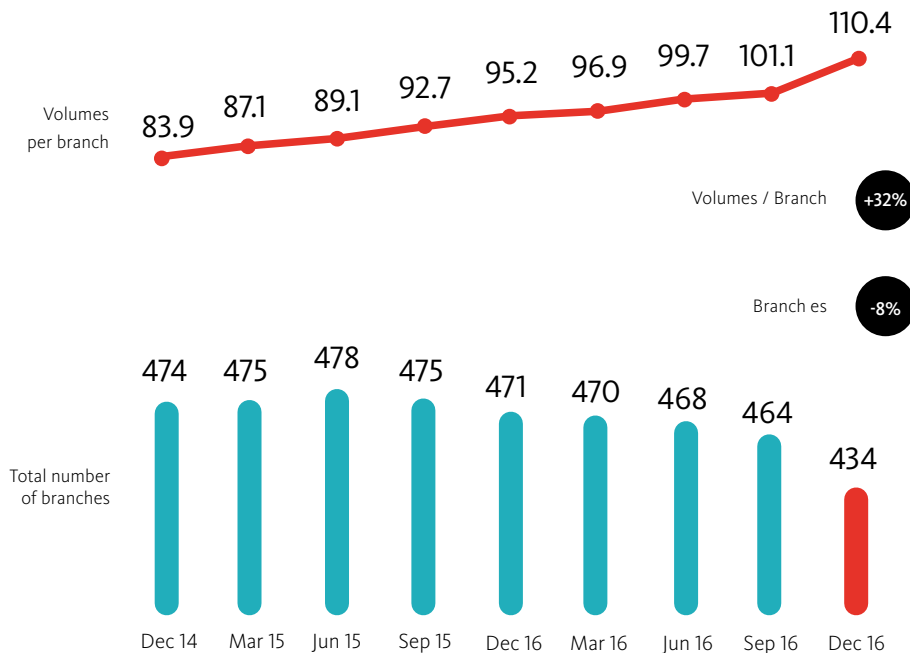
Non performing: unpaid loans > 90 days overdue plus capital carried forward from overdue loans.  
Coverage: Provisions / Non-performing portfolio.

Expenses (\$million)	2016	2015	VAR. 16/15
Personnel salaries and expenses	(395,133)	(387,063)	2.1%
Administration expenses	(226,413)	(220,531)	2.7%
Depreciation and amortization	(65,359)	(53,614)	21.9%
<b>Operating expenses (excluding impairment and other operating expenses)</b>	<b>(686,905)</b>	<b>(661,207)</b>	<b>3.9%</b>
Other operating expenses s	(85,432)	(54,218)	57.6%
Impairment	(234)	(21)	1,002.9%
Other operating expenses	(85,198)	(54,197)	57.2%
<b>Operating expenses</b>	<b>(772,337)</b>	<b>(715,425)</b>	<b>8.0%</b>
<b>Efficiency<sup>1</sup></b>	<b>42.7%</b>	<b>41.3%</b>	<b>+ 137 BP</b>

<sup>1</sup>Operating expenses excluding impairment and other operating expenses over operating income net of other operating expenses.

## Volume of business by branches

\$ thousands of millions



Although branches have decreased by 8.0%, the volumes of business per branch, considering loans and deposits, has grown 32.0% between December 2014 and December 2016.

and sales expenses answers, on one hand, to investment in technology to develop and strengthen the digital channels (Internet, VOX and Mobile) as well as improving efficiency of the internal processes, in line with the transformation plan implemented by the Bank, and on the other hand, to the higher level of transactionality of the customers driven by the good progress of business.

Finally, by including other operating expenditure and impairment, operating expenses showed progress of 8.0% with respect to 2015. This is explained by a higher level of charge-offs of items received in payment and other operational charge-offs. It must be mentioned that during the second quarter of 2016 there was an extraordinary expense for severance pay for \$ 10,789 million, recognized as non-operating expenditure. This single charge is added to the \$ 6,300 million recognized in 2015,

with both being part of the expenditure efficiency plan begun the previous year. Excluding these extraordinary expenses, operating expenses, including other operating expenses, increased by 7.4%. Efficiency meanwhile was 42.4% in 2016.

### Taxes

In 2016 the expense for taxes was \$ 107,120 million, 42.3% higher than the previous year, despite profit before tax increasing 10.3% in the financial year. The foregoing is a consequence on one hand of a higher corporate tax rate – which increased from 22.5% in 2015 to 24% in 2016, in accordance with the tax reform approved in September 2014, as well as the lower inflation of the period, which translated into a lower monetary correction of the Bank's capital due to the CPI (Consumer Price Index), and therefore a lower charge for monetary correction for the purpose of the tax accounting.

## Balance Sheet Solidity

At the close of 2016 the Banco Santander capital base (core capital) was \$ 2,868,706 million (US\$ 4,299 million). This figure is 4.9% higher than that recorded in 2015 and enables a core capital ratio of 10.5%, higher than the 10.3% of the previous year, despite the dividends policy having increased to 75.0% in the financial year. Also, the BIS Ratio or the Bank's Basel Ratio was 13.4% at December 31, 2016.

This position is a reflection of the Bank's strategic focus on the profitable utilization of capital, allocating the latter to operations with high profitability in relation to the consumption of capital, so the figures show the Bank's capacity to grow, while maintaining a solid capital position. It must be highlighted that Santander has not issued new shares in the past 13 years.

Banco Santander obtained a return over average equity before tax of 21.0% and of 17.0% after tax at the close of the 2016 financial year. This indicator reflects the Bank's focus on profitability, the mix of loans and the improvements in the funding base, and at the same time, the prudent position of a high capital base and liquidity. In this way, Santander achieves an adequate risk-return combination.

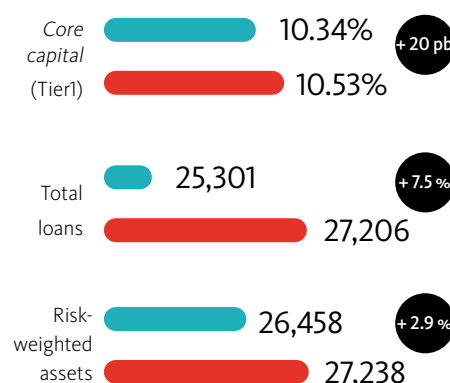
Taxes (\$ million)	2016	2015	VAR. 16/15
<b>Net profit before tax<sup>1</sup></b>	<b>581,836</b>	<b>527,442</b>	<b>10.3%</b>
Monetary correction of capital <sup>2</sup>	(101,027)	(124,138)	(18.6%)
<b>Net profit before tax adjusted for monetary correction</b>	<b>480,809</b>	<b>403,304</b>	<b>19.2%</b>
Tax rate	24.0%	22.5%	+ 150 PB
<b>Tax payable at the tax rate</b>	<b>(115,394)</b>	<b>(90,743)</b>	<b>27.2%</b>
Tax credits <sup>3</sup>	8,274	15,442	(46.4%)
<b>Taxes payable</b>	<b>(107,120)</b>	<b>(75,301)</b>	<b>42.3%</b>
<b>Effective tax rate</b>	<b>18.4%</b>	<b>14.3%</b>	<b>+ 410 BP</b>

1. Table prepared for information only. Please refer to Note 14 of the Financial Statements for more information. / 2. For tax purposes, capital is readjusted by the variation in inflation. / 3. Includes mainly tax credits for territorial taxes paid on leased assets, as well as the impact of variations in assets and liabilities due to net deferred taxes. This profit originates in the differences between the Bank's financial and tax accounting, regarding the treatment of provisions and charge-offs.

Adequacy of capital (\$ million, %)	2016	2015	VAR. 16/15
Basic capital	2,868,706	2,734,699	4.9%
Tier II	789,001	803,517	(1.8%)
<b>Net effective equity</b>	<b>3,657,707</b>	<b>3,538,216</b>	<b>3.4%</b>
Total assets <sup>1</sup>	39,713,043	37,389,948	6.2%
<b>Risk-weighted consolidated assets</b>	<b>27,237,835</b>	<b>26,457,596</b>	<b>2.9%</b>
Basic capital / Total assets	7.22%	7.31%	- 9 PB
<b>Basic capital / Weighted assets (Tier I)</b>	<b>10.53%</b>	<b>10.34%</b>	<b>+ 20 BP</b>
<b>Basel ratio</b>	<b>13.43%</b>	<b>13.37%</b>	<b>+ 6 BP</b>

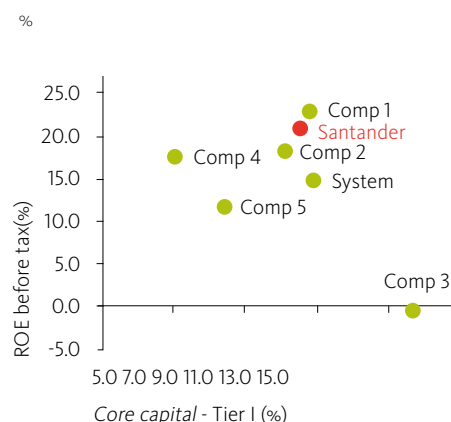
1. For the purpose of calculation of the capital ratio, the financial derivatives contracts are presented at their Equivalent Credit Risk value.

## Core capital (%), total loans and risk-weighted assets (\$ million)



■ 2015 ■ 2016

## ROE / Core capital



1. ROE = Net income before tax / Average equity.  
Source: SBIF at December 2016.

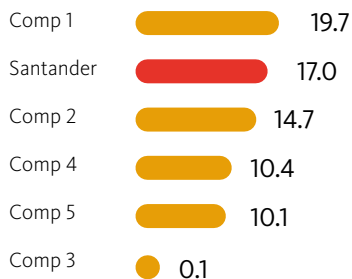
## Comparison with the competition

One of the fundamental pillars of the Banco Santander strategic plan in the long-term has been its high efficiency. The Bank seeks to efficiently allocate its resources, investing in projects that increase productivity and keep it at the industry forefront. At the close of the 2016 financial year, Santander Chile had an efficiency of 42.7% (39.9% per the SBIF methodology), an index that is below that of its main competitors.

Likewise, the Bank seeks to make profitable use of its resources, allocating capital to the most beneficial operations. This is how at the end of the financial year the net interest margin, which is the net interest income over average productive assets, reaches 4.45% (4.23% in accordance with SBIF information).

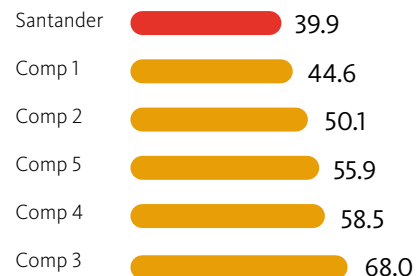
## ROE<sup>1</sup>

% at December 31, 2016



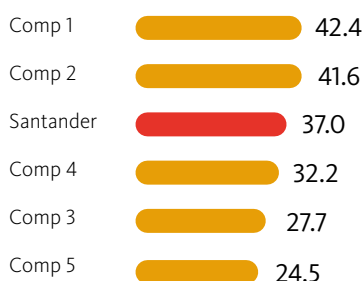
## Efficiency<sup>2</sup>

% at December 31, 2016



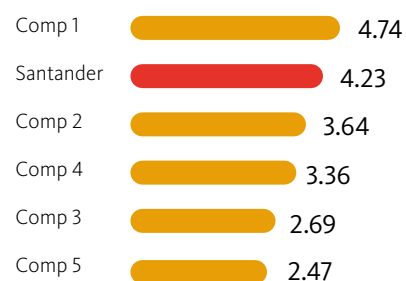
## Recurrence<sup>3</sup>

% at December 31, 2016



## Net interest margin<sup>4</sup>

% at December 31, 2016



1. ROE = B. Net / Average equity.

2. Efficiency = Operating expenses (excluding impairment and other operating expenses) / Gross operating income

3. Recurrence = Commissions / operating expenses (excluding impairment and other operating expenses).

4. Net interest margin = net interest income / interest-generating assets.

Source: Superintendencia of Banks and Financial Institutions.



# OUR TEAM OF PROFESSIONALS

During the year, the Personnel and Communication Division concentrated its efforts on consolidating and making the cultural change implicit in the Simple, Personal and Fair style and its eight behaviors more robust\_



This cultural change is a key element for Santander to become the best Bank, as stated by customers, as well as the best place to work, as stated by employees.



Strengthen the pride of belonging and commitment with Santander of the labor force, and generate trust and loyalty of customers with the Bank. Contribute to the progress of people and companies.



SPF is the manner through which we will be able to fulfill our purpose as a company: contribute to the progress of people and companies.

## Cultural Change

In order to achieve these objectives, a Cultural Change Plan was created, implemented by the Organizational Culture and Change unit in the Personnel Division, with four fundamental objectives\_

1

Install a shared vision of the need for the change through a participative process, with a high commitment by management.

3

Generate visible changes in the behavior of the leaders and in the practices of the organization, in line with the new culture.

2

Develop leaderships and skills to adapt to change processes.

4

Ensure sustainability and expand change.

Progress in the Cultural Change Plan is monitored by the SPF Committee, which is formed by representatives of the Management Committee, so guaranteeing the multidimensional nature of the process and the commitment of key executives.

During 2016, there were two milestones in this initiative\_

- The assimilation stage (Stage 1) was completed, in which the vision of the cultural change was disseminated and the team committed to the process.
- The internalization stage began (Stage 2), where it is expected that visible changes will be obtained in behavior and processes.

STAGE 1

Assimilation  
Nov 2015 - June 2016



STAGE 2

Internalization  
July 2016 - Dec 2017



STAGE 3

Establishment  
2018 >

Pro-SPF Actions

In order to encourage the assimilation, Stage 1 included several activities, such as 130 workshops for leaders that comprised 97% of that group. 29 divisional initiatives were also implemented and the profiles of the

critical positions were updated according to the skills associated with the SPF culture, among others.

Stage 2 – which entered into operation mid-year – highlighted the following initiatives\_

Banco Santander is focused on getting ahead of the changes and the trends of the environment through a strategy centered on collaborators and customers.

<p><b>BE SPF TRAINING PROGRAM</b></p> <p>One thousand 800 supervisors from Santiago and the regions –beginning with the Management Committee, managers, assistant managers and department heads – attended this program, which involved three workshops designed to understand, assimilate, live and transmit being SPF.</p>	<p><b>CONECTA PROGRAM</b></p> <p>Created so that employees who do not have direct contact with customers can know their needs first-hand. Sixty-nine managers called customers; 314 collaborators participated by listening to calls in VOX and 69 people did placements in branch offices (see more detail on page 95).</p>	<p><b>IMMERSE YOURSELF</b></p> <p>Carried out so that collaborators from various areas could live and immerse themselves in the SPF behavior. The employees enjoyed a happy and colorful day, which was recorded with video and photographs that were present throughout the year.</p>	<p><b>IMPLEMENTING SPF IN THE DAY-TO-DAY</b></p> <p>In order to ground the SPF culture in the day-to-day, activities were carried out to achieve group commitments on the basis of the eight behaviors (see eight behaviors). The results were published in a brochure.</p>	<p><b>SPF TOUR</b></p> <p>The second stage of implementation of the new corporate culture was started by a tour made by large “SPF” letters, which covered 4,375 km so that the collaborators could sign them, committing to being part of this change.</p>
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Assessments and results

The first results of the Cultural Change Plan were already visible in 2016, in the external as well as internal areas. On one hand, the benchmark that measured the Simple, Personal and Fair attributes with respect to the peer group, showed them to be in almost equal conditions as the market, with Santander as one of the three best local banks.

Secondly, the Commitment and Organizational Support Survey – which is done globally and replaces the Organizational Climate Survey applied locally – positioned Banco Santander Chile as the best subsidiary with a global SPF vision\_

Global vision	2015	2016
Grupo Santander	74%	79%
Santander Chile	84%	83%

Lastly, the same survey also showed good results, recording commitment and organizational support. So, Santander Chile was located in first place in the Santander Group; and in second place at corporate level regarding organizational support.

	2014	2015	2016
Commitment	82%	86%	87%
Organizational support	75%	78%	79%

In this same aspect, the 2016 upwards assessment, which analyzed the eight SPF behaviors of the managers, gave the average result of “fully complies”, with the best assessed being “My boss plays fair” and “My direct boss is respectful”.

In addition to this measurement of progress in the implementation of the SPF culture, the Division also periodically assesses the performance of the collaborators.

**+10,000**

collaborators received feedback in 2016

**95%**

of the supervisors obtained reports

**90%**

of collaborators assessed their manager

## Demographic indicators

Total country	2012	2013	2014	2015	2016
TOTAL	11,713	11,516	11,478	11,723	11,354
Men	5,347	5,193	5,140	5,225	5,120
Women	6,366	6,323	6,338	6,498	6,234
TOTAL PERMANENT CONTRACT	11,661	11,493	11,356	11,525	11,175
Men	5,304	5,164	5,074	5,147	5,048
Women	6,357	6,275	6,282	6,378	6,127
TOTAL FIXED-TERM CONTRACT	52	77	122	198	179
Men	43	29	66	78	72
Women	9	48	56	120	107
TOTAL FULL WORKING DAY	11,317	11,516	11,478	11,235	10,748
Men	5,260	5,193	5,140	5,109	4,959
Women	6,057	6,323	6,338	6,126	5,789
TOTAL NEW HIRES	1,607	1,214	884	1,833	1,528
Men	731	554	419	821	691
Women	876	660	465	1,012	837
AVERAGE YEARS WITH COMPANY	8.8	9.2	9.5	9.4	9.6
Men	9.9	10.4	10.4	10.6	10.8
Women	7.8	8.3	8.5	8.5	8.7

	Total country 2013		Total country 2014		Total country 2015		Total country 2016	
	Nº	%	Nº	%	Nº	%	Nº	%
TOTAL MANAGEMENT	361	3	406	4	375	3	336	3
Men	268	74	289	71	265	71	248	74
Women	93	26	117	29	110	29	88	26
TOTAL SUPERVISORS	1,315	11	1,264	11	1,318	11	1,322	12
Men	680	52	618	49	669	51	675	51
Women	635	48	646	51	649	49	647	49
TOTAL PROFESSIONALS	4,416	38	4,568	40	4,862	41	4,990	44
Men	1,857	42	1,900	42	1,998	41	2,081	42
Women	2,559	58	2,668	58	2,864	59	2,909	58
ADMINISTRATIVE EMPLOYEES	5,424	47	5,240	46	5,168	44	4,706	41
Men	2,388	44	2,305	44	2,293	44	2,116	45
Women	3,036	56	2,935	56	2,875	56	2,590	55

Average rotation by gender	2012 %	2013 %	2014 %	2015 %	2016 %
TOTAL	12	11	11	12	15
Men	11	12	13	12	14
Women	12	10	11	11	15

## Talent: attraction and retention

With the target of refreshing the offer and attracting and developing the talent necessary to successfully operate the Bank, the Personnel Division reviewed the talent management policy.

**Attraction\_** created a new value proposal and positioning in social networks, Job fairs, visits to regions, talks, holding a virtual Santander fair and the events with university students (see more in Santander Universities, pg. 105).

**Retention and Development\_** Santander has a differentiated value proposal for different talents, in this way, 15% of managers, 31% of assistant managers and 51% of the emerging talent have participated in a local or international development program.

## Locally\_

- Red-Y, which recruits and develops young people with high potential for strategic areas.
- ALAS, which identifies, develops and builds loyalty in young loyal who have a high potential for growth to hold leadership positions.
- DELTA, which identifies, develops and builds loyalty in assistant managers with a high potential for growth towards.
- RED-UP, which identifies and prepares executives with potential for growth to occupy leadership positions in the Network.

## Internationally\_

(corporate programs)

- Future Managers(FUDI).
- Santander Executive Training Program (STEP).
- Mundo Santander internship program.



## Training and talent development programs

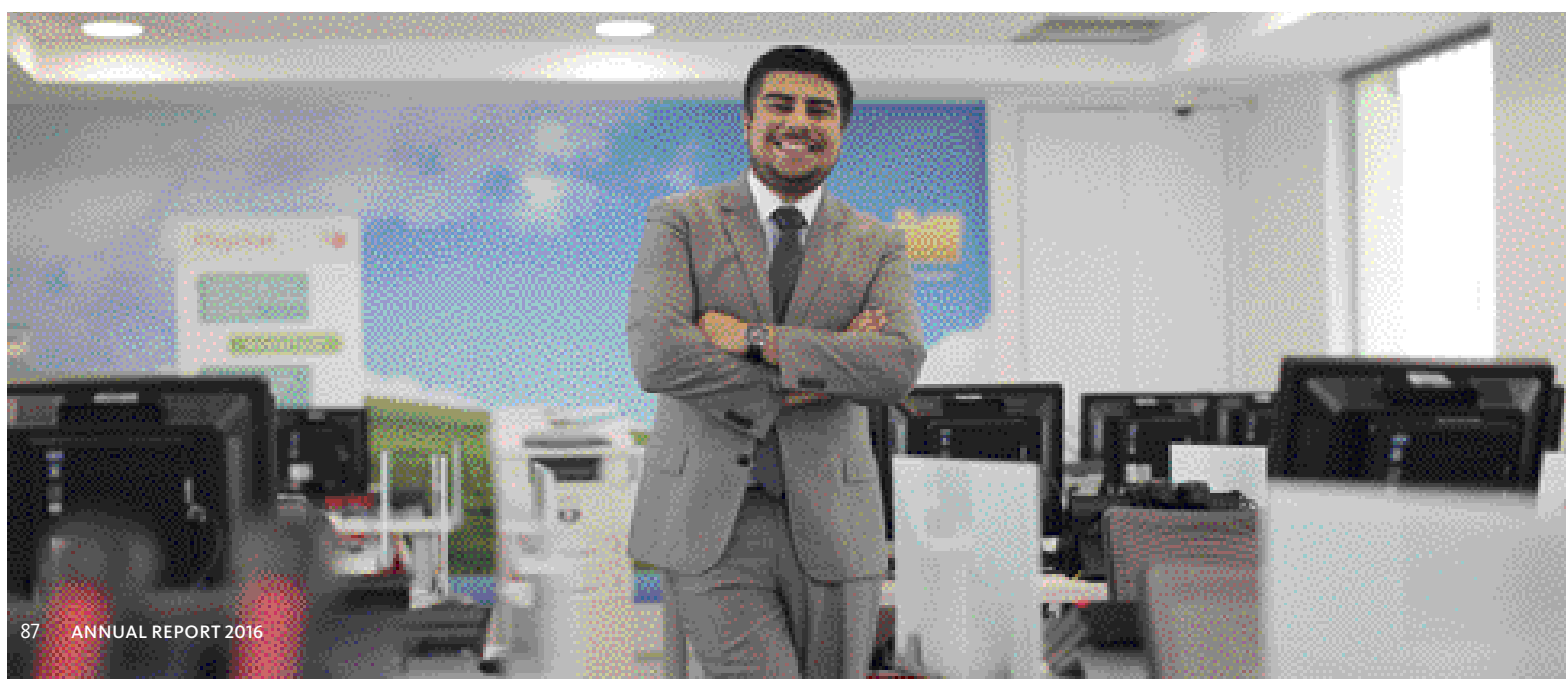
Local	2013		2014		2015		2016	
	Participants	Editions	Participants	Editions	Participants	Editions	Participants	Editions
ALAS Program	203	6	220	7	244	8	264	8
DELTA Program	100	3	100	3	132	4	132	4
RED-Y Program	11	2	16	3	20	4	24	5

International	2013		2014		2015		2016	
	Participants	Editions	Participants	Editions	Participants	Editions	Participants	Editions
Program								
STEP	6	4	8	5	8	5	3	5
FUDI (Chile)	34	13	13	14	28	14	30	14
FUDI (Chileans overseas)	26	13	24	14	19	14	5	14
Internships (Chileans overseas)	55	4	65	5	73	6	82	7
Total	121	24	129	38	128	39	120	40

## Education

Santander has other educational initiatives to correct the gaps detected, encourage the professional development of its collaborators and progress in building the best place to work. The following are available to the entire workforce, according to the needs of each area and position: specific training workshops, internal knowledge, corporate programs and self-managed educational alternatives. The following table shows the evolution of the participation of collaborators in training initiatives, and the increase in classroom hours over the last two years, versus previous years\_

Total country	2013	2014	2015	2016
ANNUAL INVESTMENT (M\$)	2,075,000	1,956,000	2,748,507	2,373,607
<b>Hours of training broken down by employee category</b>				
Administrative staff	50	50	55	47
Professionals	34	42	39	33
Supervisors	28	41	32	37
Percentage of participants with respect to total workforce	76%	73%	86.6%	90.6%
<b>Distribution of participants per segment</b>				
Administrative staff	42%	36%	39%	41%
Professionals	41%	56%	44%	44%
Supervisors	17%	8%	17%	15%
Evaluation of satisfaction of participants (1 to 7)	6.7	6.7	6.7	6.3
Classroom hours (total)	373,880	374,931	486,354	470,421





### Meritocracy

Another important instance for building a positive work environment, which embraces and drives meritocracy, are awards.

Santander has created several distinctions in various areas, such as Service Stars, the award for commitment and loyalty, and awards to outstanding executives, among others.

Santander has stated that driving education is a fundamental pillar, so it has several awards to reward and support and promote it among its collaborators and families\_

- **Academic Excellence Award 2016**\_given to 3,378 young people.
- **Best PSU Scores**\_ ten children of Santander employees – six from Santiago and four from the Regions – were given a cash sum and a gift.
- **Employee Child Scholarship**\_ benefited 242 children of collaborators for outstanding academic performance (at university or a professional institute).
- **Scholarship for Employees**\_ supported 252 collaborators who were taking a technical or university degree course with good academic performance.

### Benefits and initiatives

In 2016, Santander began to order and align the offer to reinforce the objective of “promoting the integral wellbeing of collaborators during their employment lifecycle, promoting commitment and productivity”, as well as reinforcing the work-life balance. This is how these factors were structured in six dimensions, comprising a more robust and coordinated stimulus to build the best place to work.

- **Physical dimension**\_ have a healthy lifestyle based on sports, nutrition and mental balance.
- **Emotional Dimension**\_ achieve self-knowledge and effectively manage emotions. Also, generate a work-life balance.
- **Financial Dimension**\_ manage personal finances to ensure adequate economic stability.
- **Intellectual Dimension**\_ achieve professional development through learning. Take on new challenges and organizational growth.
- **Social Dimension**\_ interact positively with other people, applying the values of the organizational culture.
- **Company and Environment Dimension**\_ contribute towards social development and care of the surroundings.

Banco Santander began to renovate some units to a more modern design, which improves the quality of working life and generates collaborative manners of working.

### Club Santander

The renovation of the Santander Club during the year is especially noteworthy, which now has a clubhouse and an offer in line with the requirements of the users, such as a gym, eight tennis courts, four soccer fields, picnic areas and a pool. It also has a restaurant, an events salon with capacity for five hundred people, and several barbeque areas. Club Santander has 4,524 members and there are 1,086 people signed up in its ten sporting areas.

### Categories

Due to the value placed on its collaborators by Banco Santander, care has been taken to offer them benefits that go beyond the legal benefits, and it is a pioneer in several aspects of this value proposal. They cover all areas of employment, family life and collaborate in the balance between both worlds.



The existing categories consist of activities and benefits created to\_

- **Encourage the quality of life of the collaborators\_** cultural and recreational activities, take your kids to work day, leave of various types.
- **Accompanying collaborators in the birth and pre-school stages\_** gifts, daycare and nursery school benefit.
- **Incentivize health\_** information, talks and sporting-recreational activities.
- **Celebrate the end of the year\_** gifts and Christmas care boxes, Christmas party.
- **Facilitate the work-family balance\_** Flexi-working program, facilities for mothers and fathers who work.
- **Help in several instances\_** bonuses for vacations, marriage, or signature of AUC, among others.

#### Adapting to the new requirements

In order to update the professional development and benefits alternatives offered by Banco Santander, in 2016 a Knowledge Survey was carried out. The questions were answered by 97% of the workforce, and the results will be used to reformulate the Bank's offer and progress one step further in achieving the objective of being the best bank to work at, and to reinforce the strategic role of the collaborators in the SPF transformation.

#### Corporate volunteering

Banco Santander carried out corporate volunteer work initiatives so that its collaborators can channel their social concerns in a coordinated and efficient manner, with results in plain sight. Also, these actions enable capacities and skills to be developed, such as collaboration, teamwork, leadership and creativity. It also reinforces the Bank's commitment to society through the direct action of its professionals in the framework of its Sustainability Strategy. All of this results in a pride of belonging and a greater commitment to the company.

The detail of these initiatives – description of the projects, beneficiaries and other activities – is contained in the chapter Our Commitment to Society (p. 108).

# 225

total number of volunteers

# 1,761

hours donated by the Bank

# \$ 28,244,220

valuation of the contribution



## Remunerations

The minimum salary at Banco Santander is \$ 651,305, a sum that exceeds the Chilean minimum wage by 253%, which was established as \$ 257,500 in July 2016 (both gross figures). \$ 395,133 million was spent on this concept. The Bank's compensations are calculated starting with a fixed sum that includes variables as a function of individual and group targets, as well as benefits that are applied to the employee and his or her family group as a whole. \$ 42,747 million was spent in 2016, which represented a slight increase with respect to the previous year (\$ 40,793 million).

## Internal communication

The Bank has various channels for maintaining a fluid communication with the collaborators and collecting opportunely their different requirements\_

### RESOLUTION OF DOUBTS,

**CAV\_** application available on the intranet for all Group employees and that enables questions to be asked regarding subjects related to the Personnel Division.

**CAP\_** provides information on Isapres, AFPs, family benefit fund, welfare funds and medical leave.

### PROFESSIONAL ORIENTATION

**POE\_** a confidential service, which offers psychological orientation to those who require it through professionals from the Mutual de Seguridad.

**SOCIAL ASSISTANCE SERVICE\_** orients and accompanies collaborators to improve their quality of life, that of their families and also in the working environment.

**INTERNAL MAILBOX\_** receives all types of suggestions, questions, comments, etc.

## Santander Unions

Santander Chile has always had a high unionization rate, and is noteworthy because it does not have labor disputes and is continuously in touch with its employees to generate an environment of trust and transparency. This has led to different relationship and contact channels\_

- Constant communication with the 24 unions.
- Meetings with managers from all areas to report to the union on the business plans and strategies, the most relevant facts of the organization and the progress of the country.
- Permanent meetings scheduled with all unions, in which the relevant subjects are resolved and the proposed solutions are followed up on.

Unionization indicators	2011	2012	2013	2014	2015	2016
N° of employees	7,538	7,771	8,521	8,675	8,363	8,208
Percentage of unionization	65.0%	66.0%	64.0%	75.6%	71.3%	71.6%
N° of unions	21	21	22	23	24	24
Percentage of employees covered by collective contract	100%	100%	100%	100%	100%	100%
Unionization rate in Chile <sup>1</sup>	14.1%	12.8%	14.2%	15.0%	14.2%	14.7%

1. Source: Employment authorities.



### Health and safety

Ensuring the health and safety of its collaborators is another constant concern for Santander. The Bank ensures that it offers healthy surroundings, centered on the prevention of work-related risks that promote individual and collective health, beyond the legal obligations. This is implemented through the following lines of action:

- Healthcare models of standardized recognition.
- Specific preventive medicine protocols.
- Healthy habits promotion campaigns.

### Inclusion

In its corporate values, Santander respects fundamental rights, equal opportunities and non-discrimination as basic principles (see p. 32). It considers that each of its collaborators can contribute with different talents and skills.

Due to this, although the Bank has employees with some type of disability - such as for example blind people working in VOX - during the financial year reported on, a roundtable was formed to progress on this subject. Banco Santander was also a special guest at the VII Seminar on Work and Disability: A look #WithOtherEyes, where the country head, Claudio Melandri, shares experiences and actions on the subject of inclusion.

### AWARDS 2016

During the year, the company received three awards in the Personnel Division area (see more detail on p. 7).

#### 1\_DISTINCTION FROM FUNDACIÓN CARLOS VIAL ESPANTOSO

For over 25 years promoting and building good labor relations with its employees.

#### 2\_BEST COMPANY FOR EMPLOYEE FINANCIAL FUTURE

Santander obtained first place in the large company category that recognizes companies that have a greater commitment to contribute to the wellbeing and financial future of its collaborators, in the short-term as well as in the long-term.

#### 3\_BANCO SANTANDER AMONG THE BEST COMPANIES TO WORK IN IN CHILE (GPTW)

The Bank obtained fourth place among companies with over 5 thousand employees and placed N° 18 in the general ranking.

Health and safety indicators	2012	2013	2014	2015	2016
Total % of collaborators represented in joint committees	100%	100%	100%	100%	100%
Hours not worked due to ordinary illness and work-related accidents	700,102	730,133	956,396	980,702	920,661
Absenteeism rate	3.6%	3.8%	4.1%	4%	4%
Severity of work-related accidents (days not worked)	3,601	3,299	3,836	2,141	4,206
Incidence of accidents involving death	0	0	0	0	0

## CUSTOMER ORIENTATION



Banco Santander seeks to support its customers in their growth through simple and personalized solutions that increase their connection, strengthen trust through fair and equitable treatment, and provide excellent service through a model of attention that improves their experience and an integral strategy of digitalization of channels.

One of the attributes of Banco Santander specified in its business model is that it attends the needs of all types of customers: high, middle and lower income customers, and SMEs, medium and large companies, and corporate and institutional customers. During 2016, Banco Santander carried out intense work in order to improve the service experience of customers, offer them innovative products in line with their needs, and strengthening contact and communication with them.

with customers and contributing to the progress of people and companies.

Some of the specific actions carried out to attain these objectives were\_

- Expansion of the Vox service to 24/7 to all customers.
- Plan SUPERPUNTOS.
- Right to retract\_the customers can return any product within 30 days.
- 123 Click\_ enables a consumer credit to be processed simply and quickly in three steps.
- Transaction messaging\_push messages or notifications of operations to customers' mobile phones.
- "My bank works for me" and Client Recognition campaigns\_testimonials from real clients regarding the support given by Banco Santander to their business and recognition of older clients with a history of receiving various benefits.

600 THOUSAND

Transactionally connected customers

6.5%

increase in loans to customers

960 THOUSAND

digital customers

### Progress in the quality plan

One of the most important achievements of 2016 was the substantial improvement in the customer satisfaction indicators, which made it possible to close the gap with the main competitors regarding customer service. The initiatives implemented in 2016 are framed within three approaches, oriented towards generating positive experiences, strengthening the long-term relationship

### Evolution of satisfaction indicators

As a consequence of the measures adopted, in 2016 the Bank evolved very favorably and integrally in the main quality dimensions, obtaining very auspicious satisfaction and brand valuation indicators.

One of the most important advances was reaching the Customer Satisfaction benchmark. Here, for the first time, Banco Santander managed to close the gap in relation to its main competitors in terms of satisfaction.

It must be noted that since the Commercial Transformation Plan began, satisfaction with the Bank has evolved positively in a continuous manner. In this way it went from 79.7% in 2012 to 96.0% in 2016, in the Global Personal Banking study.

### Management of complaints

Complaints made to regulating entities, the Financial SERNAC and the SBIF decreased by 20% in 2016. It must be noted that in

the case of Santander complaints to the Financial SERNAC decreased by 24%, which positioned it as the bank that achieved the greatest decrease in complaints, considering the relevant competition (data from the latest publication by that entity, corresponding to the first semester of 2016). In the year, Banco Santander made the submission of complaints easier for its customers, setting up the web page for this concept. 15.0% of complaints were received through this channel, while 23.0% and 62.0% were received through the branch offices and VOX, respectively.

### Evolution of customer satisfaction (%)

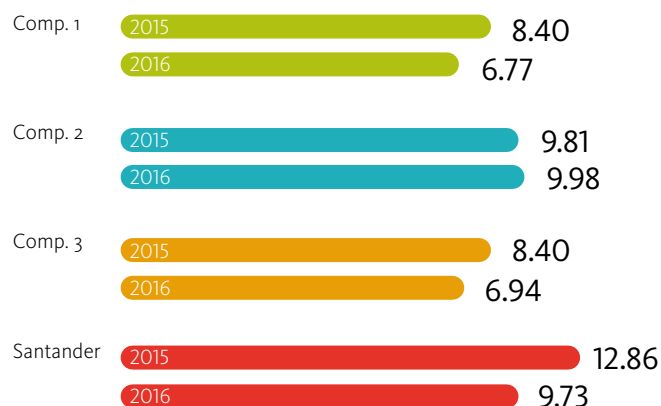
Considers scores 5, 6 and 7



Source: Personal Banking Global Study. Customer Studies and Intelligence Department. Customers and Quality Division.

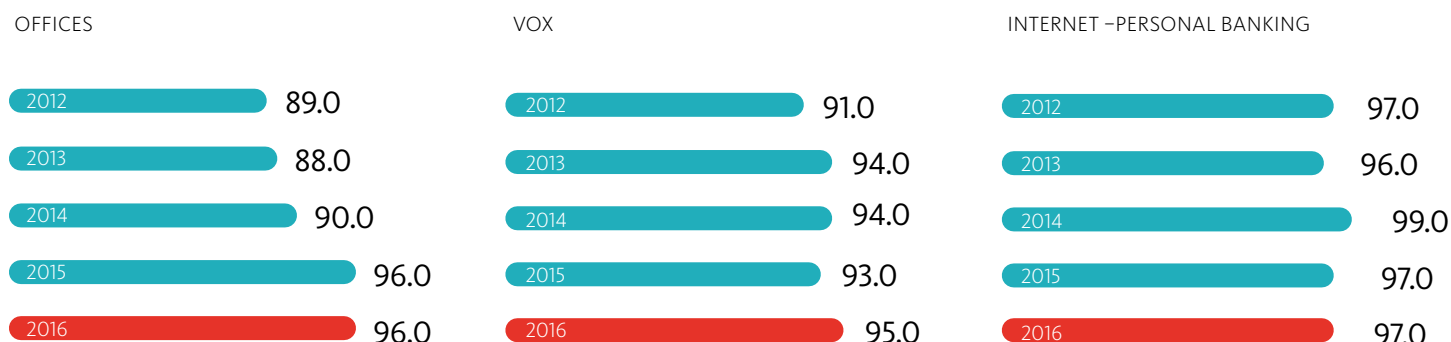
### Sernac Ranking 1st semester 2016

Number of complaints for every ten thousand debtors.



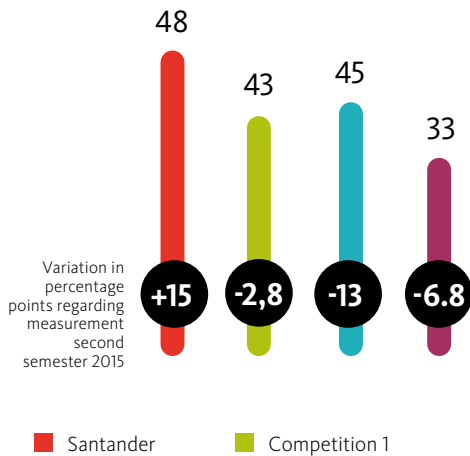
### Satisfaction by channel (%)

Includes scores 5, 6 and 7

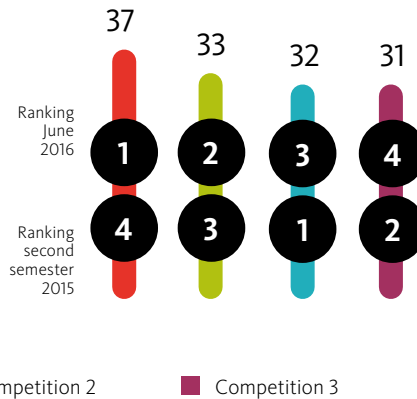


Source: Customer Studies and Intelligence Department. Customers and Quality Division

Customers who would recommend their main bank (%)



Santander is the bank that they feel most identified with (%)



Most recommended bank

The main positioning and services campaign of Banco Santander, “My bank works for me”, has used a new concept and format.

At this date, 90% of the Bank’s advertising is based on real customers, who tell their own stories, voluntarily and for free. This virtuous circle has generated over seven million views in the social networks, over 10 thousand positive comments towards the brand in a spontaneous manner, and has given rise to a conversation with customers and non-customers in the social networks that had never occurred before.

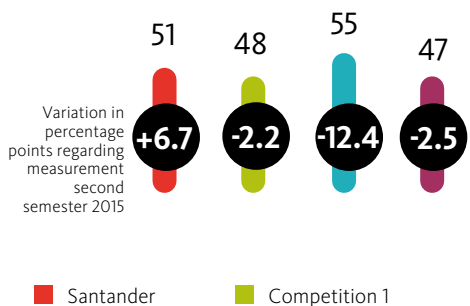
This line has gone into more depth with the Client Recognition campaign, which shows stories of progress and achievement of real customers, with whom the Bank has been present. They are rewarded for their effort and loyalty with a gift.

The impact of this marketing strategy has been very positive. This is how, regarding image and brand, Banco Santander in 2016 achieved an increase in fifteen points in the Recommendation categories, going from fourth to first place according to the study that is conducted annually by the international consultant Millward Brown. This result positions it as the bank most recommended by its customers and first place in service for the domestic financial industry.

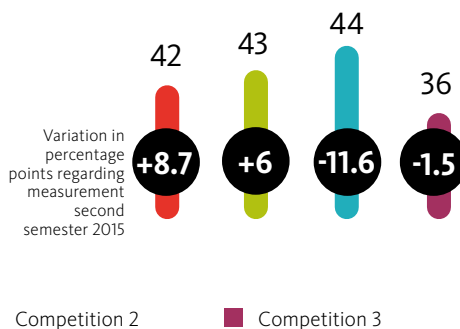
The Identification indicator, which measures how identified customers feel with their bank, increased by four points with respect to the ranking of the second semester of 2015, which signified moving from fourth place to the top of the list. The evolution of customer satisfaction measured by this survey is in line with the results obtained in the study conducted by the Quality area, previously highlighted. The indicators increased 8.7 points, which means that Banco Santander achieved the highest increase in the level of satisfaction with respect to its peer group.

Regarding loyalty, or the willingness of customers to maintain a long-term relationship with their bank, it was the only one that reflected an increase in this indicator.

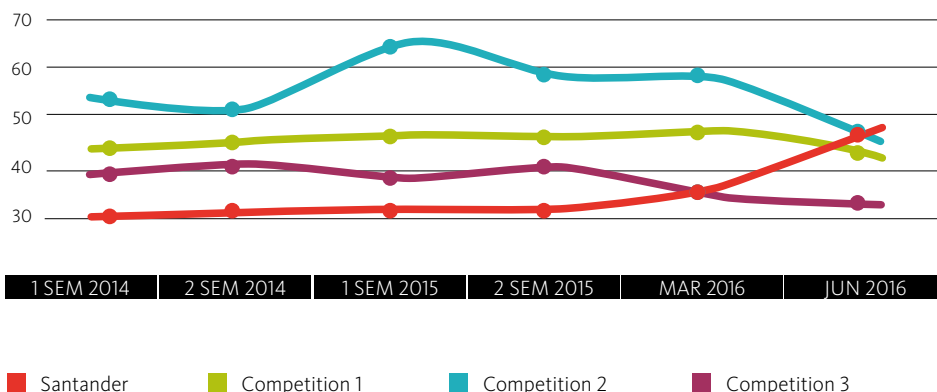
Loyalty (%)



Satisfaction (%)



Evaluation of recommendations 2014–2016 (%)





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## Conecta Program

One of the actions oriented towards progressing in the new SPF culture was the Conecta Program, for central services collaborators and managers, so that they have first-hand experience of working directly with the Bank's customers. This initiative, developed by the Personnel Division along with Customers and Quality, sought increased closeness with the Personnel Division, generating a process of individual and organizational learning that shows how behaviors are key in the value chain towards the customer. Also, it is oriented towards identifying the strengths and addressing the gaps to become a more Simple, Personal and Fair bank, focusing on the progress of the eight behaviors of this culture, empathizing with the customer.

### Conecta is comprised of three great initiatives for differentiated segments:

- **Listening to customer calls to VOX\_** enables collaborators to go to the VOX premises to listen to the interaction between call center staff and customers.
- **Placements in the network of branches as hosts\_** Oriented towards collaborators so that they can, in total or partial workdays, work at a branch office. The objective is to know how the office functions and the manner in which it connects to customers
- **Direct phone calls from managers to customers in order to know their experiences and needs\_** especially orientated towards customers of the Personal Banking.

They do not have a business objective, but seek to generate a different and closer relationship. In order to systematize this interaction, a guideline for conversation was developed and a record of the requirements detected in order to resolve them.

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60 Managers called customers from the Personal Banking

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138 Customers were contacted by managers

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69 Central services employees experienced working in branch offices

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314 Central services employees experienced working in the call center

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## Responsibility for products

In order to increase the connection with its customers, Banco Santander has developed a long-term strategy that includes an innovative value proposal, whose objective is to effectively contribute to the progress of people and companies. For this, special care has been taken in carrying out its SPF strategy that involves providing services and products that are simple and easy to use, personal, made-to-measure for each type of customer, and fair, that facilitate clear and transparent access to the information associated with each one of them.

The Bank has an instance named Local Product Commercialization Committee, where new launches are authorized. Its function is to regulate the approval or modification thereof, in order to minimize the exposure of the Bank to the behavioral and reputational risks derived from their commercialization.

Various areas are involved from conception until the sale of a product or service, so the requirements necessary for their approval and development are defined, identifying risks, costs and benefits, and ensuring that the quality is in line with the customers' expectations. Everything approved in this instance must be ratified in the Corporate Commercialization Committee. The Local Projects Commercialization Committee is chaired by the Customer and Quality Division Manager. The following are also members: the corporate legal director, the financial controller, the Non-Financial Risks Manager, the general director of Santander GCB, the Administration Manager, the Commercial Banking manager and the Technology and Operations manager. Also, the following attend as formal and permanent guests with the right to be heard: the General Intervention Manager, the corporate Internal Audit Director, the Compliance Manager, the Financial Division Manager and the Marketing Manager.

## Offer of consumer products

The main innovations driven by Commercial Banking on the subject of products and services, apart from the digital developments, were focused on the increase in the offer of consumer products for individual customers, including\_

- **Santander SUPERPUNTOS\_** was the most important launch in means of payment. It is a new credit card oriented towards middle and lower income individuals, with an innovative value offer for customers who are not interested in accumulating kilometers. The new SUPERPUNTOS program provides an extensive catalog of benefits and experiences offered, enabling products or services to be exchanged, mixing points accumulated with pesos with the support of an interactive web platform.
- **Bullet consumer loan in pesos and UF\_** consumer credit where the principal is paid at the maturity of the credit.



- **N+ 1 and manual consumer table\_** more flexible consumer loan where customers can structure their monthly payments.

Also, on the side of insurance, the value offer for SMEs was increased through collective and personal accident insurance for their employees, Multi-risk insurance and SME fleet insurance.

**Work was also done in the area of investments to expand the grid, highlighting\_**

- **Latin American debt in dollars\_** fixed income fund denominated in dollars that invests in Latin American debt.
- **Medium term savings income\_** medium-term fixed income funds that invest in papers in pesos and UF.
- **Gestión activa\_** portfolio of funds that is managed in a centralized manner in order to adapt the portfolio with the vision of an expert.

Also, the focus was placed on increasing risk-free revenue, through Plan Plus.

Finally, in the area of insurance as well as mortgages, special care was taken to address the issue of transparency. In the case of insurance, a welcome letter for customers was created, which explains in simple terms what the product consists of, its scope and cover.

For mortgages, simulators were made available on the internet and a workflow on

the Bank's web page that enables customers to monitor the various stages of a mortgage loan such as to be clear regarding the process.

**Online business attention model**

In order to offer a top-quality service, Banco Santander has continued to transform its commercial attention model through the redesign of its distribution network, strongly leveraged on digital platforms. In this way, it seeks more efficiency and productivity, and a better experience for customers through an innovative attention proposal where clients aren't grouped into portfolios. In this, the Bank starts from the basis that the offices are a key channel to maintaining and reinforcing long-term relationships with customers.

**Work Café**

This redesign has involved completing several stages in the past years to migrate from transaction-intensive branch offices to others where self-attention is prioritized and finally reaching a model that is 100% digital, paperless, a figure that is the Work Café, one of the 2016 milestones and an evident reflection of the SPF strategy.

This multi-segment business center, one hundred percent dedicated to added-value activities, seeks to provide a high-quality experience through an innovative manner of banking, also providing a meeting space, since it is open to the community.

The Work café has no traditional cashiers, since they have been replaced by cutting-edge digital technology that promotes self-service. Customers, who identify themselves at an entrance totem, may make deposits automatically and withdraw money. It has several computer terminals that enable them to carry out their habitual financial operations, autonomously or with the aid of an executive who is specialized in services. The account executive was replaced by staff that attend in especially fitted out rooms with online information. To this is added free Wi-Fi, meeting rooms, co-working areas and a cafeteria. Another advantage is that since there are no cashiers they can operate with extended opening hours, from 09:00 to 18:00 hrs. Monday to Thursday, and on Fridays until 15:30 hrs. At the end of 2016 there were two branches operating with this design.

As well as the launch of the Work Café, during the year the new attention models specialized by segment continued to be strengthened\_

- **Santander Select\_** a differentiated value proposal for high-income customers adapted to the needs of this customer segment. This model of specialized attention in the networks continued to be perfected in 2016 through a series of benefits and plans, as well as the support of executives and investment managers. This made it possible to widen its cover, such that 80% of Select customers have been integrated into this new model of attention.



- **Santander Advance\_** a model of attention for SMEs that has an attractive financial and non-financial offer and provides a service covered by specialized executives. In 2016 this model was consolidated, which makes available to small and medium-sized companies a series of tools to support the segment in the growth of their business, drive internationalization, connectivity and education, among others.

The services and benefits offered include the electronic Office Banking platform, a free online course, free website and support of internationalization through Santander Trade, a website specialized in foreign trade.

- **Company Centers\_** During the year four new Company Centers were opened, used for the specialized attention of medium and large companies. There are now 16 of these Centers, covering 93% of Middle-market customers attended under this model.
- **Banefe\_** the incorporation of Banefe to the Bank is a process that began some years ago as a response to the development undergone by the lower income segments. With the intention of providing a more integral service, Banco Santander began a transformation process that has led it, on one hand, to change the traditional concept of Banefe offices to create Banefe Spaces, and on the other hand, to transfer customers from this segment to the Bank as such.

Along these lines, very important steps were taken during 2016 when beginning the second stage of the process that involves welcoming forty thousand Banefe customers to the Bank. They were incorporated to a very good plan and with all of the benefits provided by Santander products. Also, the fitting-out of Banefe Spaces – all with high quality standards – continued, and at December 2016 there were 57 of these spaces, while there were 24 traditional branch offices.

#### NEOCRМ

NEOCRМ has played a key role in meeting the challenges proposed by the new Banco Santander strategy for attention. This business intelligence tool, launched in 2012, has been the basis for deepening the knowledge of customers, improving business effectiveness and the levels of satisfaction through a response that is more in line with their needs.

Santander is leaving behind the customer portfolio model and the customer is recognized as such in any branch office or channel where they interact with the Bank, and by any executive that attends them. For this NEOCRM contains unified information on the customer and makes that information available to the manager or account executive. The development of big data enables them to access the customer's complete history and provide

them with a response that adequately fits their expectations and needs.

The executive's operational excellence is supported by a commercial system that has also been adapted to the new requirements through intense training programs used to provide the skills and abilities required by the new relationship with customers. Examples of these are the new roles defined for the teams that work in the Work Café: attend, visit and call, key steps in the new relationship with the customer, through a simple, personal and fair style.

#### Evaluation of knowledge

In mid-December, 2,300 executives from Personal Banking, Select, SMEs and Universities, as well as agents and platform heads, participated in a large-scale assessment which sought to test the level of understanding on subjects such as financing, investment, quality, risk, products and financial education, among others.

The objective of this measurement, led by Commercial Banking, is that the teams from the network of branch offices have standardized knowledge of the products commercialized by the Bank, in order to attend and suitably advise customers regarding their financial and non-financial needs. The results obtained will enable the process of education and training to be adapted in support of an SPF culture.

## Digital Transformation

The manner of connecting with the Bank's customers is definitely changing. Up until a few years ago, the relationship between both was in-person and exclusively in the branch offices. However, in the last decade the emergence of technology has broadened the possibilities for contact, making it necessary to reformulate the business.

Today, digital channels have broad advantages due to their simplicity of processes, efficiency, productivity and profitability. Also, digital customers present a higher connection rate and higher net satisfaction, which shows the importance of new customers being digital natives from the start.

In this context, the multi-channel transformation of the business model is one of Banco Santander's strategic priorities. This is what the strengthening and integration of digital banking points towards: Home Banking, Office Banking, App and Web Mobile.

Given the foregoing, one of the four large objectives of the Bank's business areas is to drive digital banking and improve customers' experience. This is being done starting from four conditions\_

1

**Mobile first\_** the developments and innovations proposed by the Bank are oriented towards mobility, which signifies first designing for the mobile platform and then adapting it to other equipment. In Chile, 78% of access to Internet is done from a mobile phone. Mobility and the multiple functionalities permitted by smartphones give rise to a type of extension of branch offices, opening opportunities for generating a new relationship with customers, closer and more personalized, and offering services that were previously unimaginable.

2

**Omni-channel\_** completely integrated channels that offer a uniform experience to customers regardless of whether they operate on a digital channel, at a branch office or with VOX, and that the customer is the one to decide where to start and where to end.

3

**Contextual, personalized and relevant\_**

Offer in the context of the customer, where and when it requires it, providing it with products and services that are specific to its needs.

4

**Full transactional and 100% digital\_** carry out all types of transactions and operations, not only financial, without the intervention of people halfway through the process.

The result of this strategy is eloquent. Digital customers (those that use at least one of the four digital channels) went from 836 thousand in 2014 to over 966 thousand in 2016, which implies an annual average growth of 7.0%, so reaching 25.0% of the base of customers operating digitally.

## Digital initiatives

The work to achieve omni-channel Digital banking that is not only financial and is full-transactional, has derived in significant developments that seek to impact customer service positively. They include\_

- **Neo Click\_** a transactionality tool that enables consumer credits to be processed in person and through VOX, with an online risk assessment and immediate payment into account. It also makes it possible to increase credit lines and credit card limits.
- **123 Click\_** is the first product 100% digital point-to-point. It enables customers to process a consumer credit simply in only three steps, through the webpage or the App. Since it deals with pre-approved loans, the money is paid into the customers' current accounts immediately. At the close of the year they represented 28% of consumer operations in individual installments and 10% of gross sales of consumer loans to individuals.
- **CJ Multi-offer in the App and webpage\_** a unique product on the market that enables customers to be assessed online, upload documentation and make offers for them to accept, sign and obtain in the act the payment of a loan, an increase in their credit line and/or credit card limit in domestic currency and in dollars.
- **Complaints App and Web page\_** complaints can be made over remote channels simply and with traceability for the status of the solution. Santander is the first bank in Chile to set up this functionality on its App.
- **Push notifications in the App\_** informs customers, through a text messaging system to mobile phones, of the purchases, advances and withdrawals in ATMs with their credit or debit cards. It permits a greater control of spending and generates more security by making it possible to detect possible fraud.
- **Investments in App\_** customers can make and cancel investment products directly in the App.
- **Insurance in the App\_** insurance taken out by customers is made available, and it also enables them to take out insurance on their mobile phones, a new product on the market.
- **Self-purchase Insurance Online on the Webpage\_** tool for customers and non-customers that enables them to compare the costs of car insurance among several companies and choose the most suitable alternative.
- **Closing current accounts on the webpage\_** a functionality that is self-processed in three minutes and points towards being a bank that is more fair to customers.
- **Virtual file\_** this service enables customers to be attended online, processing their requests for documents such as certificates, copies of public deeds, promissory notes, contracts, etc. Another novelty is

the segmented App, which enables differentiated value offers to be made. Among its main benefits are the networking campaigns, direct communication, business potential, its nature personalized by type of customer and the best user experience.

During 2016, the usability of the App channel grew 75% in user customers, reaching 350 thousand, a figure equivalent to 40% of current account holder customers. Monthly operations through this platform reached five million transactions. Web Mobile and App Have 506 thousand users.

## Integration of channels

The supplementary channels play an important role in business transformation. They began as support for traditional channels and today are an important part of the omni-channel strategy and the evolution of the quality of service.

An example of this is VOX, a channel that developed significantly during 2016, after changing its attention model to a 24/7 system for all customer segments, which previously operated only for the Select segment. In this way, it sought to improve answerability and customer satisfaction. The average number of calls per night on weeknights is 400, while during the weekend it rises to 500, which reflects the impact of the measure. Every six months on average, 50% of Banco Santander current account holders use the VOX telephone attention. One million calls are received monthly.

This call center was reinforced through VOX Quilín, the most advanced call center in the country, which began operations at the start of 2016. Thanks to this, the telephone referrals system has been consolidated and guarantees covering the requirements and questions that customers make to branch offices. This year it was implemented in all networks, reaching resolution levels of 80% of calls.

The integration of channels and the facility that this provides customers has permitted, for example, that 75% of increases in line limits and 65% of increases in credit card limits requested through NEO CLICK are done by the call center.

Another important development for quality of service is part of the Work Cafés. It deals with deposit ATMs that make it possible to deposit cash and also documents through the auto-attention system. At December 2016, the Bank had twelve depositing ATMs operating, including those in the Work Café.

At December 2016, Banco Santander had a fleet of 1,295 ATMs, with a market share of 17.0%.

# CREATION OF VALUES FOR SHAREHOLDERS

## Share structure

The basic capital of Banco Santander at December 31, 2016 was divided into 188,446,126,794 shares of a single series, without any type of preference. The main shareholder is the Santander Group, with 67.18% of ownership. The Banco Santander shares trade on the Santiago Stock Exchange and on the New York Stock Exchange (NYSE) as ADRs (American Depositary Receipts). At the end of the financial year, the Santander Chile share was trading at \$ 37.26 (US\$ 21.87 per ADR).

## Evolution of the share

During 2016, the stock market was marked by three fundamental factors\_

1. The perspectives of a local economy that should grow from less to more
2. The impact of the increase in interest rates by the FED in the U.S.
3. The possible impacts of Brexit on the world economy.

Despite the uncertainty and volatility of the market, the main stock exchanges in the world showed good progress. The Santiago Stock Exchange was no exception, achieving total returns (increase in value of the share plus dividends) of 12.8% in the year.

Along these lines, national banks obtained attractive returns. In the case of Banco Santander Chile, the immediate surroundings in which the Bank worked were positive, to the point that there was a significant external demand for the Bank's shares, because the market saw with optimism how its strategy and results evolved.

Overall, Santander created value for US\$ 1,600 MM for its shareholders thanks to an increase of 17.2% of the value of the share. Added to the dividend paid during the year, which corresponds to 75% of the profits for the 2015 financial year for a sum of \$1.78649813 per share – 25% higher than the dividend paid last year – the total return received by shareholders was 23.8%, a figure compared with the 12.8% for the IPSA and the

20.7% for the average of the banks that trade on the Santiago Stock Exchange

In terms of valuation, the Bank maintained its position among the most valued banks in the world, trading at the end of the year with a price/book value ratio of 2.5, much higher than the average bank stock in various latitudes. The high multiples at which the Bank's stock is traded reflect the optimism regarding the perspectives for the institution's future performance, as well as the valuation placed by the market on management's strategy and vision.

It must also be noted that during 2016 the dividends reinvestment program was launched, oriented towards the Banco Santander retail shareholders. The program offers reinvesting the dividends received from their Santander Chile shares in shares of the Bank without commissions or expenses for the service.

## Twenty years on the NYSE

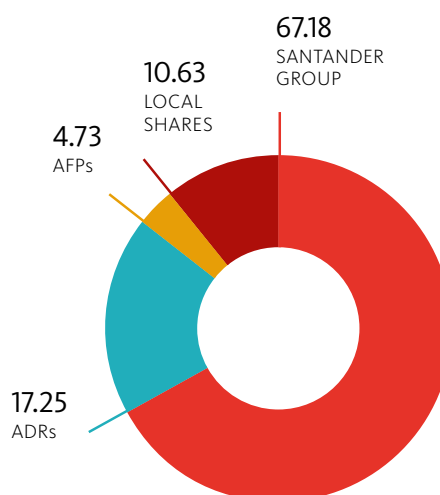
Banco Santander Chile completed twenty years since it began to trade its shares in the United States, on July 1, 1996. The Bank celebrated this milestone by leading the traditional bell pull at the New York Stock Exchange (NYSE), so beginning trading on Wall Street. NYSE is the largest stock market of the United States, whose opening ceremony is one of the most viewed events in the world, concentrating the attention of millions of people daily.

During its 20 years of trading in the United States, the share has increased in value by 710% in pesos, while in dollars it has increased in value by 441%.

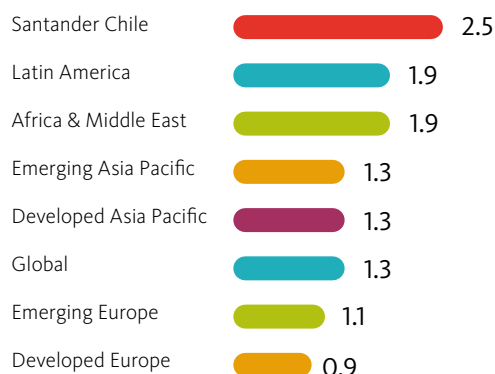
## Dividends policy

The Bank's dividends policy is to distribute at least 30% of profits of the financial year, pursuant to the current regulation on dividends contained in the Public Companies Law and the General Banking Law.

## Share structure (%)

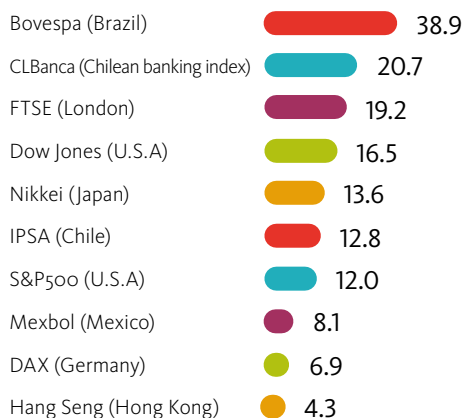


## Price/book value multiple (times)



Source: J.P. Morgan, Global Valuation Matrix, Jan 2017.

## Total return<sup>1</sup> several global stock exchanges (%)



1. Considers variation of the share plus dividends in 2016.



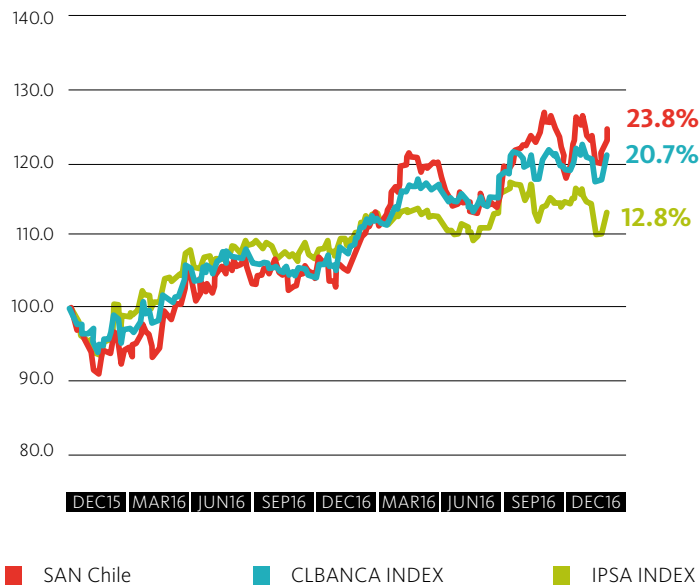
### Main Banco Santander shareholders (at Dec. 31, 2016)

COMPANY NAME OR SHAREHOLDER NAME	SHARES	%
Santander Chile Holding S.A.	66,822,519,695	35.46
Teatinos Siglo XXI Inversiones S.A.	59,770,481,573	31.72
<b>Grupo Santander</b>	<b>126,593,001,268</b>	<b>67.18</b>
The Bank of New York Mellon (ADRs)	34,800,933,671	18.47
Banco de Chile on behalf of third parties	5,235,579,608	2.78
Itaú-Corpbanca on behalf of investors	4,521,655,691	2.40
Banco Santander on behalf of foreign investors	2,336,634,868	1.24
AFP Provida S.A.	2,185,932,652	1.16
AFP Habitat S.A.	1,543,636,939	0.82
AFP Capital S.A.	1,413,781,941	0.75
AFP Cuprum S.A.	1,300,777,210	0.69
Banchile Corredores de Bolsa	721,136,185	0.38
Santander Corredores de Bolsa Limitada	537,320,712	0.29
BTG Pactual Chile S.A. Corredores de Bolsa	314,672,478	0.17
AFP Planvital S.A.	274,074,555	0.15
AFP Modelo S.A.	272,654,700	0.14
Larraín Vial S.A. Corredora de Bolsa	268,374,874	0.14
Corpbanca Corredores de Bolsa S.A.	257,908,116	0.14
Bci Corredor de Bolsa S.A.	221,582,122	0.12
Banco Santander - HSBC Bank PLC London	163,230,145	0.09
Valores Security S.A. Corredores de Bolsa	161,189,674	0.09
Inversiones Antares S.A.	134,122,227	0.07
Soc. Adm. de Fdos. de Cesantía de Chile I	122,840,384	0.07
Aberdeen Chile Fund, Inc.	119,939,987	0.06
Bice Inversiones Corredores de Bolsa S.A.	104,941,103	0.06
Fondo Mutuo Etf It Now Ipsa	91,387,340	0.05
MCC S.A. Corredores de Bolsa	68,071,083	0.04
MBi Arbitrage Fondo de Inversión	63,724,029	0.03
Banchile Administradora General de Fondos S.A.	63,411,511	0.03
Fondo Mutuo Security Chile Long-Short	63,145,539	0.03
Tanner Corredores de Bolsa S.A.	63,133,258	0.03
Other 11,540 shareholders	4,427,332,924	2.35
<b>TOTAL</b>	<b>188,446,126,794</b>	<b>100.00</b>

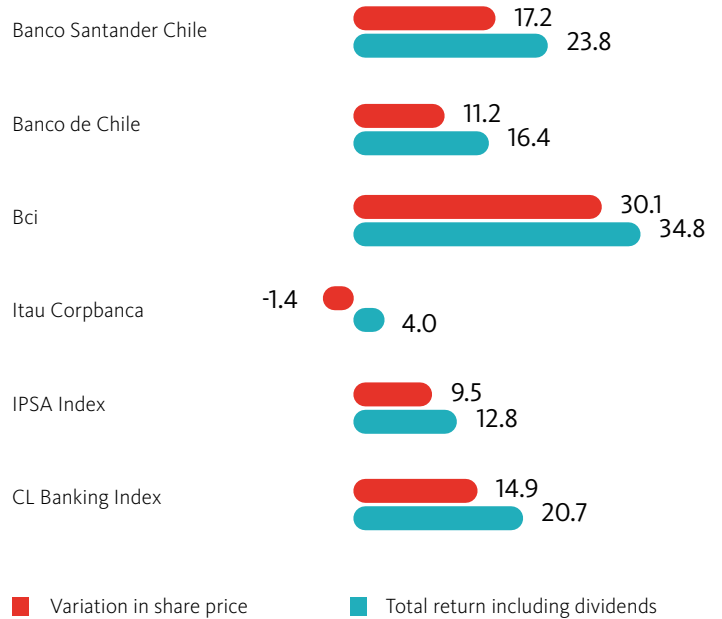
### Stock exchange indicators

	2016	2015	VAR. 16/15
Share price (\$)	37.3	31.8	17.2%
Maximum share price (\$)	38.1	34.8	9.4%
Minimum share price (\$)	29.1	29.5	(1.4%)
ADR price (US\$)	21.9	17.6	24.0%
Maximum ADR price (\$)	23.5	22.6	3.8%
Minimum ADR price (\$)	16.0	17.4	(8.1%)
Shares (millions)	188,446.1	188,446.1	0.0%
Income per share (\$)	2.51	2.38	5.2%
Income per ADR (US\$)	1.50	1.35	11.5%
Dividend per share (\$)	1.75	1.41	24.5%
Dividendo por ADR (US\$)	1.08	1.14	(5.7%)
Payout (%)	75.0	60.0	N.A.
Book value per share (\$)	15.38	14.67	4.8%
Book value per ADR (US\$)	9.22	8.30	11.1%
Exchange price/income per share (times)	14.9	13.3	N.A.
Exchange price/book value(times)	2.4	2.2	N.A.
Stock exchange equity(MMUS\$)	10,303.3	8,310.5	24.0%
Average volume (thousands of shares)	208,064	230,120	(9.6%)
Average volume (thousands of MMUS\$)	10.3	11.5	(10.8%)
Total return (including dividends) in pesos	22.7%	9.0%	+ 1,373 PB
Total return (including dividends) in dollars	24.0%	(21.0%)	+ 5,040 PB

### Compared evolution of the share 2016



### Profitability of Chilean banking shares 2016 (var. % in pesos)



### Risk ratings

Banco Santander is one of the private companies with the best risk classification in Latin America and the emerging markets.

#### International Ratings

In the present day, three companies rate Banco Santander: Moody's, Standard and Poor's and Fitch Ratings. S&P and Fitch maintain negative outlooks, while Moody's maintains a stable outlook.

MOODY'S	RATING
Bank deposits	AA3/P-1
BCA	A3
Adjusted BCA	A3
Senior bonds	AA3

STANDARD AND POOR'S	RATING
Long-term rating Foreign currency	A
Long-term rating Local currency	A
Short-term rating Foreign currency	A-1
Short-term rating Local currency	A-1

FITCH	RATING
Long-term rating Foreign currency	A+
Long-term rating Local currency	A+
Short-term rating Foreign currency	F1
Short-term rating Local currency	F1
Viability Rating	A+

#### National Ratings

The Bank's shareholders have assigned the firms Fitch Rating Ltda. and Feller Rate Clasificadora de Riesgo Ltda. to rate the public offering documents emitted by the institution, which is detailed in the following table.

LOCAL	FITCH RATINGS	FELLER RATE
Shares	1CN1	1CN1
Short-term	N1+	N1+
Long-term	AAA	AAA
Mortgage bonds	AAA	AAA
Senior bonds	AAA	AAA
Subordinate bonds	AA	AA+



# SUSTAINABLE MANAGEMENT OF THE SUPPLY CHAIN

Santander builds relationships with its suppliers based on ethics, transparency and mutual respect, ensuring economic optimization and the quality of the services provided to customers. Also, the sustainable development of the suppliers forms part of the Bank's value chain proposal. Due to this, efforts have been made to\_

- Follow the Ten Principles of the United Nations Global Covenant, which involve contracts with suppliers including a clause establishing the commitment to follow and comply with the terms.
- Maintain the ProPyme seal granted by the Chilean Government, a practice that shows its commitment to the Pyme Suppliers to pay in a maximum timeframe of 30 days from the receipt of its invoices.

- Ensure compliance with the Corporate Human Rights Policy in this area.
- Maintain a high percentage of local suppliers to support local employment.

## Relationships

The Bank has developed specific activities for its suppliers, with the objective of relating and communicating with them, beyond the existing relationship with the employees designated as the service managers. As a consequence, for the past 16 years, award ceremonies have been carried out that distinguish the best suppliers, assessing variables such as: delivery of high-quality products and services, innovation, mitigation of risks, practices with their employees and financial health.

## Sustainable Control and Criteria

The Santander Suppliers Policy includes ethical, social and environmental variables, and establishes strict control of the risks that may occur as a consequence of the suppliers' activity, factors that are decisive in the homologation processes.

The management, meanwhile, is structured according to the Corporate Model for Agreements with Third Parties and Supplier Control, which establishes a common methodology for the processes of selection, homologation and assessment. It also monitors performance regarding objectivity, transparency and compliance with the regulations on conduct that are applied to collaborators and suppliers.

An important part of management is done through the Suppliers' Committee, which meets fortnightly and is formed of representatives from several areas of the Bank. It monitors the delivery of the services and ensures the sufficiency of the mechanisms for control of the risks associated with the management of suppliers. For this, close to 150 service managers were appointed, which periodically inform themselves regarding the progress of the management and the possibilities for improvement in that area, facilitating better decisions regarding its suppliers.

It also has a digital platform, which guarantees transparent and auditable bidding processes, according to that established in the principles that govern this area.

Nº of suppliers by invoicing level <sup>1</sup>	2013	2014	2015	2016
MM\$ 600	63	64	124	90
MM\$ 180 < MM\$ 600	83	92	137	94
MM\$ 30 < MM\$ 180	206	170	101	140
Total	321	326	362	324

Management by concept of expense (%) <sup>1</sup>	2016
Technology	37%
Operations	40%
Advertising and marketing	2%
Real estate	14%
Personal	2%
Decentralized	3%
Institutional	1%

Management of suppliers	2013	2014	2015	2016
Nº of suppliers (Base prov. inv. > MM\$ 30 <sup>2</sup> )	573	573	630	737
Annual invoicing (MM\$)	293 Thousand	413 Thousand	414 Thousand	411 Thousand
Local suppliers	97%	98%	94%	95%
Suppliers assessed	321	326	362	324

1. Only suppliers assessed 2016 / 2. The definition of the range was corrected in 2015 (MM\$ 30 instead of MM\$ 5).

## OUR COMMITMENT TO SOCIETY

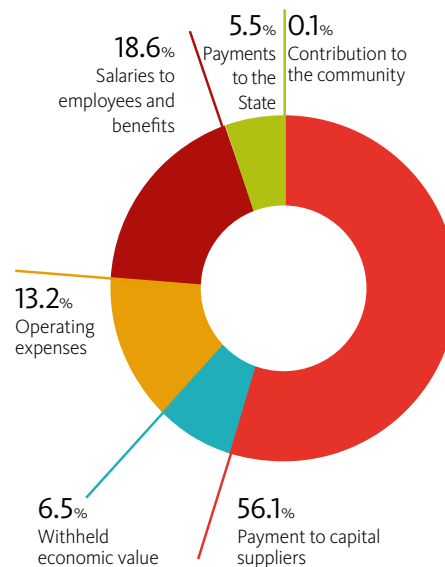


Capitalizing one of Santander's largest differentiating milestones in the area of contribution to society – education – the Sustainability Strategy emphasizes, promotes and drives this tool, since it considers that it is one of the main means through which people can have access to new and better opportunities to progress.

With this objective, we have focused on developing the following concepts\_

- 1 Financial education
- 2 Quality school education
- 3 Higher education

### Economic value generated and distributed in 2016



### Measuring the impact

In order to dimension, analyze and improve the contribution the Bank makes to society through its community investment programs, since 2015 these indicators have been recognized in terms of people helped. In order to establish these "beneficiaries", a corporate methodology is applied that identifies a series of principles, definitions and criteria that enable them to be recognized consistently.

### New sustainability website

Framed within the Santander Sustainability policy, it presents the projects driven by the Bank that contribute towards development and the economic, social and sustainable growth of the country.

The site, which can be entered from the Santander.cl homepage, contains several sections: a current affairs button contains

the Bank's noteworthy news in this area and offers the possibility of downloading the reports and the various editions of the

Santander Comprometidos newsletter. It also reports on what is being done in matters of financial education and higher education, the environmental management policies, the supplier relations policies and the benefits they provide their employees.

## Commitment to higher education

The **Higher Education Support Program (Programa de Apoyo a la Educación Superior (PAES))**, carried out by Santander globally, prepares the professionals of the future in the context of globalization. With this purpose, it provides international experiences that enable them to expand their view of the world and acquire new tools to collaborate in the development of society.

The PAES actively collaborates with 52 Chilean academic institutions, and for the past 19 years has maintained agreements of this type with 1,200 universities and institutions around the world.

In 2016, this initiative benefitted 461 students and teachers in Chile who took higher education studies in institutions in the United States, Portugal, China, Spain, Italy, Mexico, Brazil and Argentina, among other countries. It must also be noted that it provided grants for internships in small and medium-sized companies. Launched in 2015, it offers a double benefit: on one hand, young people can learn about the reality of SMEs and on the other,

it offers the SMEs the opportunity to have the skills and knowledge available that they often would not be able to finance.

An important milestone in this area was to inform young students about the PAES. For this, communication in the internal and external digital supports was increased, since these are the main channels of contact used by students.

In addition, the first version of the Santander Scholarships Awards was held, a young, festive and modern event, which became a space for collaboration to share experiences regarding scholarships, universities, programs and cities in which to study.

### Promoting science and technology

Santander also supports and promotes entrepreneurship in the scientific and technological area, since these areas generate change and promote innovation. During the year, two important programs were implemented.

# 217

student scholarships in Ibero-America

# 58

scholarships for young teachers in Ibero-America

# 123

free-choice scholarships

# 61

SME internship grants

# 2

research award grants

Project	Brain Chile	Prize for university scientific research
Origen	It was created to drive initiatives based on the applications of science and technology becoming businesses. It is organized by Santander and the Innovation Center of the Pontificia Universidad Católica de Chile.	This prize has become a reference and stimulus to promote the development of science in benefit of health. It must be mentioned that in 2013 the first version of the award was focused on the cancer research field, in 2014 on obesity and its impact on the health of Chileans, while in 2015 the subject was arterial hypertension, dyslipidemias and cardiovascular illnesses.
Award	The second edition of the program – and the first conducted nationwide – received 135 applications from over 35 higher education institutions. The winning project – which took the largest sum invested by BRAIN Chile 2016 – was Nutrisato, reaching a total of \$ 6,350,000. The winning initiative promotes a bio-stimulant fertilizer that improves soils and stimulates plant growth (leaves, fruit and flowers), while caring for the environment, benefits that translate into a higher yield for agricultural producers at a lower price. It is expected that the winning initiative will be launched on the market during the first semester of 2017.	This year, the challenge is regarding the subject of “Neuroscience, neurological and psychiatric illnesses”. Nine universities, five from the regions and four from Santiago, sent a total of 23 applications. In the senior category, the researcher Úrsula Wyneken won, from the Universidad de Los Andes. Meanwhile, in the junior category, Claudio Hetz was awarded the prize, a researcher from the Universidad de Chile.

## Supporting academic development

Along with this, Santander contributes towards driving and promoting progress of establishments in various areas. In 2016, some of this support translated into financing cultural, academic and scientific activities.

### Universia

This is an international network in which 1,407 universities participate – the largest in the world in this area – and that has had the sponsorship of Banco Santander since it started. In Chile, it is allied to 60 higher education institutions, which represent 88% of this community.

The objective of Universia is to promote change and innovation through a platform of products and services for the university community and companies. It also aspires to act as an agent of change, aiding universities to develop shared projects that generate new opportunities for the university community, given the demand of the business and institutional environment and with economic efficiency and profitability criteria.

For this it developed two lines of action\_

- 1 Academic projects that promote knowledge and research.
- 2 University services to promote internships and first jobs, identifying educational needs and applying marketing tools.

In the context of the first concept, one of the most notable activities of the year was the XIV Meeting of University Deans, where the new Law on Higher Education was addressed, and they discussed its vision, institutionality, regulatory framework, quality and financing. Deans from public and private universities participated, and also from professional institutes throughout the country.

Regarding the second concept, Universia carried out the following activities\_

- 17,933 higher education students took the Work placement course, which forms part of the academic curriculum of fifteen universities and/or professional institutes, Since its implementation in mid-2014, 41,671 students have been educated on the subjects of social security, health, employment contracts and insurance, among others.
- Contributed contents of value to the Banca Select and managed a program of courses directed towards Banco Santander SMEs customers, with a total of one thousand three hundred people trained in the in-person and virtual modalities.
- Held the sixth Postgraduates Conference, which gathered 32 Chilean and foreign higher education institutions to showcase their entire academic specialization offer (over three thousand doctorate, masters, diploma, post graduate degrees and course programs). The conference, organized along with Trabajando.com, gathered over 1,600 people.
- 68,921 first jobs were organized for recent graduates, and a total of 477,361 jobs through the Trabajando.com employment community.



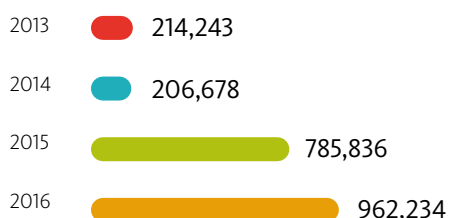
## Financial education

Understanding that people's financial health has a direct effect on their quality of life, Banco Santander has created programs and drives specific actions to provide tools that contribute to the financial knowledge of people and to decrease gaps in information.

So, **Sanodelucas** has existed since 2013, a robust financial education program, that, using a digital and interactive platform, offers information adapted to different needs (people and SMEs).

The results of these efforts can be seen in the graph, which shows the evident increase of visitors to the Sanodelucas webpage\_

### Evolution of visits



In addition to the design and implementation of projects that teach management of personal finances, the concern of Banco Santander for financial education manifests in the daily relationship between executives and their customers, always offering products in line with their needs.

### Financial Education and School Program

In order to reinforce the financial education concept, Banco Santander and the Public Policies Center of the Pontificia Universidad Católica de Chile presented a new project in this area, which is built on the basis of three initiatives. The first is the promotion of financial education during school through a semi-in-person course in which 104 directors of municipal, semi-private and private establishments from all over the country participated. This course enabled the participants to generate collaborative work between the students in their establishments in order to develop skills in the financial area.

In August, the results of the second milestone of this program were disclosed obtained from, a national survey- for the first time in the country. The Financial Education at School Program closed the year with the award of a financial education contest, "Las lucas se educan", open to the school communities of the entire country, to seek and highlight initiatives to reduce financial illiteracy and promote financial education in Chile. Among

the 251 participating projects, the winner was the "Gymkana Financiera" ("Financial Gymkhana"), a web platform that teaches financial concepts. The prizewinners received 5 million pesos, of which 3/5 are to be used to implement the project in schools.

### Financial Education Month

During October, the national financial industry celebrated this month, at which time Santander Chile was present in various activities and initiatives. One of these was the III Financial Education Fair, organized by the Superintendence of Banks and Financial Institutions (SBIF), an instance in which the Bank received a recognition for its contribution in this subject. In addition, the Bank gave the SBIF the results of the National Financial Education Survey in Schools, carried out by the information on the level of knowledge of schoolteachers and directors regarding financial concepts and perceptions on how educated and interested they are in teaching these subjects to their students.

962,234  
visits to sanodelucas.cl

723,601  
users

42.800  
likes on the Sanodelucas  
Facebook page





### Quality school education

As the company has established in its Sustainability Policy, education is the key for better future development. Due to this, Banco Santander wants to address the root problem with greater emphasis, driving quality education in vulnerable areas to contribute towards leveling the playing field and generating opportunities for progress. The following initiatives took place in 2016

- Corporate volunteering, keynote lectures and tutorials.
- Academic excellence scholarships (see “Meritocracy” on p.88)
- Company internships (see tutorials on p.109)

In 2016, Banco Santander was again part of the Dow Jones Sustainability Chile Index (DJSI Chile), an indicator recognized worldwide and in which only companies that are leaders in sustainability participate. In this second countrywide version, the Bank surpassed its 2015 performance: it increased its score and surpassed the average in the economic and social dimensions.

### Corporate volunteering

Corporate volunteering forms part of Banco Santander’s Sustainability Policy (see more on p. 89). In order to carry out these actions and collaborate with society in different areas, Santander has worked along with TECHO Chile and Fundación Belén Educa. So, it helps in offering houses to families and communities with needs, and promotes quality education.

It is important to note that during 2016 these initiatives were restructured, so there were less activities in this area during the reported financial year.

### Fundación TECHO Chile

Santander collaborates with TECHO Chile to promote habitability and to improve living standards for families and communities with this type of need.

It is also present in all emergency campaigns (see highlighted area on p. 109).

Other actions\_

- In addition to helping add new members to this NGO, Santander supported 1,300 university and high school volunteers. These went to five regions of the country to collaborate in the construction of 20 community camp and progressive housing projects for the region of Coquimbo. The Bank’s support translated into equipment for the volunteers, food and insurance for each of them.
- We must also mention the construction of a multi-purpose playing field in the Villa General Bernales, in Puente Alto, in order to create a space for meeting, collaborating and recreation.

### TECHO Chile Volunteer Activities

Community/ city	Peñaflor	Puente Alto	Osorno	Antofagasta
<b>Sector</b>	Cerro La Virgen camp	Villa General Bernales	Rahue Alto - United Women Committee	Chile Nuevo camp
<b>N° beneficiaries</b>	15 families	127 families	42 families	56 families
<b>Contributions</b>	Installation of Water towers In the fifteen houses and in the community center	Improvement of the surroundings of the multi-purpose playing fields	Construction of a community center	Construction of a community center
<b>N° volunteers</b>	115	44	30	15



### Fundación Belén Educa

Santander supports this initiative because it considers that promoting education is an essential role in the efforts to level the playing field.

#### Other activities\_

- For the thirteenth consecutive year, ex-students who stood out due to their school performance, leadership, responsibility and their contribution to the community during 2015 were awarded scholarships. At that time, three students were awarded scholarships, who are added to the 43 young people awarded scholarships in the years of existence of the Fundación.
- Last February, 33 ex-students of the Cardenal Carlos Oviedo Cavada and Cardenal José María Caro schools (of the Belén Educa network) finalized their internships, which allow them to start to work, providing support to several areas of the bank.
- In order to promote knowledge of banking concepts, Santander took students from the Fundación to participate in the III Interactive Fair organized by the SBIF for Financial Education Month.

Santander's commitment to the development of society goes beyond the initiatives established, since every time that there is an emergency situation in the country, the Bank carries out some type of activity or extra effort to help those affected.

So, Santander supported TECHO in December 2016 to rebuild the Las Totoras camp in Quilicura, whose 57 shacks were completely destroyed by a fire.

At the beginning of 2017, due to the fires that affected the Central-South zone, the Bank started several actions to provide aid on different fronts\_

- **Chile Helps Chile Campaign\_** carried out by TECHO-Chile, Channel 13 and Banco Santander to collect \$ 2,500 million to build five hundred emergency houses in nineteen affected communities (Constitución, Cauquenes, San Javier, Empedrado and Marchigüe).

- **Campaign 1 + 2\_** Every peso donated by the collaborators was duplicated by the Bank in aid of the affected\_
- **Delivery of supplies to the affected areas\_** Santander and its employees collected four thousand personal hygiene kits, environmental hygiene supplies and veterinary health products to be sent to the localities of Santa Olga, Marchigüe, Constitución and Talca.
- **Support to the Chilean Fire Department\_** Delivery of fire-fighting equipment to the Fire Departments in ten communities (Cauquenes, Empedrado, Licantén, Constitución, Buin, Hualañé, Vichuquén, Florida, Bulnes and Angol).
- **Financing of flight hours to put out fires in the community of Paine.**

### Fundación Belén Educa Volunteer Activities

Activity	Fifteen tutorials for half a year with students from 12th grade from the Cardenal Carlos Oviedo Cavada school (Fundación Belén Educa)	Six keynote lectures at the Juan Luis Undurraga School (Fundación Belén Educa)
Nº beneficiaries	15	240
	Managers and assistant managers from the Bank were tutors	Each was given by a Santander manager
Nº volunteers	15	6





### Supporting art and culture

The dissemination of cultural and artistic expressions for over two decades has been one of the permanent commitments of Banco Santander with the community, since enabling more large-scale access to culture encourages the integral development of people and also to value the country's cultural heritage. With this purpose, two important projects were carried out during the year.

#### Ancient Egypt: life on the Nile Exhibition

Surpassing all expectations, the exhibition Ancient Egypt: life on the Nile, whose almost 400 pieces came from the Neues Museum in Berlin, was visited by 517 thousand people during the four months that it was shown in the La Moneda Cultural Center. Around fifteen thousand visitors were students from urban and rural schools. Of these, 1,200 came from Fundación Belén Educa educational establishments. In parallel to the sample, various free outreach and educational activities were carried out associated with the contents of the exhibition: conversations in classrooms, fairs, cinema cycles at the Cineteca Nacional and workshops especially directed towards students of different ages. Sundays in Ancient Egypt were noteworthy, an experience in which the entire family could participate in activities involving illustration,

make up and personification, which were accompanied by free visits on May 8, June 12, July 17 and August 7.

#### Chiloé Book

In its 345 pages, this deluxe edition portrays the culture and history of the mythical island in the south of Chile, its six thousand years of history and the lives of the ancient navigators of the seas in the area. Sixteen researchers and over 20 photographers worked on this book that was supported by Banco Santander Chile, the Chilean Museum for Pre-Columbian Art and the Chilean Navy.

The book was launched in the insular capital, Castro, with the presence of authorities from several civil and naval institutions. At the time, the general manager and country head of Banco Santander,

Claudio Melandri, highlighted the value of the book, which contains the particularities of the island in the geographical, cultural biological and historical context of Chile, so contributing towards Chileans and foreigners becoming aware of its culture and values as well as its cultural and natural heritage.

Copies of this book were donated to educational and cultural institutions in Chiloé.

#### Lech Walesa at Santander Seminar

"Solidarity for the new age" was the title of the event that brought the leader of the Solidarity movement to Chile, Lech Walesa, winner of the Nobel Peace Prize in 1983 and elected in 1990 as the first democratic president of Poland after the communist regime.

At the time, the ex-president referred to the importance of reaching agreements through dialog to achieve changes that benefit society as a whole. The conversation panel was moderated by the historian and director of Banco Santander, Lucía Santa Cruz, with the participation of the ex-president of Chile, Sebastián Piñera and the dean of the Universidad Diego Portales, Carlos Peña, as well as Walesa himself.



# ENVIRONMENTAL MANAGEMENT

In order to comply with the mandates of the Sustainability Policy and to monitor the significant environmental aspects associated with its operations, three approaches were defined to comply with the Banco Santander commitments in this area\_

The Environmental Management System (SGMA) ensures compliance and performance

- 1 Reduce the impact of activities.
- 2 Prevent pollution.
- 3 Raise the awareness of collaborators.

regarding these aspects, and its functions are constantly reviewed to progress in the Bank's environmental management and performance. In 2016, the following progress was made\_

## IMPROVEMENTS OF THE SGMA

### WASTE\_

- A high percentage of own electronic and paper waste continued to be recycled.
- Well-known specialist companies authorized by the Bank were responsible for the management of the hazardous and non-hazardous waste generated by the improvements and renovations made to the infrastructure.
- The legal regulation (Supreme Decree 148) was complied with regarding batteries collected through the internal campaign "RECOPILA".

### MONITORING AND LIW\_

- The water of the sewage system of the three certified facilities was monitored monthly, ensuring adequate compliance with Supreme Decree 609.
- The boiler system was monitored and measured, for continuous improvement and to meet all legal requirements regarding emission variables and polluting elements.

### CONSUMPTION\_

- A more precise measurement was obtained of the main consumption: gas, water, paper, oil and electricity, in order to seek permanent reductions in the emission of the carbon footprint.

### Reducing impact

Since Banco Santander seeks to develop its activities by incorporating the sustainable development elements used by leading companies, for the fourth consecutive year it decided to measure and neutralize its greenhouse effect gas emissions (GHG), generated directly and indirectly by the Directors Meeting held on December 1.

The calculations were made in accordance with that indicated by the Carbon Neutral Protocol, the first standard in the world for Carbon Neutrality, developed by the company Natural Capital Partners. This calculation was

checked by the English company Ecometrica Ltd., a verifier accredited by the Carbon Disclosure Project. The measurements showed total emissions of 57 Tons of CO<sub>2</sub>, and an average of 0.0273 tons Of CO<sub>2</sub> for each of the 2,089 people attending. In order to neutralize these emissions, Banco Santander acquired 57 tons of verified CO<sub>2</sub> reductions generated by the project REDD+ de Conservación de La Reserva Costera Valdiviana in Chile. This initiative conserves an area of great biological significance, including two of the species of the longest-living trees on the planet: the Olivillo, which can live for up to four hundred years, and the

Larch, which can live up to four thousand years.

In this way, we obtained the English Carbon Neutral® certification.



CarbonNeutral.com

### Preparing for new regulations

Santander's main pro-environmental activities were related to the first – and main – concept of action: reducing the environmental impact of the Bank's operations. Due to this, all renovations and actions associated with infrastructure were focused, planned and carried out to generate maximum efficiency in consumption and comply with the latest generation of environmental standards.

So, Santander began to prepare for LEED EBOM certification (Leadership in Energy & Environmental Design / Existing Buildings: Operations & Maintenance), a referential sustainable standard, focused on reducing operating costs, minimizing the environmental impacts of corporate buildings and increasing the wellbeing of users.

With this objective, the Energy Star program was applied to the nine institutional buildings located in the Center of Santiago (all owned by Banco Santander and used for Bank activities and staff). In addition to the built-up surface area, operating hours, number of users and year of construction, this considered the following consumption, measured over twelve months\_

- **Electricity (kWh)**
- **Gas (m³)**
- **Water (m³)**

The respective accounts of all of the basic consumption established that all of the facilities are ready to begin a certification process of this type.

### LEED certification of the FACH hospital branch office

A second milestone regarding the reduction of the impact of the Bank's operations was to add a branch office of the Network to these standards. The office chosen was the FACH hospital branch office, with a surface area of 425 m², which in 2016 underwent the examinations and preparation to obtain this certification.

This process was led by a specialized consultant company and covered five categories: sustainable sites, efficiency in the use of water, energy and atmosphere, materials and resources, and internal environmental quality.

### Less paper

In a financial services company such as

Banco Santander, paper represents a significant consumable. Due to this, another relevant fact that contributes to the proposal of reducing impact is related to reducing this consumption. Therefore, proper management of less paper use will therefore involve lower expenses and greater environmental awareness.

So in 2016, the Work Café project (see more on p.96), which among several novel

milestones, presented the concept of the "paperless office". It is important to indicate that, in order to not need this supply in this new branch office model, it was necessary to address and resolve several complex considerations, such as those associated with the legal and technological area. Internal control processes had to be developed that were adapted to this situation, as well as having all of the technological instances to make it possible to operate without this consumable.

On the other hand, progress continued to be made in decreasing the use of paper through encouraging electronic statements to replace sending physical ones. In this way, and despite the fact that the total volume of statements sent increased, the mailing of printed statements was reduced by 8%, with the consequent savings of paper.

### Pioneer in ISO 14.001 standard

Banco Santander was a pioneer in the industry when it obtained this certification for the first time and it has maintained that leadership, being recertified continuously since then: 2003-2006; 2006-2009 and 2009-2012. It currently has certification for 2013-2017.

### Mailing of current account statements

Year	Physical volume	E-mail volume	Total	e-mail (%)
2015	3,888,780	6,068,696	9,957,476	61%
2016	3,591,588	6,439,556	10,031,144	64%

**Caring for green areas\_** Along with promoting the health and quality of life of its collaborators, the maintenance and renovation of the Santander Club shows the willingness of the Bank to consider thousands of square meters in areas with a high real estate value to green areas, which also represent a space for recreation in the city of Santiago.

**Environmental indicators**

Santander continuously monitors the performance of those environmental aspects with a greater effect. It must be specified that the actions and measurements always refer to the three largest central services buildings (140 Bandera, 150 Bandera And 1068 Bombero Ossa). These have current certification under the ISO14.001 standard and house 2,097 employees, who represent 18% of the entire workforce.

	2014	2015	2016
<b>Consumption of paper (tons)</b>	2,534	2,191	2,124
<b>Consumption of energy (kwh)</b>	33,919,980	33,404,726	30,865,037
<b>Consumption of water (m³)</b>	243,888	210,439	154,068
<b>Total CO² emissions (tons)</b>	19,842 <sup>1</sup>	18,477	19,044
<b>Ground travel (kms)</b>	4.1 mills.	3.3 mills.	2.5 mills.
<b>Air travel (kms)</b>	9.2 mills.	9.2 mills.	13.2 mills.
<b>Recycling of electronic waste (tons)</b>	18.6	22.4	47.8

1. This figure was corrected in 2016 to homologate it to the new calculation standards.

According to these results, during the year, Banco Santander achieved\_

<p>LOWER THE CONSUMPTION OF ELECTRICITY BY 7.6%</p>	>	<p>Signifies saving the equivalent of the average monthly consumption of 12,698 houses.</p>
<p>RECYCLE 164,655 KG OF PAPER</p>	>	<p>Avoids cutting 2,799 trees, saving 4,363 m³ of water and not using 2,058 m³ in dumps.</p>
<p>RECYCLE 2,673 ITEMS OF ELECTRONIC WASTE (47,889 KG)</p>	>	<p>Permits renovating 1,414 computers to be used or donated.</p>
<p>REDUCE CO² EMISSIONS</p>	>	<p>Around 1 kg of recycled paper signifies not emitting approx. 1 kg of CO². Banco Santander contributed 164.6 kg in the reduction of these gases.</p>

**Corporate mandates**

Since 2009, the Santander Group has followed the Ecuador Principles, which means that all projects larger than US\$ 10 million must be analyzed with respect to their social and environmental risks. Due to this, the Bank provides specific training in this type of factor to the risk and business specialists, and updates the analysis tools used in their assessment.

Also reporting in line with the new scope of the Ecuador Principles (EPIII), which expands the operations subject to it, corporate financing is also included.

As a result, the most important 2016 per capita figures were\_

2,689

kWh consumed per year.

14.3

kg of recycled paper.

4.2

kg of recycled trash.



6

# Banco Santander in the world



Banco Santander has begun a profound transformation process to face a more competitive scenario and align itself with customers' new expectations and needs.

# Santander in 2016: we progressed to being the best commercial bank,



Ana Botín,  
President of  
Banco Santander

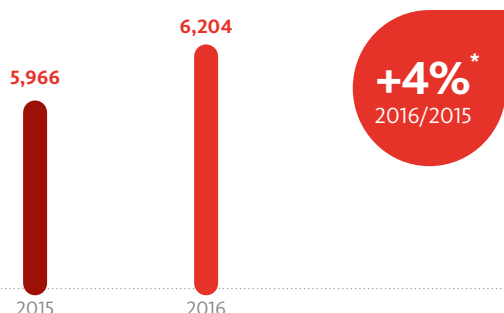


In 2016, Santander obtained very good results and met its strategic and business objectives: we increased connected customers, increased credit, and are now providing services to 125 million customers.



Santander is one of the most profitable and efficient banks thanks to the talent and work of our teams, which have obtained some excellent results, doing things in a more simple, personal and fair way.

## Attributed earnings Millions of euros

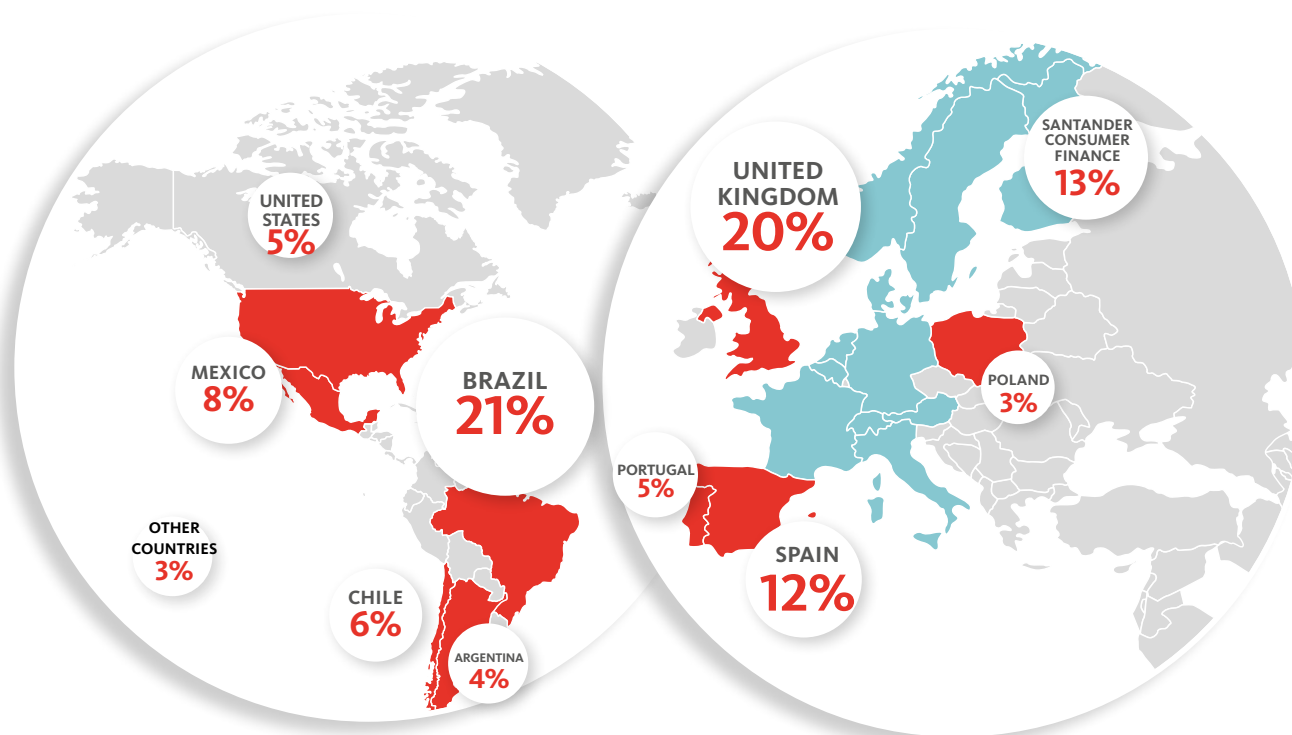


\* +15% at constant exchange rates.

Return on tangible capital (ordinary) **11.1%**

Capital CET1 ratio fully loaded **10.55%**  
(+50bp 2016/2015)

## Geographical diversification (contribution to the Group's ordinary profits, %)



● Principal countries  
● Santander Consumer Finance

# contributing to the progress of people and companies



Our investment in technology, along with the advantages of working as a Group, allows us to be leaders in efficiency, while improving the customers' experience. Santander is situated in the top 3 of the sector for customer satisfaction in eight of its nine main countries.



With the strength of our balance sheet we are capable of financing our growth, while increasing the dividend in cash and accumulating more capital.



**79%**

of employees see the Bank as employees Simple, Personal and Fair



**78%**

employees committed



**15.2 (+10%)**

million connected customers



**20.9 (+26%)**

million digital customers



**36,684**

scholarships awarded in 2016



**1,183**

agreements with universities and academic institutions in 21 countries



**3,363**

million Euros of CET1 capital generated



**+8%**

cash dividend per share

**Simple | Personal | Fair**

# Mission and business model

Our mission

Contribute to the **progress** of **people** and **companies**

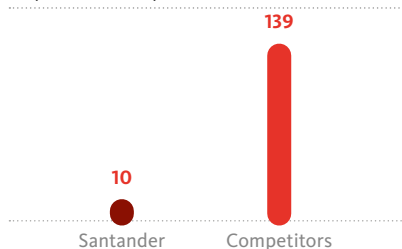
Our vision

Be the **best commercial bank**, winning the **trust** and **loyalty** of **employees**, **customers**, **shareholders** and **society**

Our way of doing things

**Simple | Personal | Fair**

■ Average volatility of the quarterly BPA (% , 1999-2016)



+

Sustainable and elevated profitability that permits making use of opportunities for growth

**11.1%**  
Ordinary RoTE

**Top 3**  
globales vs our global competitors

+

Growth of cash dividend per share

**+8%**  
in 2016



## A differential business model



### 1 Our 125 million customers and our critical mass in 10 main markets drive profitable growth

**125**  
million customers  
in markets with  
a population of  
1,000 million  
people

- Banco Santander aspires to satisfy the needs of **all types of customers**: individuals of different income levels, companies of any size and sector; private corporations and public institutions.
- The Santander brand is a **strong brand** that has **great recognition** in the Group's main markets, as well as globally.
- Long-term personal relationships with its customers are the basis of the business. Through **innovation**, Santander is transforming its business model to obtain a greater number of connected and digital customers, which drives a more **profitable and sustainable** business.
- Santander has **high market shares** in commercial banking in Argentina, Brazil, Chile, Spain, northeast United States, Mexico, Poland, Portugal and the United Kingdom and in the consumer financing business in Europe.



### 2 Our geographical diversification generates predictable benefits, which assumes less needs for capital

**3,363**  
million Euros of capital  
generated in 2016.  
CET1 capital ratio  
10.55%

- Santander has a **balanced presence** in emerging and mature markets, which generates predictable benefits that grow throughout the cycle.
- It has **solid capital** in line with its business model, geographical diversification, balance structure, risk profile and regulatory requirements.
- The strength of its balance sheet and Santander's profitability enable it to **finance growth**, distribute a **larger dividend** in cash and continue to **accumulate capital**.



### 3 Model of subsidiaries with a strong collaboration culture promotes efficiency and the excellence of the service

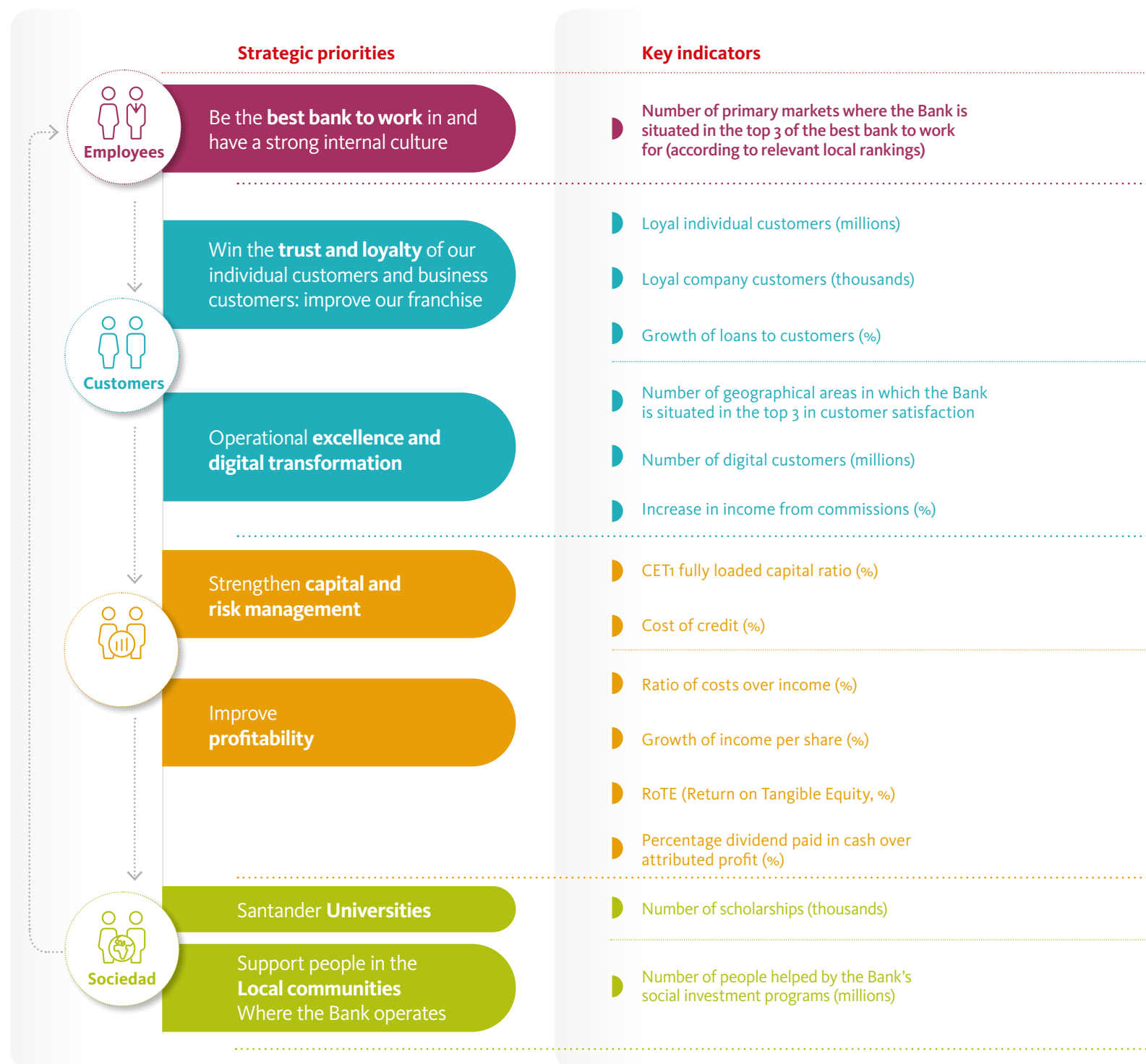
**48%**  
Efficiency  
ratio, one of  
the most  
efficient  
international  
banks

- The Group is structured through a **model of subsidiaries that are autonomous** in capital and liquidity and are subject to regulation and supervision by the authorities of each country and are managed by local teams who provide great knowledge of customers in their respective markets.
- Santander seeks **operational excellence** through the digitalization and improvement of all of its operations and business channels, from the simplification of processes and the optimization of costs, at the same time improving the experience and **satisfaction of its customers**.
- The **Corporate Center** (whose costs decreased 23% in the last two years and comprise 2.1% of the Group's total costs) provides value and drives the competitiveness of the subsidiaries, promoting collaboration, helping them to be more efficient, making the Group's governance more solid and driving the exchange of business best practices. This enables the Group to obtain a **better result** than that deriving from **the sum of each of the local banks**.

# Vision and creation of value

Our vision is to be the best commercial bank, winning the trust and loyalty of our employees, customers, shareholders and society.

We have created some ambitious objectives...



1. Goals 2015-2018

2. Except in the United States, where it will be situated close to its competitors.

3. Total quantity 2016-2018.

4. Calculated over ordinary profit.

5. Constant Euros

6. See Santander Group 2016 Annual Report.



2015	2016	Objectives 2018	More info <sup>6</sup>
3	4	most countries	pgs. 30-31
12.7	13.9	17	pgs. 32-33
1,049	1,356	1,646	pgs. 32-33
6%	2%	competitors	pg. 48
5	8	all <sup>2</sup>	pg. 35
16.6	20.9	30	pg. 34
4.3%	8.1%	c. 10% <sup>1</sup>	pg. 47
10.05%	10.55%	>11%	pg. 48
1.25%	1.18%	1.2% <sup>1</sup>	pg. 48
47.6%	48.1%	45-47%	pg. 47
-15.9%	1.0%	double digit	pg. 46
11.0%	11.1%	>11%	pg. 47
38%	40%	30-40%	pgs. 36-37
35	37	130 <sup>3</sup>	pg. 39
1.2	1.7	4.5 <sup>3</sup>	pgs. 38-39

...and we have defined how to reach them.

### Simple | Personal | Fair

Simple, Personal and Fair is the essence of the Bank's corporate culture. These are principles that define how all Santander employees think and act, and they guide us in the manner in which we relate to our employees, customers, shareholders and society.

**CORPORATE BEHAVIOR** Corporate behavior is the basis for obtaining a bank that is more Simple, Personal and Fair, and during this year we have encouraged the application of these values in daily work, as well as the recognition of the professionals that best represent these values.



I'm respectful



I really listen



I speak clearly



I keep my promises



I promote collaboration



I work with passion



I support people



I drive change

**RISK CULTURE: RISK PRO**

Santander also has a solid risk culture, named risk pro, which defines the manner in which we understand and manage risks in our daily work. It is based on all professionals being responsible for the risks they generate and on other principles that must be known and integrated into the manner of working throughout the Group.

## risk pro

All the Santander team engaged in risk

>90%

of employees know and are responsible for the risks in their daily work.

**SANTANDER BRAND**

The Santander brand expresses a corporate culture and an international positioning that is unique and in line with a manner of banking that contributes to the progress of people and companies in a Simple, Personal and Fair manner.



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## About this report

### Definition and preparation process

This document reports on the performance of Banco Santander Chile during the period between January 1 and December 31, 2016. The information pertains to Commercial Banking, Company and Institutions Banking and Santander Global Corporate Banking, and includes the 2016 corporate policies and global figures for the Santander Group. The global sums of money are presented in euros, while the numbers associated with operations in the country are expressed in Chilean pesos.

The information presented has been prepared with the same techniques for measurement and figures as previous reports with some exceptions, which are duly indicated and explained.

For the second consecutive year, we present the financial and sustainability data in a single document, content that was developed according to the guidelines established by the Global Reporting Initiative(GRI), a standard recognized worldwide.

### Primary relevant aspects identified

#### Corporate Governance\_

Control and management of risks (financial and non-financial: reputational, social, environmental and compliance, per international standards). Anti-fraud measures and the prevention of corruption.

#### Shareholders\_

Optimization of profitability and use of capital to maximize the creation of value.

#### Customers\_

Customer satisfaction, transparency, omni-channels and digitalization, innovation as a key and strategic aspect. Application of the SPF strategy.

#### Collaborators\_

Continue to implement the cultural change implicit in the SPF style. Attraction and retention of talent, renewal of the categorization of benefits.

#### Sustainability\_

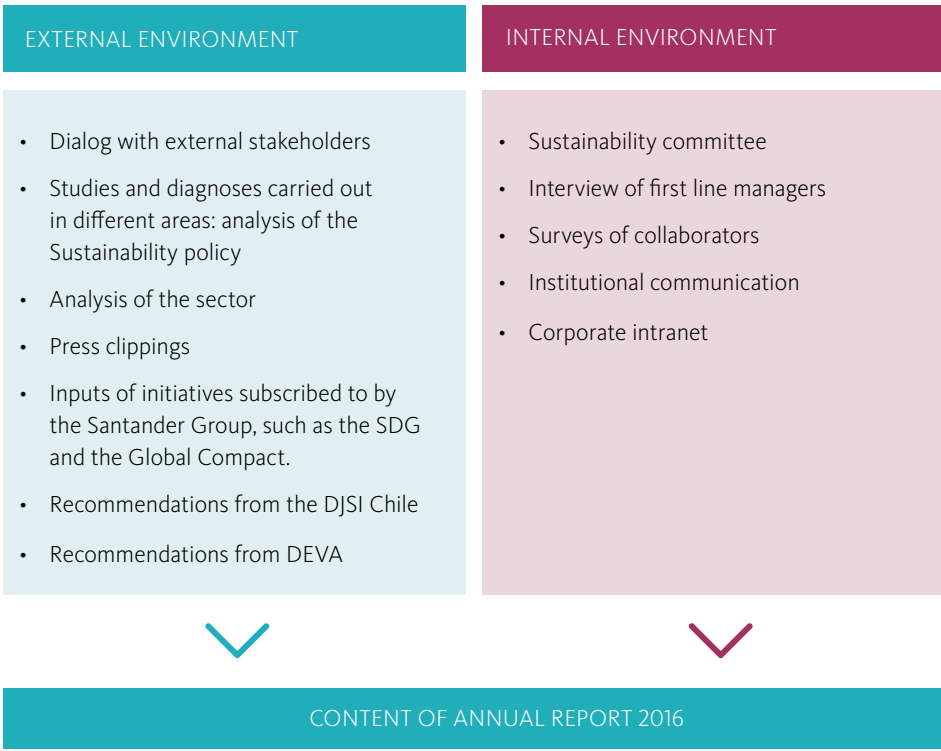
New strategy that defines sustainability as a fundamental pillar to achieve the Bank's mission, present in its relationships with all of its groups of interest, and that especially emphasizes education as a mobilizer for the progress of people: financial education, quality school education, higher education.

#### Environment\_

Reduction of consumption and emissions through energy efficiency plans.

### Materiality

The content was defined on the basis of several internal and external processes, some of which are carried out periodically by Banco Santander\_



# 8

## Glossary

Reporting annually on economic, environmental and social performance is an exercise in transparency towards the Banco Santander groups of interest. In order to reinforce this aspect even further, we add a glossary to explain the technical terms, in order to make the information provided throughout the report more easily understandable.

#### **ATM**

Automated Teller Machine: refers to cash machines used for banking transactions.

#### **Back Office**

The set of business support activities, such as IT work, communications, management of human resources or accounting.

#### **Benchmark**

Used to denominate the measurement and analysis of products, services and processes of organizations that have the best practices and results of the area of interest.

#### **Capital Core**

Refers to the basic capital of a bank under the Basel I regulations.

#### **Core Deposits**

This corresponds to demand and time deposits for retail customers.

#### **Core Income**

Definition given by Santander to the sum of the financial margin and the commissions of one or more business segments.

#### **DJSI Chile**

In 2015 the first index with sustainable criteria arrived in Chile, managed by S&P Dow Jones Indexes, to certify and group Chilean companies that meet environmental, social and corporate governance standards, and which trade on the primary national stock market index, the IPSA.

#### **Ecuador Principles**

International initiative whose guidelines guide financial institutions in determining, assessing and administering the social and environmental risks of their projects. The third version (EPIII) was launched in 2013, which included more emphasis on human rights, climate change and transparency.

#### **Factoring**

Financial tool that enables companies to transform their assets into liquid resources through a contract that assigns invoices and/or documented credits.

#### **FATCA**

The Foreign Account Tax Compliance Act.

#### **Feedback**

Synonymous with response or reaction. From a more technical point of view, it is used to refer to a systems control method.

#### **Fed**

Federal Reserve System, which is the U.S. Central Bank.

#### **FF.MM. (Spanish acronym).**

Acronym used for Mutual Funds, equity comprised of payments by natural people and legal entities (named participants or contributors), for investment in publicly offered securities and property permitted by the law, which administers a public company on behalf of and at the risk of the members.

#### FTSE4Good

FTSE4Good is the sustainability stock exchange index created by the London Stock Exchange in 2001. It includes companies that trade from all over the world that meet the requirements pre-established by the stock index, such as CSR (corporate social responsibility) regarding the environment, relationships with shareholders and human rights, based on responsible investment principles.

#### Global Agreement

United Nations instrument, announced in 1999 by the United Nations General Secretary, Kofi Annan, in the World Economic Forum (Davos Forum). It is included in the list of initiatives oriented towards providing attention to the social dimension of globalization. It contains ten principles, which cover the areas of human rights, employment regulations, environment and the fight against corruption (further details at <http://www.pactomundial.org/category/aprendizaje/10-principios/>).

#### Global Reporting Initiative (GRI)

Independent institution that created the first worldwide standard of guidelines for the preparation of sustainability reports to encourage compliance with certain characteristics such as comparability, stringency, credibility, frequency and verifiability.

#### Green House Gases (GHG)

Gases whose presence in the atmosphere contributes to the greenhouse effect. The most well-known is Co<sup>2</sup> (carbon dioxide), although methane (CH<sub>4</sub>), nitrogen oxide (N<sub>2</sub>o) and fluorinated gases are also involved.

#### ISO 14.001

International environmental management standard to identify, prioritize and manage the environmental risks of companies.

#### Leasing

Refers to contracts through which the lessor transfers the right to use an item to the lessee, in exchange for the payment of rent for a specific period, at the end of which the lessee has the option to purchase the item leased by paying a specific price, returning it or renewing the contract.

#### LEED Certification

Certification system for sustainable buildings, developed by the US Green Building Council in 1993. It is applicable to all constructions and analyzes aspects such as energy efficiency, the use of alternative energy, improvements in internal environmental quality, efficiency in the consumption of water, sustainable development of free areas of land and the selection of materials. LEED is an acronym for Leadership in Energy & Environmental Design.

#### Loan To Value (LTV)

Expresses the quantity of a first mortgage retention right as a percentage of the total appraisal value of the property.

#### Mark to Market

Used to denominate the revaluation process of all of the open positions with current market prices. These new prices determine the margin requirements.

#### Materiality

Process established by the GRI to define the content of the sustainability reports. Covers a wide range of internal and external information collection activities to establish which are the most important aspects to include: the organization's significant economic, environmental and social impacts, or those that have a significant weight in the assessments and decisions by the groups of interest.

#### NEOCRm

Customer Relationship Management (CRM) platform, which consolidates the information on the customer and significantly simplifies the manner of managing the portfolios, speeding up attention and facilitating the commercial work.



### OECD

The Organization for Economic Cooperation and Development (OECD) is an inter-governmental entity with 34 member countries that are committed to market economies and democratic political systems, which together represent 80% of the world GDP. On May 7, 2010, Chile became the first South American country to join this organization.

### SDGs

The United Nations Sustainable Development Goals (SDG) are the result of an agreement reached by the United Nations Member States and are contained in a declaration, 17 Sustainable Development Goals (SDG), and 169 targets. The Member States have agreed to attempt to reach them by 2030, in a universal call to take measures to end poverty, protect the planet and guarantee that all people enjoy peace and prosperity.

### Tertiary sector organizations

Set of entities (associations, foundations, NGOs, etc.) that are not public and are non-profit. They carry out social action projects or defend collective interests of any type. They supplement the other two sectors: public and private.

### Peer group

Used to refer to groups of people, companies, groups, etc., with similar characteristics and interests.

### POS

Point of Sale, an IT or micro-computerized electronic system that manages the payment process with credit and debit cards, for sellers and purchaser, which permits the creation and printout of the receipt or sales invoice.

### Select

Definition given by Banco Santander to the high-income customer segment.

### ProPyme Seal

Created by the Ministry of the Economy in 2011 to recognize those large companies – with at least 5% of SME suppliers – who pay the invoices of smaller-sized firms within thirty days.

### Soft commodity

Commodity refers to a good that is mass-produced, or of which large quantities are available in nature. Soft commodities are cultivated (not exploited) products, such as cocoa, sugar, coffee, cotton, orange juice and grains such as wheat or soy.

### Spread

Refers to the difference between two interest rates.

### Stakeholder

Term used to determine the groups of interest.

### UF

One of the systems used to express the adjustability or updated value of a currency, depending on inflation, authorized by the Chilean Central Bank.

### Volcker Rule

The Volcker rule is a draft law to reform the banking system launched by the government of the ex-president of the United States, Barack Obama, in 2010, and is named in honor of Paul Volcker, former president of the United States Federal Reserve (FED).

### Workflow

Alludes to the study of the operational aspects of a work activity. Includes from how the tasks are structured up to how compliance with them is followed up on.



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## General information

### Identification of the company

Banco Santander-Chile was incorporated by a public deed on September 7, 1977, signed in the Santiago notary of Alfredo Astaburuaga Gálvez, with the trade name Banco de Santiago, its operations were authorized by Resolution 118 dated October 27, 1977, of the Superintendence of Banks and Financial Institutions, SBIF.

The statutes were approved by Resolution 103 dated September 22, 1977 of the SBIF. The extract of the statutes and the resolution approving them were published in the Official Gazette dated September 28, 1977 and registered at page 8825 no. 5017 of the 1977 Commerce Registry of the Santiago Real Estate Registry.

The change of name from Banco de Santiago to Banco Santiago, along with the merger with the former Banco O'Higgins, the legal winding-up of the latter and Banco Santiago being the legal successor or continuer of that former bank is all contained in Resolution 6 dated January 9, 1997 of the SBIF, published in the Official Gazette dated January 11, 1997, which are duly certified under number 69, dated January 13, 1997, in the Santiago notary of Andrés Rubio Flores.

Subsequently, on July 18, 2002, the Extraordinary Shareholders' Meeting of Banco Santiago was held, whose minutes were expressed as a public deed on July 19, 2002, in the Santiago notary of Nancy de la Fuente, in which the merger of Banco Santander-Chile and Banco Santiago was approved, through the incorporation of the former into the latter, with the latter acquiring the former's assets and liabilities, and it was also agreed to wind up Banco Santander-Chile early and change its name from Banco Santiago to Banco Santander-Chile. This change was authorized by Resolution 79 of the Superintendence of Banks and Financial Institutions, issued on July 26, 2002, published in the Official

Gazette on August 1, 2002 and registered at page 19.992, number 16.346 of the year 2002, in the Commerce Registry of the Santiago Real Estate Registry.

In addition to the reforms to the statutes mentioned previously, these have been modified on several opportunities, with the last modification being agreed in the Extraordinary Shareholders' Meeting held on April 24, 2007, whose minutes were expressed as a public deed on May 24, 2007 in the notary of Nancy de la Fuente Hernández.

This report was approved by Resolution 61 of June 6, 2007 of the Superintendence of Banks and Financial Institutions. An extract thereof and of the resolution were published in the Official Gazette on June 23, 2007 and were registered in the Commerce Registry at page 24.064 No. 17.563 of the aforementioned registry. Through this latter reform, Banco Santander-Chile, in accordance with its statutes and that approved by the SBIF, could also use the names Banco Santander Santiago or Santander Santiago or Banco Santander or Santander.

### Ordinary Shareholders' Meeting

In the Ordinary Shareholders' Meeting held on April 26, 2016, it was agreed, among other things, to distribute a dividend of \$ 1.78649813 per share, corresponding to 75% of the profits of the financial year ending on December 31, 2015. Also, it was approved that the remaining 25% of profits be used to increase the Bank's reserves.

### The Board

In the Ordinary Shareholders' meeting held on April 26, 2016, Ana Dorrego de Carlos and Andreu Plaza López were named directors.

## Remunerations

In accordance with that resolved by the Ordinary Shareholders' Meeting held on April 28, 2016, the directors were paid a monthly fee. During the year the sum of \$1,269 million was paid for this concept, charged to the results of the financial year. The total remuneration received by the managers and main executives of the Bank and its subsidiaries during the financial year was \$51,594 million. The managers and executives of the Bank and its subsidiaries have variable compensation plans that are linked to obtaining targets and objectives, and compliance is assessed quarterly and/or annually. In addition, there are pluri-annual variable remuneration plans that are oriented towards retaining and motivating executives, and whose payment depends on the degree to which they reach targets, joint as well as individual, over a time horizon of more than one year.

## Activities of the Directors and Audit Committee

### Documents

Law 18.046 on Joint Stock Companies requires entities that meet certain characteristics to have a directors committee whose functions are also established in that law.

On the other hand, the Superintendence of Banks and Financial Institutions, SBIF, regulates that the banks must have an audit committee that answers to the Board, and specifies its functions in that regulation.

In addition, the Sarbanes Oxley Act of the United States requires companies that are registered in that country, such as Banco Santander Chile, to have an audit committee. The SBIF permitted the Directors committee and audit committee to function as a single entity in banks, and Santander Chile's Board made the decision to operate this way. In accordance with this, the statutes of the Directors and Audit Committee, approved at the time by the Board, establish the functions of this entity to be the sum of the tasks pertaining to audit committees in Law 18.046, the regulations of the referred-to Superintendence and the provisions of the Sarbanes Oxley Act.

## Composition

In accordance with the Statutes of the Directors and Audit Committee, this is formed of three directors that are sufficiently independent. During the 2016 financial year, the members of the Committee have been Marco Colodro Hadjes, Chairman, Víctor Arbulú Crousillat, Vice-chairman, and Orlando Poblete Iturrate, Vice-chairman. And the director Juan Pedro Santa María Pérez has acted as secretary.

In March 2016, Víctor Arbulú Crousillat resigned his position as director of the Bank and as a consequence his position on the Audit Committee was vacant. The Board appointed the director Mauricio Larraín Garcés as his replacement in April 2016.

The Committee met 12 times during the 2016 financial year. These meetings normally lasted for an average of three hours and were held on the dates prior to the Board meetings, so in the Board meetings, a summary is made to the Board of the subjects addressed by the Committee, without prejudice to subsequently sending the Committee's minutes to the directors once they have been approved.

## Issues addressed during the 2016 financial year

### Internal Audit

The Banks' Internal Audit unit answers to the Committee and in virtue of this the year's work program was proposed and approved at the start of the year, with the work to be followed up on planned in each meeting. It must be indicated that the program had been fully complied with at the end of the year.

In turn, in each ordinary meeting, the unit director explained each and every one of the audit reports issued in detail, summarizing the conclusions and classifying the unit or process audited, with its corresponding rating. The unit also reports on the status of compliance with the recommendations made by the Committee and follows up on their progress.

### External auditors

The Committee proposes the external auditors for each financial year to the Board.

In turn, the Board makes a proposal to the Ordinary Shareholders Meeting, which makes the appointment. The Committee proposed the firm PricewaterhouseCoopers Consultores, Auditores y Compañía Limitada for the 2016 financial statements.

This firm was chosen by the Shareholders' Meeting. However, Deloitte, Auditores y Consultores Limitada assisted the Committee until it had finalized its work regarding compliance with the financial statements of the Bank and its subsidiaries for the 2015 financial year. In parallel to this, the Company has met with PwC, beginning by receiving and analyzing the work schedule for the year with its representatives. The auditors stated their opinion on the financial statements of the Bank and its subsidiaries and also reported on the internal control situation. The observations made by the auditors in their final report gave rise to a strict follow-up monitored by the Committee month-by-month, and at the end of the year they had all been complied with.

## Financial statements and internal control

One of the most important functions of the Committee is to inform itself of, analyze and state its opinion on the Bank's financial statements and the internal control situation, and in particular the sufficiency of the provisions. This involves the interim financial statements as well as the final financial statements at the end of the financial year. Considering that the Bank is registered in the United States, it must also issue the document named 20-F, which is submitted to that country's authorities since it contains the Bank's financial information at the end of the year. For this purpose, the Bank must issue the Financial Reporting Internal Control certificate. All of this is also reviewed by the Committee.

Regarding Internal Control, during the financial year the Committee receives information from the department responsible on the progress of the various processes that conclude in the methodologically supported affirmation that the Bank's internal control is satisfactory.

### **Follow-up of audits by the Superintendence of Banks and Financial Institutions**

The Committee continuously follows-up on the progress and timely compliance with all of the recommendations made by the overseeing entity as a result of its annual visits. For this, it receives a monthly report from the department in charge of coordinating with the various areas responsible. If in its opinion an observation is relevant and its implementation is not progressing suitably, the subject is reported to management in order to obtain progress.

### **Operations with related parties**

One of the tasks given by Law 18.046 on Public Companies to the Directors' Committee is to state its opinion on the operations carried out by the Bank with companies or people who are related through ownership or management in the terms defined by the law. The objective of this analysis is for such business to be done in market conditions, that is, that the agreed terms be fair. The Committee has dedicated much time to the analysis of these operations, particularly those involving technological service contracts with the Bank, which the Santander Group provides through specialized professional entities, so achieving homogenous, international-level technology, and also ensuring the best security possible. The Committee, requires a justified and professional explanation on each operation presented to it and especially requests objective information regarding the values to be paid for the service requested. Also, the Technology Department must periodically report on the technological budgets, compliance therewith and their results, explaining any differences.

The contracts are submitted to the Bank's Board so that, if it considers appropriate, they be approved, and for this the Committee Chairman normally notes that the Committee has approved them.

### **Compliance and money laundering and financing of terrorism**

During the financial year the Committee has received information from the Compliance Department and has analyzed

the main aspects that are the purview of the Regulatory Compliance Committee, where the applicable regulations or those that affect the Bank were reviewed, the possible sanctions that could be applied by the authorities, compliance with codes of conduct, etc. Also, the same information and analysis has been done of the system to prevent money laundering, which is currently supported by a high-level IT tool named NORKOM.

Linked to the Compliance issues, the Committee monitors the regulatory aspects involved in the rules of the United States: FATCA and the Volcker Rule. These issues, which affect most banks due to their business and financial relationships with that nation, have made it necessary to develop complex control systems and train operators in order to comply with these regulations.

### **Confidential mailbox of the Audit Committee**

The Committee makes a confidential communication system available to the Bank's employees, through which they can directly address the Committee to report on irregular, conflictive or potentially dangerous situations. Although the Committee regularly receives many communications that are investigated and given different solutions, in order to provide even more privacy to the system, a new Complaints Mailbox was implemented for the entire organization, administered by an external provider who is an international leader in this field, an initiative that was implemented around a dissemination plan to ensure the success of the project.

### **Trials that could affect the Bank**

Every quarter, the Committee is fully informed of the status of the trials involving the Bank. The Legal Department explains the most risky issues as well as the provisions that should be made to face an adverse outcome. Due to the importance involved in the reputational risk for the Bank, the Legal Department has divided each presentation of trials by sum and reputational risk. This information includes all issues in Santiago as well as in the regions and their corresponding procedural status.

### **Risk factors**

Because of the Bank's line of business, there are some risk factors that could affect the institution. These include\_

#### **The Chilean economy**

Because a substantial part of the customers operate in Chile, an adverse change in the local economy could have a negative effect on results and the entity's financial condition regarding the overdue debts portfolio and growth. It is important to note that the credit risk of banks is supervised by the SBIF. The Bank also has a Credit Risks Area, which has developed strict and conservative regulations and guidelines to minimize any possible impact on the organization if an increase in non-performing loans occurs due to an adverse change in the direction of the economy.

This area is completely independent of the business areas, and its control over the credits begins with the admission process. Also, the Bank has a special vigilance section for the early detection of any unrecoverable debts and to properly follow up the loan portfolio. Finally, if necessary the Bank has mechanisms to recover overdue and charged-off loans.

#### **Market risks**

Due to its banking line of business, the company is exposed to market risks, which are defined as the effects on the bank's financial condition due to significant fluctuations in interest rates, inflation and the exchange rate. The Bank has a specialized area to minimize these risks with limits on the net positions in foreign currency, UF and nominal pesos and other models that measure the Bank's sensitivity to fluctuations in the exchange rate and interest rates.

This limits are reviewed fortnightly by members of the Board and the Bank's senior management in a specialized committee and they are measured by an area that is independent of the business divisions. Also, the Bank has implemented warning systems and action plans in the event that any internal or regulatory limits are exceeded.

Finally, there are regulations in the General Banking Law and from the Central Bank that limit the exposure of banks to these factors.

#### Events in other countries

The prices of assets in Chile, even for banks, is influenced to a certain point by economic, political and social events in other Latin American countries, the United States and the large economies in Asia and Europe. This is due to the indirect effects on the rhythm of growth of the local economy on the local companies that invest in these countries and therefore, on the Bank's financial condition.

#### Restrictions on the banking line of business or changes in banking regulations

The Chilean banking industry, as occurs in most developed countries, is highly regulated. In particular, the local banking industry is subject to the regulations and rules imposed by the General Banking Law, by the Law on Public Companies, by the SBIF and by the Central Bank. Therefore, future changes to these laws or new regulations imposed by these entities could have an adverse effect on the company's financial status or restrict its entry into new lines of business.

#### Risks associated with the banking business

The Bank has tended to orient itself more towards retail banking, since the highest profits are obtained in this business area. In this way, approximately 66.0% of the Bank's

loans correspond to individuals and SMEs. Our current business strategy points towards selectively increasing revenue from these segments. For this reason it is to be expected that the current non-performing portfolio and charge-off levels tend to increase in the future.

The Bank's business strategy has close ties to the global and local economic situation; therefore, it adapts to changes in the surroundings in order to permit the Bank to benefit from business opportunities that may arise, as well as safeguarding itself from potential threats.

Another important aspect to consider is the increase in the competition of non-bank players, which has become more evident in consumer credits. This is how department stores and supermarkets, among others, have increased their presence in this business, which should clearly continue to grow. For this reason we believe that the consolidation of the industry will give rise to increasingly larger competitors.

#### Other operational risks

The Bank, like any large operation, is exposed to various operational risks, including fraud, failure of internal controls, loss or incorrect handling of documents, failures in the IT systems, errors by employees, etc. It is important to highlight that the Bank has a specialized area in order to minimize these operational risks, the Operational Risks Department, which is supported by Internal Audit, and acts independently and reports directly to the Audit Committee.

#### Income Attributable to Equity Holders

As indicated in the financial statements, the Income Attributable to the Bank's Equity Holders is the sum of \$472,351 million.

#### Dividends policy

The Bank's dividends policy is to distribute at least 30.0% of the profits of the financial year, in accordance with the current regulations on dividends established in the Law on Public Companies and the General Banking Law.

#### Essential events

During the 2016 financial year, Banco Santander-

Chile reported the following essential events:

1. On March 16, 2016, it was reported that in the ordinary Board meeting of Banco Santander-Chile, held on March 15, the director Víctor Arbulú Crousillat resigned as director. Due to his resignation and the earlier vacancy due to the resignation of Lisandro Serrano Spoerer, the Board named Andreu Plaza López and Ana Dorrego de Carlos as directors. It was also reported that due to the resignation of Víctor Arbulú Crousillat, Mauricio Larraín Garcés was appointed as a member of the Audit Committee in his replacement.
2. On March 16, 2016, it was reported that in its ordinary meeting held on March 15, 2016, the Board agreed to hold an Ordinary Shareholders' Meeting on April 26, 2016, in order to address, among other issues, the proposition of distributing





a dividend of \$1.42919851 per share, corresponding to 60% of the profits from the 2015 financial year and using the remaining 40% to increase the Bank's reserves.

3. On April 1 it was reported that in the extraordinary Board meeting held on March 31, in relation to the essential event informed on March 16, on the proposal to distribute dividends, it was instead agreed to propose to the Ordinary Meeting to be held on April 26 that the dividend to distribute be of \$1.78649813 per share, corresponding to 75% of the profits of the 2015 financial year and using the remaining 25% to increase the Bank's reserves.
4. On April 27, it was reported that the Ordinary Shareholders' Meeting of Banco Santander, held on April 26, 2016, appointed the directors Ana Dorrego de Carlos and Andreu Plaza López, who had been previously appointed by the Board. In the same way, it was reported that the Meeting agreed to distribute a dividend of \$1.78649813 per share and designate the company Pricewaterhouse Coopers Consultores, Auditores y Compañía Limitada, as the external auditors of the Bank and its subsidiaries for the 2016 financial year.
5. On December 20 it was reported that in the Board meeting held on that same date, the Board agreed to call an Extraordinary Shareholders' Meeting, to be held on January 9, 2017, in order to address the following issues:

- a. Modify the Bank's trade name, only insofar as eliminating the possibility of using the names Banco Santander Santiago or Santander Santiago;
- b. Decrease the number of directors from eleven to nine, maintaining the two alternate directors, and the consequential modification of other associated statutory clauses, proposing that the current directors continue to hold their positions until the next Board elections, pursuant to that indicated in the company statutes;
- c. Update the company capital established in the statutes in accordance with the revaluation of own capital done between January 1, 2002 and December 31, 2008;
- d. Suppress transitory statutory clauses that have already fulfilled their purpose;
- e. Modify other aspects of the statutes to adapt them to current legal regulations;
- f. Considering the modifications of the previous numbers, approve a consolidated and updated text of the Bank's statutes;
- g. Report on the operations to which Title XVI of Law on Public Companies refers, and
- h. Adopt other agreements and grant the powers necessary to comply with and carry out the agreements made in this Meeting.

### **Operations with related parties communicated as essential events**

The operations with related parties correspond mainly to technology contracts with Isban España, Produban

México, Produban España, Produban Brasil and Isban México, for the maintenance of the Bank's systems and for the development of certain applications. The Santander Group has a common IT architecture and platforms for the entire organization at world and regional levels, which provides synergies and greater security in product development, systems maintenance and data processing. All contracts with these companies are reviewed by the Audit Committee, which ensures that they are done in terms that are fair for all parties. For this, it has reports from the Bank's specialized areas and also from independent entities, and external consultancies hired by the Committee itself.

1. The main services contracted with these Group "factories" are the following:
  - a. On January 20 it was reported that in the Board meeting held on January 19, 2016, the Board approved the following operations:
    - With the company Produban México, a service contract to address the

- implementation requirements of the Processes Platform(BankSphere);
- With the company Isban España, a contract for the local management systems plan, to enrich the MIS V2.0 system with new functionalities, a professional services contract for the documentary management of the set of regulations and techniques that enable the administration of the flow of documents throughout its lifecycle; professional services contract for the development of Phase II of the Corporate Payments Project, to provide the Bank with a robust payments engine, used by multiple channels.
- b. On March 16 it was reported that in the Board meeting held on March 15, 2016, the Board approved the following operations:
- With Produban España, a technological services contract named Big Data; an RDA dictionary contract, and a contract for Tallyman expansion, storage.
  - With Isban España, a technological services contract for a corporate system of payments in currency; a contract for segmented App, a contract for ATM deposits validation of deposits, a contract for micro payments in the mobile App, a contract for RDA market risk analysis, a contract for Tallyman implementation services, a contract for mutual funds investment and withdrawals and mobile App and a contract for RDA Norkom.
- c. On June 22, it was reported that in the Board meeting dated June 21, 2016, the Board approved the following operations:
- With the company Produban Brasil, a service management contract for SAS Environment Expansion, Police Auditor Implementation, Migration of Security Operation Center to Produban Brasil and Implementation of Moodys tool.
  - With the company Isban España, a contract for Online and Batch KYC alerts, New Reimbursement Flow in Global Confirming, Advance in installments mobile App, RDA Project, Treasury Multicurrency Fixed Income project, Company Bank Draft Project, MIS Quality Controls Project, Accounting Reconciliation Exchange Model project and Input of Complaints and Follow-up via the App.
- d. On September 30, it was reported that at the Board meeting held on September 29, 2016, the Board approved the following operations:
- With the company Isban España, a service contract for “Tallyman Support”, “ATM Deposits Support”, “App Transfers in Actimize” and “Interface with Micro Covers”.
  - With the company Produban España, a service contract for the implementation of the replacement of the audio recording in VOX Four. Three with the company Produban Brasil, a service contract for “ATM Deposits Monitoring”.
- e. On October 20 it was reported that in the Board meeting held on October 18, 2016, the Board approved the following operations:
- With the company Isban España, a service contract for Improvements large-scale Payments in Payment Systems, EMIR Project, Multi-currency Fixed Income Project and Persons App-Public Mailbox.
  - With the company Produban España, a service contract for Swift Migration from Produban México to Spain, and improvement of BIG DATA Infrastructure.
  - With the company Produban Brasil, a service contract for the implementation of the prevention tool “Preventive Advanced Attacks”.
- f. On November 16, it was reported that in the Board meeting dated November 15, 2016, the Board approved the following operations:
- With Isban España, a technological service contract for the development of the App Projects, Automation Bloomberg to Murex flow and Virtual Mailbox-Online Certificates.
  - With the company Isban México, a service contract for technological development associated with the
  - Uploading Campaigns and the Triggers process.





**FINANCIAL  
STATEMENTS  
2016**



## Report by the Independent Auditor

### To the Board of Directors and Shareholders of Banco Santander Chile

We have audited the appended consolidated financial statements of Banco Santander Chile and its subsidiaries, which include the consolidated statement of financial position at December 31, 2016 and the corresponding consolidated statements of income, comprehensive income, changes in equity and cash flows for the year ended on that date and the corresponding notes to the consolidated financial statements.

### Responsibility of Management for the consolidated financial statements

Management is responsible for the preparation and reasonable presentation of these consolidated financial statements in accordance with the accounting regulations and instructions issued by the Superintendencia of Banks and Financial Institutions. This responsibility includes the design, implementation and maintenance of a pertinent internal control for the preparation and reasonable presentation of consolidated financial statements that are free from significant error, whether due to fraud or error.

### The auditor's responsibility

Our responsibility consists of expressing an opinion on these consolidated financial statements on the basis of our audit. We have conducted our audit in accordance with generally accepted auditing standards in Chile. These standards require us to plan and carry out our work in order to obtain a reasonable degree of certainty that the consolidated financial statements are free from significant error.

An audit involves carrying out procedures to obtain audit evidence on systems and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's opinion, including the assessment of the risk of significant error in the financial statements, whether due to fraud or error. When making these risk assessments, the auditor considers the pertinent internal control for the preparation and reasonable presentation of the entity's consolidated financial statements, in order to design appropriate audit procedures, but without the purpose of expressing an opinion on the effectiveness of the entity's internal control. As a consequence, we will not express such an opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonability of the significant accounting estimates made by Management, as well as an evaluation of the general presentation of the consolidated financial statements.

We consider that the audit evidence we have obtained is sufficient and appropriate to provide us with a basis for our opinion.

### Opinion

In our opinion, the aforementioned consolidated financial statements reasonably present, in all significant aspects, the financial position of Banco Santander Chile and its subsidiaries at December 31, 2016, and the results of its operations and the cash flows for the year ended on that date, in accordance with the accounting regulations and instructions issued by the Superintendencia of Banks and Financial Institutions.

### Other matters

The consolidated financial statements of Banco Santander Chile and affiliated companies for the year ended on December 31, 2015 were audited by other auditors, who issued an opinion without provisos in its report dated January 18 2016. That report contained a paragraph emphasizing the constitution of additional provisions for the placements portfolio, in accordance with that established in section B-1 of the accounting regulations compendium of the Superintendencia of Banks and Financial Institutions.

Febrero 26, 2017  
Santiago, Chile

Roberto J. Villanueva B.  
RUT: 7.060.344-6

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

For the financial years ended

		At December 31	
	NOTE	2016 MM\$	2015 MM\$
<b>Assets</b>			
Cash and deposits in banks	4	2,279,389	2,064,806
Cash items in process of collection	4	495,283	724,521
Trading investments	5	396,987	324,271
Investments under resale agreements	6	6,736	2,463
Financial derivative contracts	7	2,500,782	3,205,926
Interbank loans, net	8	272,635	10,861
Loans and accounts receivable from customers, net	9	26,113,485	24,535,201
Available for sale investments	10	3,388,906	2,044,411
Held-to-maturity investments		-	-
Investments in associates and other companies	11	23,780	20,309
Intangible assets	12	58,085	51,137
Property, plant and equipment	13	257,379	240,659
Current taxes	14	-	-
Deferred taxes	14	372,699	331,714
Other assets	15	840,499	1,097,826
<b>Total assets</b>		<b>37,006,645</b>	<b>34,654,105</b>
<b>Liabilities</b>			
Deposits and other demand liabilities	16	7,539,315	7,356,121
Cash items in process of being cleared	4	288,473	462,157
Obligations under repurchase agreements	6	212,437	143,689
Time deposits and other time liabilities	16	13,151,709	12,182,767
Financial derivative contracts	7	2,292,161	2,862,606
Interbank borrowings	17	1,916,368	1,307,574
Issued debt instruments	18	7,326,372	5,957,095
Other financial liabilities	18	240,016	220,527
Current taxes	14	29,294	17,796
Deferred taxes	14	7,686	3,906
Provisions	20	308,982	329,118
Other liabilities	21	795,785	1,045,869
<b>Total liabilities</b>		<b>34,108,598</b>	<b>31,889,225</b>
<b>Equity</b>			
<b>Attributable to the Bank's equity holders:</b>		<b>2,868,706</b>	<b>2,734,699</b>
Capital	23	891,303	891,303
Reserves	23	1,640,112	1,527,893
Valuation accounts	23	6,640	1,288
<b>Retained profit</b>		<b>330,651</b>	<b>314,215</b>
Retained earnings from prior years		-	-
Income for the year		472,351	448,878
Less: Provision for mandatory dividends	23	(141,700)	(134,663)
<b>Non-controlling interest</b>	<b>25</b>	<b>29,341</b>	<b>30,181</b>
<b>Total equity</b>		<b>2,898,047</b>	<b>2,764,880</b>
<b>Total liabilities and equity</b>		<b>37,006,645</b>	<b>34,654,105</b>

## STATEMENT OF THE CONSOLIDATED INCOME FOR THE YEAR

For the financial years ended on

December 31

	NOTE	2016 MM\$	2015 MM\$
<b>Operating profit</b>			
Interest income	26	2,137,044	2,085,988
Interest expense	26	(855,678)	(830,782)
<b>Net interest income</b>		<b>1,281,366</b>	<b>1,255,206</b>
Fee and commissions income	27	431,184	402,900
Fee and commissions expense	27	(176,760)	(165,273)
<b>Net fee and commission income</b>		<b>254,424</b>	<b>237,627</b>
Net income (expense) from financial operations	28	(367,034)	(457,897)
Net foreign exchange gain (loss)	29	507,392	603,396
Other operating income	34	18,299	15,642
<b>Net operating profit before provision for loan losses</b>		<b>1,694,447</b>	<b>1,653,974</b>
Provisions for loan losses	30	(343,286)	(413,694)
<b>Net operating profit</b>		<b>1,351,161</b>	<b>1,240,280</b>
Personnel salaries and expenses	31	(395,133)	(387,063)
Administrative expenses	32	(226,413)	(220,531)
Depreciation and amortization	33	(65,359)	(53,614)
Impairment of property, plant, and equipment	33	(234)	(21)
Other operating expenses	34	(85,198)	(54,197)
<b>Total operating expenses</b>		<b>(772,337)</b>	<b>(715,426)</b>
<b>Operating income</b>		<b>578,824</b>	<b>524,854</b>
Income from investments in associates and other companies	11	3,012	2,588
<b>Income before tax</b>		<b>581,836</b>	<b>527,442</b>
Income tax expense	14	(107,120)	(75,301)
<b>Net income for the year</b>		<b>474,716</b>	<b>452,141</b>
Attributable to:			
Equity holders of the Bank		472,351	448,878
Non-controlling interest	25	2,365	3,263
Earnings per share attributable to the Bank's equity holders (expressed in pesos)			
Basic earnings	23	2,507	2,382
Diluted earnings	23	2,507	2,382

**GRI INDICATOR**

**2016**

GRI Indicator 3.1	Description	Page reference	Global agreement principle	Explanation	
<b>1. STRATEGY AND ANALYSIS</b>					
1.1	Declaration of the highest authority for decision-making within the organization.	8-11, 12-15			
1.2	Description of the main sustainability impacts, risks and opportunities.	23, 26-29, 31-32, 54, 58-63, 64, 65, 66			
<b>2. THE ORGANIZATION'S PROFILE</b>					
2.1	Name of the organization.	129, back cover			
2.2	Primary brands, products and/or services.	4,5, 48-49			
2.3	Operating structure of the organization, including the main divisions, operating entities, subsidiaries and joint ventures.	20-21, 48-49			
2.4	Localization of the organization's main headquarters.	Back cover			
2.5	Number of countries in which the organization operates and name of the countries in which it carries out significant activities.	116	This Principle is not specified in a COP	The information submitted for this indicator refers to the Santander Group.	
2.6	Nature of ownership and legal form.	129		The information submitted for this indicator refers to the Santander Group.	
2.7	Markets served.	116		Page 117 provides this information on the Santander Group throughout the world.	
2.8	Dimensions of the informing organization.	4-5, 44-45, 86, 100-101, 116-117		There were no changes in this in 2016.	
2.9	Significant changes during the period covered by the report regarding size, structure and ownership.				
2.10	Awards and distinctions received during the period reported on.	6-7			
<b>3. REPORT PARAMETERS</b>					
<b>REPORT PROFILE</b>					
3.1	Period covered by the information contained in the report.			This Principle is not specified in a CoP	January 1 to December 30, 2015.
3.2	Date of the most recent previous report.				January 1 to December 30, 2015.
3.3	Cycle of presentation of reports.		Annual		
3.4	Point of contact for matters associated with the report or its contents.		Back Cover		
<b>SCOPE AND COVER OF THE REPORT</b>					
3.5	Process of definition of the content of the report.	123			
3.6	Scope of the report.	123			
3.7	Indicate the existence of limitations on the scope or cover of the report.	123			
3.8	The base for including information in the case of joint ventures, subsidiaries, rented facilities, subcontracted activities and other entities that can significantly affect comparability between periods and/or between organizations.		This Principle is not specified in a CoP	The information submitted is clearly established and defined, so it does not affect comparability.	
3.9	Techniques for measuring data and bases for calculations.	123			
3.10	Description of the effect that any reformulation of information contained in previous reports may have, and the reasons.	4, 103, 113			
3.11	Significant changes associated with previous periods regarding the scope, cover or valuation methods applied in the report.	4, 103, 113			

GRI Indicator 3.1	Description	Page reference	Global agreement principle	Explanation
<b>GRI CONTENT INDEX</b>				
3.12	Table indicating the location of the basic content of the report (index).	2-3	This Principle is not specified in a CoP	
<b>VERIFICATION</b>				
3.13	Current policy and practice in relation to the request for external verification of the report.		This Principle is not specified in a CoP	Banco Santander does not apply external verification.

#### 4. GOVERNANCE, COMMITMENTS AND PARTICIPATION OF THE GROUPS OF INTEREST

##### GOVERNANCE

4.1	The organization's governance structure, including the committees of the highest governance entity.	24-25	P 1-10	
4.2	Functions of the most senior executive.	25	P 1-10	
4.3	Unit management structure.	16-19, 25	P 1-10	
4.4	Mechanisms of shareholders and employees to communicate recommendations or indications to the highest governance body.	29, 131	P 1-10	
4.5	Link between the compensation paid to the members of the highest governance entity, senior management and executives and the performance of the organization.	30-31, 130	P 1-10	
4.6	Procedures implemented to avoid conflicts of interest in the highest governance entity.	23, 29, 130, 131	P 1-10	
4.7	Procedure to determine the training and experience required from the members of the highest governance entity.	25	P 1-10	
4.8	Mission statements and values developed internally, codes of conduct and principles that are relevant for economic, environmental and social performance.	23, 31, 32, 40, 46, 64-67, 131	P 1-10	
4.9	Procedures of the highest governance entity to supervise the organization's identification and management of economic, environmental and social performance.	26, 27, 28	P 1-10	
4.10	Procedures to assess the performance of the highest governance entity, especially regarding economic, environmental and social performance.	25	P 1-10	

##### COMMITMENTS TO EXTERNAL INITIATIVES

4.11	Description of how the organization has adopted a prevention measure proposal or principle.	56, 66, 103, 113	P 7	
4.12	External social, environmental and economic principles or programs, as well as any other external initiative that the organization signs or approves.	56, 108-109, 113	P 1 y 10	
4.13	Principal association to which it belongs and supports.	56	P 1 y 10	



GRI Indicator 3.1	Description	Page reference	Global agreement principle	Explanation
<b>PARTICIPATION OF THE GROUPS OF INTEREST</b>				
4.14	Relationship with the groups of interest that the organization has included.	41, 55, 120-121	This Principle is not specified in a CoP	
4.15	Basis for the identification and selection of groups of interest with those that the organization commits to.	41, 55		
4.16	Focuses adopted for the inclusion of groups of interest, including the frequency of their participation by type and category of group of interest.	41, 55		
4.17	Main concerns and aspects of interest arising from the participation of the groups of interest.			

## 5. ECONOMIC DIMENSION

<b>DMA EC</b>	Focus of economic management.	118-199, 44-45		
EC1	Direct economic value generated and distributed.	104	This Principle is not specified in a CoP	
EC2	Financial consequences and other risks and opportunities for the activities of the organization due to climate change.	66, 67	P 7	
EC3	Cover of the obligations of the organization due to social benefits programs.		This Principle is not specified in a CoP	This indicator is not recorded.
EC4	Significant financial aid received from governments.			This indicator is not recorded.

## PRESENCE ON THE MARKET

EC5	Range of ratios between initial standard salary and local minimum salary in places where significant operations are carried out.	90	P 1 y 6	
EC6	Policy, practices and proportion of spending corresponding to local suppliers.	103	P 6	
EC7	Procedures for local hiring and proportion of senior management from the local community.		P 6	The Santander Group Human Resources Corporate Model is oriented towards attracting and retaining the best professionals in countries in which it is present, so it does not have this type of specific procedure.

## INDIRECT ECONOMIC IMPACTS

EC8	Development and impact of investments in infrastructure and services provided mainly for the benefit of the public.	89, 107-109	This Principle is not specified in a CoP	
EC9	Understanding and description of significant indirect economic impacts, including the scope of these impacts.	4, 107-109		

GRI Indicator 3.1	Description	Page reference	Global agreement principle	Explanation
<b>6. ENVIRONMENTAL DIMENSION</b>				
<b>DMA</b>	Focus of environmental management	32, 54, 88, 111-112		
<b>MATERIALS</b>				
EN1	Materials used, by weight or volume.	4	P 8	
EN2	Percentage of the materials used that are valued materials.		P 8 y 9	This information is not presented in percentages, but instead in total figures, resulting from the various initiatives.
<b>ENERGY</b>				
EN3	Direct consumption of energy broken down by primary source.		P 8	Due to it being a financial industry service company, Banco Santander has no primary consumption of energy. This is provided by the various distributor companies that correspond to the location of the Bank's offices throughout Chile.
EN4	Indirect consumption of energy broken down by primary source.		P 8	This information is not considered to be material.
EN5	Energy savings due to conservation and improvements in efficiency.	4, 113	P 8 y 9	
EN6	Initiatives to provide efficient products and services for the consumption of energy or based on renewable energies, and the reductions in the consumption of energy as a result of these initiatives.	111-112	P 8 y 9	
EN7	Initiatives to reduce the indirect consumption of energy and the reductions obtained with these initiatives.	112-113	P 8 y 9	Only the reductions achieved in some of the initiatives indicated are presented.
<b>WATER</b>				
EN8	Total collection of water by source.	4, 113	P 8	The source is not broken down since Banco Santander does not directly collect water. This comes from the water companies that correspond to the location of the company's offices throughout Chile.
EN9	Water sources have been significantly affected by the collection of water.			Banco Santander does not collect water directly. Its water comes from the concession holder companies that correspond to each locality.
EN10	Percentage and total volume of water recycled and reused.			Due to the nature of Banco Santander operations, the consumption of water is not very significant and therefore the focus of the actions are more on savings than on recycling and reuse.

GRI Indicator 3.1	Description	Page reference	Global agreement principle	Explanation
<b>BIODIVERSITY</b>				
EN11	Description of adjacent lands or land located within protected natural spaces or unprotected areas with high biodiversity. Indicate the location and size of lands owned, rented or that are managed which have a high biodiversity value in areas that are not protected areas.		P 8	All Banco Santander offices are located on urban land, so they do not affect protected natural spaces or areas with a high biodiversity value. Within the urban radius the company operates in compliance with the current legal environmental regulations.
EN12	Description of the most significant impacts on biodiversity in unprotected natural spaces or in unprotected areas with high biodiversity, derived from activities, products and services in protected areas and in areas with a high biodiversity value in areas that are not protected areas.		P 8	
EN13	Protected or restored habitats.		P 8	
EN14	Strategies and actions implemented and planned for the management of impacts on biodiversity.			
EN15	Number of species, broken down as a function of their danger of extinction, included on the IUCN Red List and on national lists, and whose habitats are located in areas affected by operations according to the degree of threat to the species.			
<b>EMISSIONS, DUMPS AND WASTE</b>				
EN16	Total, direct and indirect, emissions of greenhouse effect gases, in weight.	4, 113	P 8	
EN17	Other indirect emissions of greenhouse effect gases, in weight.		P 8	Banco Santander does not emit another type of greenhouse effect gas.
EN18	Initiatives to reduce the emissions of greenhouse effect gases and the reductions achieved.	11-113	P 7, 8 y 9	
EN19	Emissions of substances that destroy the ozone layer, in weight.		P 8	Banco Santander does not emit substances that damage the ozone layer.
EN20	NO, SO and other significant emissions into the air by type and weight.		P 8	Due to its activity, Banco Santander does not emit NO and SO.
EN21	Total dumping of wastewater, according to its nature and use.		P 8	All Banco Santander offices are located on urban land, so the water is collected and disposed of through the urban network.
EN22	Total weight of waste managed, according to type and treatment method.	11-113	P 8	
EN23	Total number and volume of the most significant accidental spills.		P 8	Due to its activity, Banco Santander does not generate spills.
EN24	Weight of waste that is transported, imported, exported or treated, which is considered hazardous according to the Basel Convention, annexes I, II, III and IV and percentage of waste transported internationally.		P 8	Banco Santander does not transport, import or export hazardous substances.
EN25	Identification, size, protection status and biodiversity value of water resources and related habitat, significantly affected by discharged water and runoff water from the informing organization.		P 8	Due to the nature of its operations, Banco Santander discharges water exclusively through the urban network.

GRI Indicator 3.1	Description	Page reference	Global agreement principle	Explanation
<b>PRODUCTS AND SERVICES</b>				
EN26	Initiatives to mitigate the environmental impacts of the products and services, and degree of reduction of that impact.		P 7, 8 y 9	Banco Santander offers financial services that do not have significant environmental impacts.
EN27	Percentage of products sold, and their packaging materials, that are recovered at the end of their useful life, by product category.		P 8 y 9	Banco Santander offers financial services and therefore its activities do not generate significant volumes of products with materials that can be recovered.
<b>REGULATORY COMPLIANCE</b>				
EN28	Cost of significant fines and number of non-monetary sanctions due to non-compliance with environmental regulations.		P 8	Banco Santander does not have any fines or sanctions for non-compliance with current environmental regulations.
<b>TRANSPORT</b>				
EN29	Significant environmental impacts of the transport of products and other goods and materials used for the organization's activities, as well as the transport of personnel.			Due to its nature, Banco Santander does not generate significant environmental impacts.
<b>GENERAL</b>				
EN30	Breakdown by type of environmental expenses and investments.			Banco Santander does not have records of this indicator during the period.
<b>7. SOCIAL PERFORMANCE INDICATORS</b>				
<b>DMA LA</b>	Information on the focus of social management	54-56, 104		
<b>WORK PRACTICE AND WORK ETHICS</b>				
LA1	Breakdown of the employee payroll by type of job, contract and region.	86	This principle is not specified in a CoP	Breakdown by region is missing.
LA2	Total number of employees and average rotation of employees, broken down by age group, sex and region.	86	P6	Breakdown by sex and region is missing.
LA3	Social benefits for full-time employees that are not offered to temporary or part-time employees, broken down by main activity.	88	This principle is not specified in a CoP	
LA15	Levels of reincorporation into work and retention after maternity or paternity leave, broken down by sex.			Banco Santander did not record the days of medical leave associated with maternity and paternity permits.
<b>COMPANY-EMPLOYEE RELATIONS</b>				
LA4	Percentage of employees covered by a collective agreement.	90	P 1 y 3	
LA5	Minimum period of prior notice for organizational changes, including whether these notifications are specified in the collective agreements.		P 3	Banco Santander does not have a policy associated with this aspect. However, important changes in the organization are communicated in advance.
<b>OCCUPATIONAL HEALTH AND SAFETY</b>				
LA6	Percentage of total workers that are represented in joint management-employee health and safety committees, established to help control and provide advice on health and safety programs at work.	90	P 1	
LA7	Absenteeism, work-related illnesses rates, days lost and number of deaths associated with the work by region.	91	P 1	

GRI Indicator 3.1	Description	Page reference	Global agreement principle	Explanation
LA8	Programs for education, training, advice, prevention and control of risks that are applied to employees, their families or to the members of the community in relation to serious illnesses.	91	P 1	
LA9	Health and safety issues covered in formal agreements with unions.	91	P 1	Breakdown per union agreement is missing.
<b>TRAINING AND EDUCATION</b>				
LA10	Average training hours per year by employee, broken down by employee category.	87		
LA11	Skills management programs and programs for continued education that promote the employability of employees and support them in the management of the end of their professional careers.	86-87	This Principle is not specified in a CoP	
LA12	Percentage of employees who receive regular performance and professional development assessments.	85		
<b>DIVERSITY AND EQUAL OPPORTUNITY</b>				
LA13	Composition of the corporate governance bodies and payroll, broken down by sex, age group, minority status and other diversity indicators.	25, 86	P 1 y 6	Further breakdown is needed for Corporate Governance (age and minority status).
LA14	Ratio between base salary of men with respect to that of women, broken down by professional category.		P 1 y 6	The policy of Banco Santander is based on internal equality and the competitiveness of employees, independent of gender.
<b>8.8. HUMAN RIGHTS</b>				
<b>DMA HR</b>	Information on the focus of the management of human rights.	32, 40, 91		
<b>INVESTMENT AND SUPPLY PRACTICES</b>				
HR1	Percentage and total number of contracts and significant investment agreements that include human rights clauses or that have been the subject of analysis regarding human rights.	103	P 1, 2, 3, 4, 5 y 6	
HR2	Percentage of main distributors and contractors that have been the subject of analysis regarding human rights, and measures adopted as a consequence.	103	P 1, 2 y 6	
HR3	Total hours of education of employees on policies and procedures related to aspects of the relevant human rights for their activities, including the percentage of employees trained.		P 1, 2, 3, 4, 5 y 6	The induction course for new hires includes a sustainability module, which provides information in this regard.
<b>NON-DISCRIMINATION</b>				
HR4	Total number of incidents of discrimination and measures taken.		P 1, 2 y 6	No discrimination incidents or associated complaints were recorded in 2016. Banco Santander also has two documents that address this subject: the Santander Group General Human Rights Policy and the General Code of Conduct. It also follows the World Agreement Principles, regarding those that include the duty to support and comply with the protection of universally recognized fundamental human rights.
<b>FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING</b>				
HR5	Company activities in which the right to freedom of association and to enter into collective agreements may run significant risks, and measures taken to support these rights.		P 1, 2 y 3	No activities of this type have been identified in the context of Banco Santander operations.

GRI Indicator 3.1	Description	Page reference	Global agreement principle	Explanation
<b>CHILD LABOR</b>				
HR6	Activities identified that include a potential risk of child exploitation incidents, and measures adopted to contribute to their elimination.		P 1, 2 y 5	This type of case has not occurred since the regulations and requirements explained for HR4 entered into effect.
<b>FORCED LABOR</b>				
HR7	Operations identified as with a significant risk of being the origin of episodes of forced labor or non-consensual labor, and the measures taken to contribute to their elimination.		P 1, 2 y 4	Due to compliance with domestic and international regulations, in addition to Banco Santander's contractual structure, there are no operations with these characteristics.
<b>SAFETY PRACTICES</b>				
HR8	Percentage of safety personnel who have been trained in the organization's policies or procedures in human rights aspects that are relevant to the activities.		P 1 y 2	Deals with information considered by Banco Santander to not be material.
<b>INDIGENOUS RIGHTS</b>				
HR9	Total number of incidents associated with violations of indigenous rights and measures adopted.		P 1 y 2	There were no incidents associated with violations of indigenous rights.
<b>ASSESSMENT</b>				
HR10	Percentage and total number of operations that have been the subject of review and/or assessment of impacts in the subject of human rights.	103		
<b>CORRECTIVE MEASURES</b>				
HR11	Number of complaints associated with human rights that have been submitted, dealt with and resolved through formal conciliation mechanisms.			There were no complaints in this regard in 2016.

## 9. SOCIETY PERFORMANCE INDICATORS

<b>DMA SO</b>	Information on the focus of management of society	54, 104, 107-110		
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### LOCAL COMMUNITIES

SO1	Percentage of operations where programs for the development, impact assessments and participation of the local community have been implemented.		This Principle is not specified in a CoP	Banco Santander does not have this figure, but it does record the "beneficiaries" of its corporate volunteering activities. And in the case of the financial education program Sanodelucas, it reported on the visitors and the number of users of this digital platform.
SO9	Operations with significant possible or real negative impacts on local communities.			Banco Santander carries out specific analyses when the risks detected so recommend. On the other hand, in order to maximize the positive impacts on society and mitigate negative impacts, it has the financial education program Sanodelucas.cl and the Santander Universities program.
SO10	Prevention and mitigation measures implemented in operations with significant possible or real negative impacts in the communities.			Banco Santander carries out specific analyses when the risks detected so advise. On the other hand, in order to maximize the positive impacts on society and mitigate negative impacts, there is the financial education program, Sandelucas.cl, and the Santander Universities program.

GRI Indicator 3.1	Description	Page reference	Global agreement principle	Explanation
<b>CORRUPTION</b>				
SO2	Percentage and total number of business units analyzed with respect to risks associated with corruption.	28, 64-67, 131-133	P 10	Applies to all sensitive business units.
SO3	Percentage of employees trained in the organization's anti-corruption policies and procedures.	65, 67	P 10	
SO4	Measures taken in response to corruption incidents.	28, 29, 65, 66	P 10	
<b>PUBLIC POLICY</b>				
SO5	Position regarding public policies and participation in their creation and lobbying activities.		P 10	Banco Santander's relationship with public institutions is coordinated through the sectorial associations to which it belongs.
SO6	Total value of the financial and in kind contributions to political parties or to related institutions, by country.		P 10	No contributions are made to political institutions.
<b>UNFAIR COMPETITION</b>				
SO7	Total number of lawsuits due to causes associated with monopolistic practices and practices against free competition, and their results.		This Principle is not specified in a CoP	The Chilean financial market is highly regulated (SBIF, SERNAC, SVS, etc.) and has many competitors, so there is no monopoly.
<b>REGULATORY COMPLIANCE</b>				
SO8	Monetary value of significant sanctions and fines and total number of non-monetary sanctions derived from non-compliance with the laws and regulations.		This Principle is not specified in a CoP	There were no fines of this type in 2016.
<b>10. PRODUCT LIABILITY PERFORMANCE INDICATORS</b>				
<b>DMA PR</b>	Focus of management of product liability	64, 95		
<b>CUSTOMER HEALTH AND SAFETY</b>				
PR1	Phases of the lifecycle of products and services in which the impacts they have on customer health and safety are assessed, to be improved if applicable, and the percentage of categories of significant products and services subject to such assessment procedures.		P 1	Santander products and services do not affect the health of its customers. Through the General Code of Conduct and internal policies, customer data and information is safeguarded, ensuring their security. In addition, regarding corporate products and services, commercialization policies avoid improper sales and ensure the follow-up of all of their phases.
PR2	Total number of incidents derived from non-compliance with the legal regulation or the voluntary codes associated with the impacts of the products and services on health and safety during their lifecycle, distributed as a function of the type of results of these incidents.		P 1	There were no incidents of this type in 2016.

GRI Indicator 3.1	Description	Page reference	Global agreement principle	Explanation
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### LABELING OF PRODUCTS AND SERVICES

PR3	Types of information on the products and services required by procedures and regulations, and percentage of products and services subject to such reporting requirements.		P 8	All financial products and services comply with the legal regulations. The details are available at <a href="http://www.santander.cl">www.santander.cl</a> .
PR4	Total number of non-compliances with regulations and voluntary codes relating to the information and labeling of products and services, distributed as a function of the type of result of certain incidents.	93	P 8	Banco Santander is a member of the National Association of Advisers, whose associated companies voluntarily comply with the Chilean Advertising Ethics Code, applied by the Advertising, Self-Regulation and Ethics Committee.
PR5	Practices regarding customer satisfaction, including the results of customer satisfaction studies.	52, 92-94	This Principle is not specified in a CoP	

### COMMUNICATIONS AND MARKETING

PR6	Programs for compliance with laws or compliance with standards and voluntary codes mentioned in marketing communications, including advertising, other promotional activities and sponsorships.		This Principle is not specified in a CoP	Banco Santander is a member of the National Association of Advisers, whose associated companies voluntarily comply with the Chilean Advertising Ethics Code, applied by the Advertising, Self-Regulation and Ethics Committee.
PR7	Total number of incidents arising from non-compliance with the regulations related to marketing communications, including advertising, promotion and sponsorship, distributed as a function of the type of result of these incidents.			There were no incidents of this type during 2016.

### CUSTOMER PRIVACY

PR8	Total number of duly supported complaints in relation to respect for privacy and leak of customers' personal information.		P1	There were no complaints of this type
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### REGULATORY COMPLIANCE

PR9	Sum of significant fines due to non-compliance with regulations in relation to the supply and use of the organization's products and services.		This Principle is not specified in a CoP	There were no fines of this type in 2016.
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## Contact information

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### Shareholders Attention

From Chile: (2) 2 320 2222  
From overseas: (56 2) 2 320 2222

### Customer Attention Service

VOX (600) 320 3000  
[www.santander.cl](http://www.santander.cl)

### Customer Ombudsman

[www.defensoriadelclientedeabif.cl](http://www.defensoriadelclientedeabif.cl)

### Banco Santander Chile

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(562) 2 3202000  
Bandera 140, Santiago, Chile  
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