BANCO SANTANDER CHILE
Form 6-K
November 07, 2011

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Issuer

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

Commission File Number: 001-14554

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

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

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

Form 20-F x Form 40-F o

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

Yes o No x

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

Yes o No x

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

Yes o No x

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

Table of Contents

Item	
1.	3Q2011 Earnings Release
2.	9M 2011 Financial Statements

2

SIGNATURE

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

BANCO SANTANDER-CHILE

By:	/s/
Name:	Juan Pedro Santa María
Title:	General Counsel

Date: November 4, 2011

3

BANCO SANTANDER CHILE
THIRD QUARTER 2011
EARNINGS REPORT

INDEX

SECTION	PAGE
SECTION 1: SUMMARY OF RESULTS	2
SECTION 2: BALANCE SHEET ANALYSIS	6
SECTION 3: ANALYSIS OF QUARTERLY INCOME STATEMENT	9
SECTION 4: CREDIT RISK RATINGS	16
SECTION 5: SHARE PERFORMANCE	17
ANNEX 1: NEW PROVISIONING MODEL FOR RESIDENTIAL MORTGAGE LOANS	18
ANNEX 2: BALANCE SHEET	19
ANNEX 3: YEAR-TO-DATE INCOME STATEMENT	20
ANNEX 4: QUARTERLY INCOME STATEMENTS	21
ANNEX 5: QUARTERLY EVOLUTION OF MAIN RATIOS AND OTHER INFORMATION	22

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SECTION 1: SUMMARY OF RESULTS

3Q11: preparing for a more challenging environment

In the nine-month period ended September 30, 2011 (9M11), net income attributable to shareholders[1] totaled Ch$332,963 million (Ch$1.77 per share and US$3.56/ADR[2]) and decreased 13.1% compared to net income in the same period of 2010. Return on average equity reached 23.8% in 9M11, among the highest returns in the Chilean financial system. The efficiency ratio in 9M11 reached 38.4%.

In 3Q11, net income attributable to shareholders totaled Ch$75,153 million (Ch$0.40 per share and US$0.80/ADR). Compared to 2Q11 (from now on QoQ) net income decreased 46.9%. Compared to 3Q10 (from now on YoY) net income decreased 40.0%. Several non-recurring items and a cautious stance regarding risks affected these results.

Our outlook for Chile in 2012 continues to be positive, with GDP expected to expand 4.5% and inflation to be close to 3.0%. Nonetheless, the Bank focused its actions on 4 main points in the quarter in order to maintain sustainable levels of high profitability in 2012: (i) Liquidity, (ii) Capital, (iii) Selective loan growth and spreads, and (iv) Prudent risk policies. This process is very similar to the approach we carried out in the 2008-2009 period.

I.Focus on liquidity

Core deposits grow 6.9% QoQ and 30.9% YoY

Total deposits increased 4.4% QoQ. In the quarter, the Bank continued to focus on increasing its core deposit base (non-institutional deposits). These cheaper deposits led growth and expanded 6.9% QoQ and 30.9% YoY, representing more than 70% of the Bank's deposit base. The Bank's loan to deposit ratio (measured as loans minus marketable securities that fund mortgage portfolio over total deposits[3]) improved to 94.8% as of September 2011 compared to 96.8% as of June 2011 and 100.9% in September 2010.

The Bank's market share in total deposits has increased 36 basis points in the last 12 months to 18.7%. Throughout 2011, funding costs in the banking system have risen due to higher short-term interest rates, but the Bank's funding costs have increased at a slower pace given the focus on core deposit growth. We currently have opened a gap of 20 basis points in average cost of funds compared to the rest of the Chilean banking system.

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1 The results in this report are unaudited.
2 Earnings per ADR was calculated using the Observed Exchange Rate of Ch$515.14 per US$ as of September 30, 2011.
3 Mortgage loans in Chile are long-term fixed rate loans. Therefore, we consider it to be more conservative form a market risk and liquidity stand point to fund these loans with long-term fixed rate bonds and not short-term variable rate deposits.

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Average cost of funds

Cost of funds: Interest expenses / total liabilities annualized. Competition includes all Chilean banks minus Santander. Source of data: Superintendency of Banks of Chile (SBIF)

Surplus liquidity tops US$3 billion

In the quarter, the Bank's deposit base increased at a faster pace than its loans. This additional liquidity was temporarily invested in Chilean sovereign risk. The Bank's surplus liquidity, defined as financial investments minus non-structural liabilities, averaged US$3.0 billion in the quarter.

II.Focus on core capital

Core capital at 10.2%. ROAE in 9M11 at 23.8%

The Bank currently has one of the highest capitalization levels in the Chilean financial system. Voting common shareholders' equity is the sole component of our Tier I capital. The Bank core capital ratio reached 10.2%, increasing 40 bp QoQ. The Bank implemented a series of measures to boost core capital ratios by optimizing risk-weighted assets. As a result, the BIS ratio reached 13.9% as of September 30, 2011 compared to 13.4% as of June 2011. ROAE in the nine-month period ended September 30, 2011 reached 23.8%.

III. Focus on selective loan growth and spreads

In 3Q11, total loans increased 1.5% QoQ and 16.1% YoY. The Bank has been following a more selective approach to loan growth given the market uncertainty, while continuing to focus on retail lending activities. Higher yielding loans to individuals increased 2.1% QoQ in 3Q11. This loan growth was led by lending to middle and upper income individuals, which expanded 2.2% QoQ. Lending to Santander Banefe slowed in the quarter and grew 1.3% QoQ. Lending to SMEs led growth in retail lending and expanded 2.8% QoQ. In the middle market, loans grew 2.9% QoQ (18.1% YoY). This year the Bank is obtaining attractive returns in this segment given the positive evolution of credit risk and spreads.

Rising spreads

The Banks net interest margin in the quarter reached 4.6% compared to 5.2% in 2Q11. The Bank's margins in the quarter were negatively affected by lower QoQ inflation rates, as the Bank has more assets than liabilities linked to inflation. Inflation in the quarter descended from 1.44% in 2Q11 to 0.56% in 3Q11. For every 100 bp decline in inflation, net interest income falls by approximately Ch$25 billion. The increase in the Bank's surplus liquidity has also temporarily reduced the Bank's net interest margin.

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These negative effects on margins were partially offset by rising loan spreads (excluding the impacts of mismatches in inflation indexed assets and liabilities). Loan spreads in the quarter began to rise as the Bank implemented a stricter pricing policy in light of a potential deterioration of economic conditions and a potentially higher cost of capital. This should also help to sustain or improve margins in coming quarters.

Loan spreads*, %

Spread = Loan yield minus cost of funds and excluding impacts of inflation indexed asset and liability mismatches.

IV. Prudent credit risk policies

Risk index stable despite higher provisions

On a year-to date basis net provision expense has increased 7.6% compared to a 16.1% rise in loan growth. Provision for loan losses in the quarter increased 58.9% QoQ and 75.4% YoY. This rise was mainly due to one-time provisions expenses, the expansion of our lending volumes, especially consumer lending and more prudent credit risk policies implemented in light of a possible deterioration of the macro environment. This included restricting renegotiations and, therefore, increasing charge-offs. This also resulted in a temporary rise in NPLs, but did not affect the Bank's risk index. The Risk Index, which includes non-performing loans and additional risk parameters, remained stable QoQ at 2.94%. The Bank is required to have 100% coverage at all times of its Risk Index. The NPL ratio, which includes all loans that are more than 90 days overdue, as of September 2011 reached 2.81%. The coverage ratio of total NPLs (loan loss allowances over non-performing loans) reached 104.8% as of September 2011.

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Banco Santander Chile: Summary of Quarterly Results

	Quarter			Change %	
(Ch$ million)	3Q11	2Q11	3Q10	3Q11 / 3Q10	3Q11 / 2Q11
Net interest income	232,057	247,414	235,674	(1.5)%	(6.2)%
Fee income	65,991	72,050	66,436	(0.7)%	(8.4)%
Core revenues	298,048	319,464	302,110	(1.3)%	(6.7)%
Financial transactions, net	23,001	29,076	21,713	5.9%	(20.9)%
Provision expense	(90,372)	(56,874)	(51,525)	75.4%	58.9%
Operating expenses	(128,356)	(125,161)	(113,570)	13.0%	2.6%
Operating income, net of provisions and costs	102,321	166,505	158,728	(35.5)%	(38.5)%
Other operating & Non-op. Income	(27,168)	(24,993)	(33,372)	(18.6)%	8.7%
Net income attributable to shareholders	75,153	141,512	125,356	(40.0)%	(46.9)%
Net income/share (Ch$)	0.40	0.75	0.67	(40.0)%	(46.9)%
Net income/ADR (US$)1	0.80	1.66	1.42	(43.5)%	(51.4)%
Total loans	17,680,356	17,422,041	15,232,019	16.1%	1.5%
Deposits	13,892,003	13,306,475	11,146,945	24.6%	4.4%
Shareholders' equity	1,927,498	1,866,467	1,757,340	9.7%	3.3%
Net interest margin	4.6%	5.2%	5.7%		
Efficiency ratio	41.3%	36.5%	37.2%		
Return on average equity2	15.8%	30.5%	29.3%		
NPL / Total loans3	2.8%	2.6%	2.7%		
Coverage NPLs	104.8%	111.9%	105.1%		
Risk index4	2.94%	2.90%	2.82%		
PDLs/ Total loans5	1.27%	1.23%	1.36%		
Coverage PDLs	232.45%	235.86%	206.64%		
BIS ratio	13.9%	13.4%	14.5%		
Branches	494	487	500		
ATMs	1,892	1,946	1,914		
Employees	11,706	11,516	11,049		

1. The change in earnings per ADR may differ from the change in earnings per share due to the exchange rate movements. Earnings per ADR was calculated using the Observed Exchange Rate Ch$515.14 per US$ as of September 30, 2011.
2. Annualized quarterly Net income attributable to shareholders / Average equity attributable to shareholders.
3. NPLs: Non-performing loans; full balance of loans with one installment 90 days or more overdue.
4. Risk Index: Loan loss allowances / Total loans; measures the percentage of loans the banks must provision for given their internal models and the Superintendency of Banks guidelines.
5. PDLs: Past due loans; all loan installments that are more than 90 days overdue.

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SECTION 2: BALANCE SHEET ANALYSIS

LOANS

Selective loan growth led by retail lending to middle-upper income individuals

Loans	Quarter ended,			% Change	
(Ch$ million)	Sep-11	Jun-11	Sep-10	Sep. 11 / 10	Sep. 11 / Jun. 11
Total loans to individuals1	9,215,686	9,026,697	8,035,617	14.7 %	2.1 %
Consumer loans	2,925,659	2,893,038	2,554,884	14.5 %	1.1 %
Residential mortgage loans	5,016,419	4,909,630	4,498,799	11.5 %	2.2 %
SMEs	2,524,836	2,455,349	2,301,536	9.7 %	2.8 %
Total retail lending	11,740,522	11,482,046	10,337,153	13.6 %	2.3 %
Institutional lending	351,686	372,939	340,274	3.4 %	(5.7)%
Middle-Market & Real estate	3,731,881	3,625,439	3,160,681	18.1 %	2.9 %
Corporate	1,833,084	1,950,992	1,406,210	30.4 %	(6.0)%
Total loans 2	17,680,356	17,422,041	15,232,019	16.1 %	1.5 %

1. Includes consumer loans, residential mortgage loans and other commercial loans to individuals.
2. Total loans gross of loan loss allowances. Total loans include other non-segmented loans and excludes interbank loans.

In 3Q11, total loans increased 1.5% QoQ and 16.1% YoY. The Bank has been following a more selective approach to loan growth given the market uncertainty while continuing to focus on retail lending activities.

Loans to individuals, which include consumer, mortgage and commercial loans to high-income individuals, increased of 2.1% QoQ in 3Q11. This loan growth was driven by lending to middle and upper income individuals, which expanded 2.2% QoQ. Lending to Santander Banefe increased 1.3% QoQ as the bank adopted a more selective approach to loan growth in this segment.

Breakdown loans to individuals (Ch$ million)	Sep-11	% Change Sep. 11 / 10	% Change Sep. 11 / Jun. 11
Middle-upper income	8,420,540	14.3 %	2.2 %
Santander Banefe	795,146	18.9 %	1.3 %
Individuals	9,215,686	14.7 %	2.1 %

By product, consumer loans increased 1.1% QoQ and 14.5% YoY. In the quarter, the Bank focused on expanding its higher yielding credit card loan portfolio that increased 2.3% QoQ and 28.2% YoY. Installment loans were flat QoQ. Residential mortgage loans increased 2.2% QoQ (11.5% YoY), as long-term rates remained attractive and demand for purchasing homes continued to rise.

Lending to SMEs (defined as companies that sell less than Ch$1,200 million per year) led growth in retail lending and expanded 2.8% QoQ (9.7% YoY), reflecting the Bank's shift in focus in the quarter given market uncertainties. This segment tends to perform better in slower economic growth periods given the high level of diversification of this portfolio.

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6

In the middle market (comprised of companies with annual sales between Ch$1,200 million and Ch$10.000 million per year), loans grew a healthy 2.9% QoQ (18.1% YoY). This year the Bank is obtaining attractive returns in this segment given the positive evolution of credit risk and spreads.

Corporate lending (companies with sale over Ch$10,000 million per year or that are part of a large foreign or local economic group) decreased 6.0% QoQ (+30.4% YoY). This fall was mainly due to 3 corporate debt obligation that were paid in full as company's currently have strong liquidity levels. Non-lending activities with this segment continued to grow in the quarter. (See Funding and Financial transactions, net).

FUNDING

Focus on liquidity. Core deposits grow 6.9% QoQ and 30.9% YoY

Funding	Quarter ended,			% Change	
(Ch$ million)	Sep-11	Jun-11	Sep-10	Sep. 11 / 10	Sep. 11 / Jun. 11
Demand deposits	4,496,757	4,450,290	3,991,732	12.7 %	1.0 %
Time deposits	9,395,246	8,856,185	7,155,213	31.3 %	6.1 %
Total deposits	13,892,003	13,306,475	11,146,945	24.6 %	4.4 %
Mutual funds (off-balance sheet)	2,852,379	3,136,413	3,305,683	(13.7)%	(9.1)%
Total customer funds	16,744,382	16,442,888	14,452,628	15.9 %	1.8 %
Loans to deposits1	94.8 %	96.8 %	100.9 %		

1. (Loans - marketable securities that fund mortgage portfolio) / (Time deposits + demand deposits).

Customer funds increased 1.8% in the quarter led by a 4.4% QoQ rise in total deposits. Demand deposits increased 1.0% in the same period and time deposits were up 6.1%. In the quarter, the Bank continued to focus on increasing its core deposit base. Core deposits (non-institutional deposits) increased 6.9% QoQ and 30.9% YoY. The Bank's loan to deposit ratio (measured as loans minus marketable securities that fund mortgage portfolio over total deposits) improved to 94.8% as of September 2011 compared to 96.8% as of June 2011 and 100.9% in September 2010. The Bank's market share in total deposits has increased 36 basis points in the last 12 months to 18.7%. Mutual funds under management decreased 9.1% QoQ. This was mainly due to weak equity markets.

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SHAREHOLDERS' EQUITY AND REGULATORY CAPITAL

Core capital at 10.2%. ROAE in 9M11 at 23.8%

Shareholders' Equity	Quarter ended,			Change %	
(Ch$ million)	Sep-11	Jun-11	Sep-10	Sep. 11 / 10	Sep. 11 / Jun. 11
Capital	891,303	891,303	1,757,340	(49.3)%	0.0%
Reserves	51,538	51,538	51,539	(0.0)%	0.0%
Valuation adjustment	593	(7,831)	(13,928)	(104.3)%	(107.6)%
Retained Earnings:	984,064	931,457	828,426	18.8%	5.6%
Retained earnings prior periods	750,989	750,990	560,128	34.1%	0.0%
Income for the period	332,963	257,810	383,283	(13.1)%	29.2%
Provision for mandatory dividend	(99,889)	(77,343)	(114,985)	(13.1)%	29.2%
Equity attributable to shareholders	1,927,498	1,866,467	2,623,377	(26.5)%	3.3%
Non-controlling interest	32,293	31,171	29,599	9.1%	3.6%
Total Equity	1,959,791	1,897,638	2,652,976	(26.1)%	3.3%
Quarterly ROAE	15.8%	30.5%	23.0%		

Shareholders' equity totaled Ch$1,927,498 million (US$4.0 billion) as of September 30, 2011. ROAE in the nine-month period ended September 30, 2011 reached 23.8%. During the quarter, the Bank implemented a series of measures to boost core capital ratios by optimizing risk-weighted assets. As a result, the BIS ratio reached 13.9% as of September 30, 2011 compared to 13.4% as of June 2011 and the Bank's core capital ratio reached 10.2% as of September 2011 compared to 9.8% as of June 2011. Voting common shareholders' equity is the sole component of our Tier I capital.

Capital Adequacy	Quarter ended,			Change %	
(Ch$ million)	Sep-11	Jun-11	Sep-10	Sep. 11 / 10	Sep. 11 / Jun. 11
Tier I (Core Capital)	1,927,498	1,866,467	1,757,340	9.7%	3.3%
Tier II	715,184	669,798	672,740	6.3%	6.8%
Regulatory capital	2,642,682	2,536,265	2,430,080	8.7%	4.2%
Risk weighted assets	18,954,146	18,964,803	16,739,710	13.2%	(0.1)%
Tier I (Core capital) ratio	10.2%	9.8%	10.5%		
BIS ratio	13.9%	13.4%	14.5%		

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SECTION 3: ANALYSIS OF QUARTERLY INCOME STATEMENT

NET INTEREST INCOME

Net interest margins negatively affected by lower inflation in the quarter and higher levels of liquidity. Loan spreads rising.

Net Interest Income / Margin	Quarter			Change %	
(Ch$ million)	3Q11	2Q11	3Q10	3Q11 / 3Q10	3Q11 / 2Q11
Interest income	420,729	472,132	355,445	18.4 %	(10.9)%
Interest expense	(188,672)	(224,718)	(119,771)	57.5 %	(16.0)%
Net interest income	232,057	247,414	235,674	(1.5)%	(6.2)%
Average interest-earning assets	20,068,322	19,099,828	16,463,951	21.9 %	5.1 %
Average loans	17,460,992	17,146,712	14,874,816	17.4 %	1.8 %
Interest earning asset yield1	8.4 %	9.9 %	8.6 %		
Cost of funds2	4.1 %	5.2 %	2.8 %		
Net interest margin (NIM)3	4.6 %	5.2 %	5.7 %		
Avg. equity + non-interest bearing demand deposits / Avg. interest earning assets	31.3 %	33.6 %	34.7 %		
Quarterly inflation rate5	0.56 %	1.44 %	0.65 %		
Central Bank reference rate	5.25 %	5.25 %	2.50 %		
Avg. 10 year Central Bank yield (real)	2.63 %	2.90 %	2.82 %		

1. Interest income divided by interest earning assets.
2. Interest expense divided by interest bearing liabilities + demand deposits.
3. Net interest income divided by average interest earning assets annualized.
4. Net interest income net of provision expenses divided by interest earning assets.
5. Inflation measured as the variation of the Unidad de Fomento in the quarter.

Net interest income decreased 6.2% QoQ and 1.5% YoY. The Net interest margin (NIM) in 3Q11 reached 4.6% compared to 5.2% in 2Q11. Compared to 3Q10, the decline in net interest income and NIM was mainly due to higher short-term interest rates. The Central Bank has increased short-term interest rates by 300 basis points to 5.25% in the last twelve months. The Bank's liabilities have a shorter duration than assets and, therefore, re-price more quickly in a rising interest rate environment. This has increased funding costs as reflected in the 57.5% YoY rise in interest expense in the quarter. Interest income on the other hand has increased 18.4% slightly above the 17.4% YoY increase in average loans. To offset this, the Bank focused on increasing core deposit base. We have currently opened a gap of 20 basis points in average cost of funds compared to the rest of the Chilean banking system.

Compared to 2Q11, the decrease in the Bank's net interest income and NIM was mainly due to: (i) the lower QoQ inflation rates, which negatively affected margins, as the Bank has more assets than liabilities linked to inflation. Inflation in the quarter descended from 1.44% in 2Q11 to 0.56% in 3Q11. For every 100 bp decline in inflation, net interest income falls by approximately Ch$25 billion. This more than offset in the quarter rising loan spreads, which are gradually incorporating the higher interest rate environment. (ii) The increase in the Bank's surplus liquidity has also temporarily reduced the Bank's net interest margin. The Bank deposit base has increased 24.6% YoY and 4.4% QoQ compared to a 17.4% YoY and 1.8% QoQ increase in average loans.

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9

This additional liquidity has been temporarily invested in sovereign Chilean risk. The Bank's surplus liquidity, defined as financial investments minus non-structural liabilities, averaged US$3.0 billion in the quarter.

Surplus liquidity (US$ million)

Surplus liquidity: Financial investments minus non-structural liabilities

The negative effects on margins were partially offset by rising loan spreads (excluding the impacts of mismatches in inflation indexed assets and liabilities). Loan spreads in the quarter began to rise as the Bank implemented a stricter pricing policy in light of a potential deterioration of economic conditions. This should also help to sustain or improve margins in coming quarters.

Loan spreads*, %

Spread = Loan yield minus cost of funds and excluding impacts of inflation indexed asset and liability mismatches. Excludes corporate banking

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PROVISION FOR LOAN LOSSES

Risk index stable despite higher provisions. Provision expense in 3Q11 affected by various one-time expenses

Provision for loan losses	Quarter			Change %	
(Ch$ million)	3Q11	2Q11	3Q10	3Q11 / 3Q10	3Q11 / 2Q11
Gross provisions	(18,628)	1,040	(9,974)	86.8%	(1891.2)%
Charge-offs	(77,466)	(62,577)	(49,568)	56.3%	23.8%
Gross provisions and charge-offs	(96,094)	(61,537)	(59,542)	61.4%	56.2%
Loan loss recoveries	5,722	4,663	8,017	(28.6)%	22.7%
Net provisions for loan losses1	(90,372)	(56,874)	(51,525)	75.4%	58.9%
Total loans2	17,680,355	17,422,041	15,232,019	16.1%	1.5%
Loan loss allowances1	520,565	505,887	428,833	21.4%	2.9%
Non-performing loans3 (NPLs)	496,786	452,150	407,831	21.8%	9.9%
Risk Index4	2.94%	2.90%	2.82%		
NPL / Total loans	2.81%	2.60%	2.68%		
Coverage ratio of NPLs5	104.8%	111.9%	105.1%		

1. The Bank reclassified Ch$ 31,162 million in provision reversals for off balance sheet lines of credit recognized in 3Q10 as Other operating income to Provisions for loan losses as required by the SBIF.
2. Excludes interbank loans.
3. NPLs: Non-performing loans; full balance of loans with one installment 90 days or more overdue.
4. Risk Index: Loan loss allowances / Total loans; measures the percentage of loans the banks must provision for given their internal models and the Superintendency of Banks guidelines.
5. Loan loss allowances / NPLs.

Provision for loan losses in the quarter increased 58.9% QoQ and 75.4% YoY. On a year-to date basis net provision expense has increased 7.6% compared to a 16.1% rise in loan growth. The QoQ increase was mainly due to:

i. Strengthening of the residential mortgage provisioning model. As announced in our 2Q11 earnings report, the Bank improved its provisioning model for residential mortgage lending. This change was done in line with our strategic objective of accompanying our loan growth in retail lending with a proactive stance regarding credit risk. This signified a one-time provision expense of approximately Ch$10,000 million in 3Q11. The Bank migrated to a model with more parameters to determine the risk level of a client with a mortgage loan. Previously, the main factor for determining the reserve level was non-performance. For more details on the new model, see Annex 1.
ii. Higher provisions in the middle-market. In 3Q11, the bank set aside Ch$4,000 million in provisions for two deteriorated loan positions in the middle market. We do not expect further provisions for these cases in the future.
iii. Provisions related to La Polar. The Bank set aside a further Ch$600 million in provisions for this loan position in 3Q11.
iv. Translation loss of provisions in US$. In the quarter, the Chilean peso depreciated 9%. As some large commercial loan positions are denominated in US$ and, since the Bank must set aside minimum provisions for all large loans analyzed on an individual basis, this resulted in Ch$4,600 million in higher provision directly related to the depreciation of the exchange rate.

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11

Excluding these one-time items, the adjusted provision expenses increased 38.1% QoQ and 25.1% YoY in 3Q11. This rise was mainly due to one-time provisions expenses, the expansion of our lending volumes, especially consumer lending and more prudent credit risk policies implemented in light of a possible deterioration of the macro environment. This included restricting renegotiations and, therefore, increasing charge-offs. This also resulted in a temporary rise in NPLs, but did not affect the Bank's risk index. The Risk Index, which measures the percentage of loans the banks must provision for given their internal models and the Superintendency of Banks guidelines, remained stable QoQ at 2.94%. We are required to have 100% coverage at all times of its Risk Index. The NPL ratio as of September 2011 reached 2.81%. The coverage ratio of total NPLs (loan loss allowances over non-performing loans) reached 104.8% as of September 2011.

Risk Index vs NPLs, %

NPLs: Non-performing loans; full balance of loans with one installment 90 days or more overdue.
Risk Index: Loan loss allowances / Total loans; measures the percentage of loans the banks must provision for given their internal models and the Superintendency of Banks guidelines.

NET FEE INCOME

Market conditions and the temporary slowdown in loan originations affected fee income

Fee Income	Quarter			Change %	
(Ch$ million)	3Q11	2Q11	3Q10	3Q11 / 3Q10	3Q11 / 2Q11
Collection fees	14,684	16,215	15,324	(4.2)%	(9.4)%
Credit, debit & ATM card fees	14,383	16,079	13,518	6.4%	(10.5)%
Checking accounts & lines of credit	10,020	10,025	10,604	(5.5)%	(0.0)%
Asset management	8,796	10,179	10,063	(12.6)%	(13.6)%
Insurance brokerage	7,955	9,574	8,683	(8.4)%	(16.9)%
Guarantees, pledges and other contingent operations	6,335	5,697	5,568	13.8%	11.2%
Fees from brokerage and custody of securities	2,469	2,592	2,399	2.9%	(4.7)%
Other Fees	1,349	1,689	277	388.8%	43,344.9%
Total fees	65,991	72,050	66,436	(0.7)%	(8.4)%

Net fee income was down 8.4% QoQ and 0.7% YoY in 3Q11. The main reason for this decline was the temporary slowdown in loan origination, which had a negative impact on loan related insurance premiums. At the same time, the weaker markets negatively affected our mutual fund fees and fees from securities brokerage. Credit card fees were down due to a seasonal rise in credit card expenses paid to the credit card processor. Gross fees from credit cards were up 3.0% QoQ in line with the growth of this product.

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The Bank's client base, especially cross-sold clients continues to grow at a solid pace. The amount of cross-sold clients is growing at double the pace of our total client base. Credit cards continue to be the fastest growing product, the number of which has increased 12.7% YoY.

Evolution of client base

NET RESULTS FROM FINANCIAL TRANSACTIONS

Positive results from client treasury services

Results from Financial Transactions*	Quarter			Change %	
(Ch$ million)	3Q11	2Q11	3Q10	3Q11 / 3Q10	3Q11 / 2Q11
Net income from financial operations	102,133	2,027	(45,068)	—%	4,938.6%
Foreign exchange profit (loss), net	(79,132)	27,049	66,781	—%	—%
Net results from financial transactions	23,001	29,076	21,713	5.9%	(20.9)%

*These results mainly include the mark-to-market of the Available for sale investment portfolio, realized and unrealized gains of Financial investments held for trading, the interest revenue generated by the Held for trading portfolio, gains or losses from the sale of charged-off loans and the mark-to-market of derivatives. The results recorded as Foreign exchange profits (loss), net mainly includes the translation gains or losses of assets and a liability denominated in foreign currency.

Net results from financial transactions, which include the sum of the net income from financial operations and net foreign exchange profits, totaled a gain of Ch$23,001 million in 3Q11, a decrease of 20.9% QoQ and an increase of 5.9% YoY. In order to comprehend more clearly these line items, we present them by business area in the table below.

Results from Financial Transactions	Quarter			Change %	
(Ch$ million)	3Q11	2Q11	3Q10	3Q11 / 3Q10	3Q11 / 2Q11
Santander Global Connect1	16,259	15,045	11,628	39.8%	8.1%
Market-making	4,958	6,012	8,451	(41.3)%	(17.5)%
Client treasury services	21,217	21,058	20,079	5.7%	0.8%
Non-client treasury services	1,784	8,018	1,635	9.2%	(77.7)%
Net results from financial transactions	23,001	29,076	21,713	5.9%	(20.9)%

1. Santander Global Connect is the Bank's commercial platform for selling treasury products to our clients.

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The quarterly results were mainly driven by Client treasury services, which totaled Ch$21,217 million in 3Q11 – more than 90% of this line item – that increased 0.8% QoQ and 5.7% YoY. The higher market volatility, especially in the foreign exchange market led to a greater number of clients to hedge exposures resulting in a high gain from Santander Global Connect.

Non-client treasury services fell in the quarter as the Bank maintained high levels of liquidity and avoided taking any major prop-trading positions or gaps, lowering trading results.

OPERATING EXPENSES AND EFFICIENCY

Operating expenses flat QoQ

Operating Expenses	Quarter			Change %	
(Ch$ million)	3Q11	2Q11	3Q10	3Q11 / 3Q10	3Q11 / 2Q11
Personnel salaries and expenses	(73,884)	(70,655)	(63,330)	16.7%	4.6%
Administrative expenses	(41,041)	(41,535)	(37,983)	8.1%	(1.2)%
Depreciation and amortization	(13,354)	(12,944)	(11,294)	18.2%	3.2%
Impairment	(77)	(27)	(963)	(92.0)%	185.2%
Operating expenses	(128,356)	(125,161)	(113,570)	13.0%	2.6%
Efficiency ratio1	41.3%	36.5%	37.2%		

1. Operating expenses / Operating income. Operating income = Net interest income + Net fee income+ Net results from Financial transactions + Other operating income and expenses.

Operating expenses in 3Q11 increased 2.6% QoQ and 13.0% YoY. The efficiency ratio reached 41.3% in 3Q11. The 4.6% QoQ increase in personnel expenses was mainly due to the increase in headcount and a rise in severance payments. Headcount increased 5.9% YoY and 1.6% QoQ. Of the 190 persons hired in 3Q11, 160 were collection agents. As of June 30, 2011 headcount totaled 11,706 employees.

Administrative expenses fell 1.2% QoQ as the Bank commenced to implement a stricter stance regarding costs. At the same time, the Bank continues with its projects of in investing in technology and alternative distribution channels to enhance productivity in future periods. The Bank is currently investment in a new Client Relationship Management system and other IT projects. These projects should drive stronger revenue growth while increasing productivity. The Bank also opened 7 branches in the quarter, 4 of which were Banca Prime branches for upper income individuals.

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OTHER INCOME AND EXPENSES

Other Income and Expenses	Quarter			Change %	
(Ch$ million)	3Q11	2Q11	3Q10	3Q11 / 3Q10	3Q11 / 2Q11
Other operating income	2,194	3,309	2,656	(17.4)%	(33.7)%
Other operating expenses	(12,156)	(8,800)	(21,333)	(43.0)%	38.1 %
Other operating income, net	(9,962)	(5,491)	(18,677)	(46.7)%	81.4 %
Income from investments in other companies	546	552	832	(34.4)%	(1.1)%
Income tax expense	(16,629)	(19,416)	(14,109)	17.9 %	(14.4)%
Income tax rate	17.9 %	12.0 %	10.0 %		

Other operating income, net, totaled Ch$-9,962 million in 3Q11. The lower loss compared to 3Q10 was mainly due to lower charge-off of repossessed assets. Compared to 2Q11 the higher loss from other operating income, net was mainly due to an increase in charge-off of fixed assets mainly related to vandalized ATMs.

The 14.4% QoQ decrease in income tax expense was mainly due to lower net income before taxes. In addition, in 2Q11, the Bank recognized a one-time tax benefit from real estate taxes (contribuciones) paid over assets it has leased to clients. Compared to 3Q10, the rise in the effective tax rate was due the rise of the statutory tax rate to 20% from 17% last year. In 3Q10, the Bank’s effective income tax rate also benefitted from the application of the new corporate tax rates over deferred taxes, which resulted in a higher net asset position in differed taxes and therefore a lower effective tax rate in said quarter.

In 2012, the statutory corporate tax rate should decline to 18.5% and 17% in 2013.

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SECTION 4: CREDIT RISK RATINGS

International ratings

The Bank has credit ratings from three leading international agencies. In the quarter, Fitch lowered the Bank ratings from AA- to A+. Standard and Poor's modified its outlook to negative and there was no change regarding our ratings from Moody's. These rating changes were driven by a reduction in ratings of our controlling shareholder.

Moody's (Outlook stable)	Rating
Foreign currency bank deposits	Aa3
Senior bonds	Aa3
Subordinated debt	A1
Bank Deposits in Local Currency	Aa3
Bank financial strength	B-
Short-term deposits	P-1

Standard and Poor's (Outlook negative)	Rating
Long-term Foreign Issuer Credit	A+
Long-term Local Issuer Credit	A+
Short-term Foreign Issuer Credit	A-1
Short-term Local Issuer Credit	A-1

Fitch (Outlook negative)	Rating
Foreign Currency Long-term Debt	A+
Local Currency Long-term Debt	A+
Foreign Currency Short-term Debt	F1
Local Currency Short-term Debt	F1
Viability rating	a+
Individual rating	B

Local ratings:

Our local ratings, the highest in Chile, are the following:

Local ratings	Fitch Ratings	Feller Rate
Shares	Level 2	1CN1
Short-term deposits	N1+	Level 1+
Long-term deposits	AAA	AAA
Mortgage finance bonds	AAA	AAA
Senior bonds	AAA	AAA
Subordinated bonds	AA	AA+
Outlook	Stable	Stable

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16

SECTION 5: SHARE PERFORMANCE
As of September 2011

Ownership Structure:

ADR price (US$) 9M11
09/30/11: