BANCO SANTANDER CHILE
Form 20-F
June 19, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

o	**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
	OR
x	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **for the fiscal year ended December 31, 2006**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 1-14554

BANCO SANTANDER-CHILE
(d/b/a Banco Santander Santiago and Santander Santiago)
(Exact name of Registrant as specified in its charter)

SANTANDER-CHILE BANK
(d/b/a Santander Santiago Bank and Santander Santiago)
(Translation of Registrant's name into English)

Chile
(Jurisdiction of incorporation)
Bandera 140
Santiago, Chile
Telephone: 011-562 320-2000
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
American Depositary Shares, each representing the right to receive 1,039 Shares of Common Stock without par value	New York Stock Exchange

Shares of Common Stock, without par value*	New York Stock Exchange

* Santander-Chile's shares of common stock are not listed for trading, but only in connection with the registration of the American Depositary Shares pursuant to the requirements of the New York Stock Exchange.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

7.375% Subordinated Notes due 2012

Indicate the number of outstanding shares of each class of common stock of Banco Santander-Chile at December 31, 2006 was:

188,446,126,794 Shares of Common Stock, without par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No x

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer	Non-accelerated filer
x	o	o

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 x

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

We have made statements in this Annual Report on Form 20-F that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear throughout this report and include statements regarding our intent, belief or current expectations regarding:

- asset growth and alternative sources of funding
- growth of our fee-based business
- financing plans
- impact of competition
- impact of regulation
- exposure to market risks:
- interest rate risk
- foreign exchange risk
- equity price risk
- projected capital expenditures
- liquidity
- trends affecting:
- our financial condition
- our results of operation

The sections of this Annual Report which contain forward-looking statements include, without limitation, "Item 3: Key Information—Risk Factors," "Item 4: Information on the Company," "Item 5: Operating and Financial Review and Prospects," "Item 8: Financial Information—Legal Proceedings," and "Item 11: Quantitative and Qualitative Disclosures About Market Risk." Our forward-looking statements also may be identified by words such as "believes," "expects," "anticipates," "projects," "intends," "should," "could," "may," "seeks," "aim," "combined," "estimates," "probability," "risk," "objective," "future" or similar expressions.

You should understand that the following important factors, in addition to those discussed elsewhere in this annual report and in the documents which are incorporated by reference, could affect our future results and could cause those results or other outcomes to differ materially from those expressed in our forward-looking statements:

- changes in capital markets in general that may affect policies or attitudes towards lending to Chile or Chilean companies
- changes in economic conditions

- the monetary and interest rate policies of the Central Bank
- inflation or deflation

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- unemployment
- unanticipated turbulence in interest rates
- movements in foreign exchange rates
- movements in equity prices or other rates or prices
- changes in Chilean and foreign laws and regulations
- changes in taxes
- competition, changes in competition and pricing environments
- our inability to hedge certain risks economically
- the adequacy of loss allowances
- technological changes
- changes in consumer spending and saving habits
- increased costs
- unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms
- changes in, or failure to comply with, banking regulations
- our ability to successfully market and sell additional services to our existing customers
- disruptions in client service
- natural disasters
- implementation of new technologies
- an inaccurate or ineffective client segmentation model

You should not place undue reliance on such statements, which speak only as of the date that they were made. The forward-looking statements contained in this document speak only as of the date of this Annual Report, and we do not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

CERTAIN TERMS AND CONVENTIONS

As used in this Annual Report, “Santander-Chile”, “Banco Santander Chile”, “the Bank”, “we,” “our” and “us” mean Banco Santander-Chile and its consolidated subsidiaries, the bank resulting from the merger of Santiago and Old Santander-Chile.

When we refer to "Santiago" in this Annual Report, we refer to Banco Santiago and its consolidated subsidiaries prior to its merger with Old Santander-Chile. When we refer to "Old Santander-Chile" in this Annual Report, we refer to the former Banco Santander-Chile and its consolidated subsidiaries, which ceased to exist upon its merger into Santiago, effected on August 1, 2002.

As used in this Annual Report, the term "billion" means one thousand million (1,000,000,000).

In this Annual Report, references to "$", "US$", "U.S.$", "U.S. dollars" and "dollars" are to United States dollars, references t "Chilean pesos," "pesos" or "Ch$" are to Chilean pesos and references to "UF" are to *Unidades de Fomento*. The UF is an inflation indexed Chilean monetary unit with a value in Chilean pesos that changes daily to reflect changes in the official Consumer Price Index ("CPI") of the *Instituto Nacional de Estadísticas* (the Chilean National Institute of Statistics) for the previous month. See "Item 5: Operating and Financial Review and Prospects" and Note 1(c) to the Audited Consolidated Financial Statements.

In this Annual Report, references to the Audit Committee are to the Bank's *Comité de Directores y Auditoría*. This committee is the successor of the Directors Committee created under Law 19,705 in 2000 and the Audit Committee created by the Board of Directors of Banco Santiago in 1995. On September 22, 2004, the Superintendency of Banks authorized that the functions of the Audit Committee be performed by the Directors Committee. On October 19, 2004, the Board of Directors of Banco Santander Chile, by resolution No. 357, approved the merger of both committees and the transfer of all functions of both committees to the *Comité de Directores y Auditoría*, which was created on the same date.

In this Annual Report, references to "BIS" are to the Bank for International Settlement, and references to "BIS ratio" are to the capital adequacy ratio as calculated in accordance with the Basel Capital Accord.

PRESENTATION OF FINANCIAL INFORMATION

Currency and Accounting Principles

Santander-Chile is a Chilean bank, which maintains its financial books and records in Chilean pesos and prepares its Audited Consolidated Financial Statements in conformity with generally accepted accounting principles in Chile and the rules of the *Superintendencia de Bancos e Instituciones Financieras* (the Superintendency of Banks and Financial Institutions, which is referred to herein as the "Superintendency of Banks"), which together differ in certain significant respects from generally accepted accounting principles in the United States ("U.S. GAAP"). References to "Chilean GAAP" in this Annual Report are to accounting principles generally accepted in Chile, as supplemented by the applicable rules of the Superintendency of Banks. See Note 26 to the Audited Consolidated Financial Statements of Santander-Chile as of December 31, 2005 and 2006 and for the years ended December 31, 2004, 2005 and 2006 contained elsewhere in this Annual Report (together with the notes thereto, the "Audited Consolidated Financial Statements") for a description of the principal differences between Chilean GAAP and U.S. GAAP, as they relate to Santander-Chile, and a reconciliation to U.S. GAAP of net income and shareholders' equity.

Pursuant to Chilean GAAP, amounts expressed in the Audited Consolidated Financial Statements and all other amounts included elsewhere throughout this Annual Report for all periods expressed in Chilean pesos are expressed in constant Chilean pesos as of December 31, 2006. See Note 1(c) to the Audited Consolidated Financial Statements.

Loans

Unless otherwise specified, all references herein (except in the Audited Consolidated Financial Statements) to loans are to loans and financial leases before deduction for loan loss allowance, and, except as otherwise specified, all market share data presented herein are based on information published periodically by the Superintendency of Banks. Non-performing loans include loans for which either principal or interest is overdue, and which do not accrue interest. Restructured loans for which no payments are overdue are not ordinarily classified as non-performing loans. Past due loans include, with respect to any loan, only the portion of principal and interest that is overdue for 90 or more days, and do not include the installments of such loan that are not overdue or that are overdue for less than 90 days, unless legal proceedings have been commenced for the entire outstanding balance according to the terms of the loan, in which case the entire loan is considered past due within 90 days after initiation of such proceedings. This practice differs from that normally followed in the United States, where the amount classified as past due would include the entire amount of principal and interest on any and all loans which have any portion overdue. See "Item 5: Operating and Financial Review and Prospects—D. Selected Statistical Information," "—Loan Portfolio," "—Loans by Economic Activity—Classification of Loan Portfolio," and "—Classification of Loan Portfolio Based on the Borrower's Payment Performance."

According to the regulations established by the Superintendency of Banks, Santander-Chile is required to charge off commercial loans no later than 24 months after being classified as past due, if unsecured, and if secured, no later than 36 months after being classified as past due. When an installment of a past due corporate loan (whether secured or unsecured) is charged off, we must charge off all installments which are overdue, notwithstanding our right to charge off the entire amount of the loan. Once any amount of a loan is charged off, each subsequent installment must be charged off as it becomes overdue, notwithstanding our right to charge off the entire amount of the loan. In the case of past due consumer loans, a similar practice applies, except that after the first installment becomes past due for 90 days or more, Santander-Chile must charge off the entire remaining part of the loan. We may charge off any loan (whether commercial or consumer) before the first installment becomes overdue, but only in accordance with special procedures established by the Superintendency of Banks. Loans are charged off against the loan loss allowance to the extent of any required allowances for such loans; the remainder of such loans is charged off against income. See "Item 5: Operating and Financial Review and Prospects—D. Selected Statistical Information—Analysis of Loan Loss Allowance."

Outstanding loans and the related percentages of Santander-Chile’s loan portfolio consisting of corporate and consumer loans in “Item 4: Information on the Company—C. Business Overview” are categorized based on the nature of the borrower. Outstanding loans and related percentages of the loan portfolio of Santander-Chile consisting of corporate and consumer loans in the section entitled “Item 5: Operating and Financial Review and Prospects—D. Selected Statistical

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Information" are categorized in accordance with the reporting requirements of the Superintendency of Banks, which are based on the type and term of loans.

Effect of Rounding

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

Economic and Market Data

In this Annual Report, unless otherwise indicated, all macro economic data related to the Chilean economy is based on information published by the *Banco Central de Chile* (the "Central Bank"), and all market share and other data related to the Chilean financial system is based on information published by the Superintendency of Banks and our analysis of such information. Information regarding the consolidated risk index of the Chilean financial system as a whole is not available.

Exchange Rates

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

Unless otherwise indicated, all the U.S. dollar amounts at any year end or for any full year have been translated from Chilean pesos based on the observed exchange rate reported by the Central Bank on December 31, 2006, which was Ch$534.43 per US$1.00. The observed exchange rate reported by the Central Bank on December 31, 2006 is based upon the actual exchange rate as of December 31, 2006, and is the exchange rate specified by the Superintendency of Banks for use by Chilean banks in the preparation of their financial statements for the periods ended December 31, 2006. The observed exchange rate on June 14, 2007 was Ch$529.32 per US$1.00, reflecting an accumulated appreciation of 1.0% from December 31, 2006. The Federal Reserve Bank of New York does not report a noon buying rate for the Chilean peso. For more information on the observed exchange rate see "Item 3: Key Information—Exchange Rates."

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following table presents historical financial information about us as of the dates and for each of the periods indicated. The following table should be read in conjunction with, and is qualified in its entirety by reference to, our Audited Consolidated Financial Statements appearing elsewhere in this Annual Report. Our Audited Consolidated Financial Statements are prepared in accordance with Chilean GAAP, which differs in certain significant respects from U.S. GAAP. Note 26 to our Audited Consolidated Financial Statements provides a description of the material differences between Chilean GAAP and U.S. GAAP and a reconciliation to U.S. GAAP of net income for the years ended December 31, 2004, 2005 and 2006 and shareholders' equity at December 31, 2005 and 2006.

Under Chilean GAAP, the merger between Santiago and Old Santander-Chile was accounted for as a "pooling of interest" on a prospective basis. As such, the historical financial statements for periods prior to the merger were not restated under Chilean GAAP. Under U.S. GAAP, the merger between the two banks, which have been under the common control of Banco Santander Central Hispano since May 3, 1999, is accounted for in a manner similar to a pooling of interest under U.S. GAAP. As a consequence of the merger, we were required to restate our previously issued U.S. GAAP historical financial information to retroactively present the financial results for the merged bank as if Santiago and Old Santander-Chile had been combined throughout the periods during which common control existed. See Note 26(a) to our Audited Consolidated Financial Statements.

	At and for the years ended December 31,					
	2002	**2003**	**2004**	**2005**	**2006**	**2006**
	(in millions of constant Ch$ as of December 31, 2006)(1)					**(in thousands of U.S.$)(1)(2)**
CONSOLIDATED INCOME STATEMENT DATA Chilean GAAP:						
Net interest revenue (3)	568,659	328,235	502,509	558,266	612,254	1,145,620
Provisions for loan losses	(72,333)	(73,110)	(85,451)	(64,879)	(123,022)	(230,193)
Total fees and income from services, net	111,818	121,280	128,004	141,300	162,550	304,156
Other operating income, net (3)	(15,129)	172,964	14,741	(13,595)	18,643	34,884
Other income and expenses, net	(34,985)	2,177	(4,295)	(21,923)	(3,579)	(6,697)
Operating expenses	(314,006)	(271,383)	(283,883)	(284,968)	(309,283)	(578,716)
Loss from price-level restatement	(14,258)	(8,352)	(12,680)	(18,524)	(13,782)	(25,788)
Income before income taxes	202,253	271,812	258,945	295,677	343,781	643,266
Income (taxes) benefits	(30,032)	(47,365)	(48,587)	(50,885)	(58,199)	(108,899)
Net income	172,220	224,445	210,358	244,792	285,582	534,367
Net income per share (7)	0.91	1.19	1.12	1.30	1.52	0.00284
Net income per ADS (4)(7)	949.54	1,237.48	1,159.81	1,349.66	1,574.56	2.95
Dividends per share (5)	1.36	0.91	1.19	1.12	0.84	0.00158
Dividends per ADS (5)	1,405.82	945.54	1,237.48	1,159.81	877.28	1.64
Weighted-average shares outstanding (in millions)	188,446.1	188,446.1	188,446.1	188,446.1	188,446.1	—
U.S. GAAP:						
Net interest income (6)	564,551	306,152	474,686	564,849	631,582	1,181,786

Provision for loan losses	(72,415)	(93,024)	(68,924)	(65,930)	(123,022)	(230,193)
Amortization of goodwill	—	—	—	—	—	—
Net income	151,210	193,801	210,499	230,834	235,917	441,437
Net income per Share (7)	0.80	1.03	1.12	1.22	1.25	0.00234
Net income per ADS (4)(7)	833.70	1,068.52	1,160.59	1,272.70	1,300.73	2.43
Weighted-average shares outstanding (in millions)	188,446.1	188,446.1	188,446.1	188,446.1	188,446.1	—
Weighted-average ADSs outstanding (in millions)	181.373	181.373	181.373	181.373	181.373	—
CONSOLIDATED BALANCE SHEET DATA						
Chilean GAAP:						
Cash and due from banks	1,070,912	1,067,134	1,003,407	1,250,931	1,092,407	2,044,060
Investments (8)	2,736,173	2,075,146	2,105,209	1,274,599	1,015,376	1,899,924
Loans, net of allowances	8,428,519	8,079,294	8,937,656	10,208,334	11,614,895	21,733,240
Loan loss allowances	(183,537)	(182,426)	(183,366)	(151,000)	(174,064)	(325,700)
Derivatives (9)	—	—	—	418,795	372,688	697,356
Other assets (3)	223,233	310,315	442,565	613,780	748,073	1,399,759
Total assets (6)	12,765,194	11,842,219	12,772,640	13,766,439	14,843,439	27,774,339
Deposits	6,660,305	5,993,196	7,139,737	8,246,723	9,392,332	17,574,485
Other interest-bearing liabilities	4,292,706	3,676,944	3,348,763	2,902,720	2,622,161	4,906,465
Derivatives (9)	—	—	—	391,823	355,922	665,984
Shareholders' equity	1,054,460	1,103,270	1,091,768	1,104,767	1,245,339	2,330,219
U.S. GAAP:						
Total assets	12,410,311	11,457,897	12,516,607	13,716,618	14,683,666	27,475,378

	At and for the years ended December 31,					
	2002	2003	2004	2005	2006	2006 (in thousands of U.S.$)(1)(2)
	(in millions of constant Ch$ as of December 31, 2006)(1)					
CONSOLIDATED BALANCE SHEET DATA						
U.S. GAAP:						
Long-term borrowings	3,385,126	2,599,879	1,910,026	1,457,944	1,585,608	2,966,914
Shareholders' equity	1,958,157	1,961,493	1,952,196	1,938,505	2,019,658	3,779,088
Goodwill	806,521	806,521	806,521	806,521	806,521	1,509,124

	At and for the year ended December 31,				
	2002	2003	2004	2005	2006
CONSOLIDATED RATIOS					
Chilean GAAP:					
Profitability and performance:					
Net interest margin(10)	4.8%	3.0%	4.5%	4.7%	4.7%
Return on average total assets(11)	1.3%	1.8%	1.7%	1.8%	1.9%
Return on average shareholders' equity(12)	16.2%	22.1%	20.2%	24.1%	24.8%
Capital:					
Average shareholders' equity as a percentage of average total assets	8.3%	8.1%	8.2%	7.4%	7.8%
Total liabilities as a multiple of shareholders' equity	11.1	9.7	11.7	12.1	11.9
Credit Quality:					
Substandard loans as a percentage of total loans(13)	3.2%	3.6%	3.7%	2.6%	2.9%
Allowance for loan losses as percentage of total loans	2.1%	2.2%	2.0%	1.5%	1.5%
Past due loans as a percentage of total loans(14)	2.1%	2.2%	1.5%	1.1%	0.8%
Operating Ratios:					
Operating expenses/operating revenue(15)	47.2%	43.6%	44.0%	41.5%	39.0%
Operating expenses/average total assets	2.3%	2.2%	2.2%	2.1%	2.1%
Ratio of earnings to fixed charges(16):					
Including interest on deposits	1.36	1.81	1.77	1.65	1.61
Excluding interest on deposits	1.65	2.34	2.26	2.46	2.56
U.S. GAAP(17)**:**					
Profitability and performance:					
Net interest margin (18)	4.7%	2.8%	4.3%	4.8%	4.8%
Return on average total assets (19)	1.2%	1.6%	1.8%	1.7%	1.6%
Return on average shareholders' equity (20)	8.6%	9.9%	10.8%	11.9%	11.7%
Ratio of earnings to fixed charges(16):					
Including interest on deposits	1.37	1.83	1.87	1.71	1.60
Excluding interest on deposits	1.67	2.35	2.43	2.51	2.52
OTHER DATA					
Inflation rate(21)	2.8%	1.1%	2.4%	3.7%	2.6%

Revaluation (devaluation) rate (Ch$/U.S.$) at period end(21)	8.6%	(15.9%)	(6.6%)	(8.1%)	3.9%
Number of employees at period end	8,314	7,535	7,380	7,482	8,184
Number of branches and offices at period end	347	345	315	352	397

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(1) Except per share data, percentages and ratios, share numbers, employee numbers and branch numbers.

(2) Amounts stated in U.S. dollars at and for the year ended December 31, 2006 have been translated from Chilean pesos at the observed exchange rate of Ch$534.43 = U.S.$1.00 as of December 31, 2006. See "Item 3: Key Information —Exchange Rates" for more information on the observed exchange rate.

(3) In accordance with Circular N°3345 issued by the Superintendency of Banks, which became effective on June 30, 2006, the accounting standards for valuing financial instruments acquired for trading or investment purposes, including derivative instruments on the balance sheets, were amended. The new accounting standards require that these instruments be carried at their market or fair value, and the historical differences in valuation of such instruments recognized with respect to any dates prior to 2006 be adjusted directly against the Bank's equity. Banks were required to adopt the new accounting standards set forth in Circular No. 3345 in preparing their financial statements at and for the six-months ended June 30, 2006 and going forward.

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In order to implement these new accounting standards, we have created a new line item “derivatives” under both “assets” and “liabilities” in our consolidated balance sheet, and reclassified certain other items within other assets, other liabilities, financial instruments, interest income, interest expenses and other operating income, net, in our consolidated balance sheet and income statement at and for the year ended December 31, 2006. For comparison purposes, we have also retrospectively reclassified these items at December 31, 2005 and for the years ended December 31, 2004 and 2005, but did not retrospectively apply the new accounting standards to these items. We did not reclassify any of these items at any date prior to 2005 or for any period prior to the year ended December 31, 2004. See “Item 5: Operating and Financial Review and Prospects—A. New Accounting Standards for Financial Investments and Derivatives.”

(4) 1 American depositary share (“ADS”) = 1,039 shares of common stock.

(5) The dividends per share of common stock and per ADS are determined based on the previous year’s net income. The dividend per ADS is calculated on the basis of 1,039 shares per ADS.

(6) Net interest income and total assets on a U.S. GAAP basis have been determined by applying the relevant U.S. GAAP adjustments to net interest income and total assets presented in accordance with Article 9 of Regulation S-X. See Note 27 to our Consolidated Financial Statements at and for the years ended December 31, 2002, 2003 and 2004 and Note 26 of our Consolidated Financial Statements for the year ended December 31, 2005 and 2006 included in our Annual Reports on Form 20-F.

(7) Net income per share and per ADS in accordance with U.S. GAAP has been calculated on the basis of the weighted-average number of shares or ADSs, as applicable, outstanding during the period.

(8) Includes principally Chilean government securities, corporate securities, other financial investments and investment collateral under agreements to repurchase (reverse repo).

(9) For figures at December 31, 2006, derivatives were valued at market price and classified as a separate line item on the balance sheet. Our derivatives holdings at December 31, 2005 have been reclassified from “other assets” and “other liabilities” to “derivatives”, but have not been marked to market as would be required under currently applicable accounting principles. At prior dates, derivatives were classified under “other assets” or “other liabilities”, and generally recorded at net notional amount. See “Item 5: Operating and Financial Review and Prospects—A. New Accounting Standards for Financial Investments and Derivatives” and Note 1 to our Audited Consolidated Financial Statements.

(10) Net interest revenue divided by average-interest earning assets (as presented in “Item 5: Operating and Financial Review and Prospects—D. Selected Statistical Information”).

(11) Net income divided by average total assets (as presented in “Item 5: Operating and Financial Review and Prospects—D. Selected Statistical Information”).

(12) Net income divided by average shareholders’ equity (as presented in “Item 5: Operating and Financial Review and Prospects—D. Selected Statistical Information”).

(13) Substandard loans in the rating system prior to 2004 included all loans rated B- or worse. In the loan risk classification system which took effect in 2004, substandard loans include all consumer and mortgage loans rated B- or worse and all commercial loans rated C2 or worse. See “Item 5: Operating and Financial Review and Prospects—D. Selected Statistical Information—Analysis of Substandard Loans and Amounts Past Due loans”. Therefore, the historical figures in 2002 and 2003 are not strictly comparable to figures in 2004, 2005 or 2006.

(14) Past due loans are loans on which principal or interest is overdue for 90 or more days, and do not include the installments of such loans that are not overdue or that are less than 90 days overdue, unless legal proceedings have been commenced for the entire outstanding balance according to the terms of the loan.

(15) Operating revenue includes “Net interest revenue,” “Total fees and income from services, net” and “Other operating income, net.”

(16) For the purpose of computing the ratios of earnings to fixed charges, earnings consist of earnings before income tax and fixed charges. Fixed charges consist of gross interest expense and the proportion deemed representative of the interest factor of rental expense.

(17) The following ratios have been calculated using U.S. GAAP figures except for net interest margin. See footnote 18 regarding calculation of net interest margin.

(18) Net interest margin has been determined by applying the relevant U.S. GAAP adjustments to net interest income for the years ended December 31, 2002, 2003, 2004, 2005 and 2006 presented in accordance with Article 9 of Regulation S-X divided by average interest-earning assets calculated on a Chilean GAAP basis. See Note 27(y) to our Consolidated Financial Statements at and for the years ended December 31, 2002, 2003 and 2004 and Note 26(v) of our Consolidated Financial Statements for the years ended December 31, 2005 and 2006.

(19) Net income divided by average total assets. Average total assets were calculated as an average of the beginning and ending balances for each year, and total assets on a U.S. GAAP basis have been determined by applying the relevant U.S. GAAP adjustments to total assets presented in accordance with Article 9 of Regulation S-X. See Note 26 to our Audited Consolidated Financial Statements.

(20) Average shareholders' equity was calculated as an average of the beginning and ending balances for each year. Shareholders' equity on a U.S. GAAP basis has been determined by applying the relevant U.S. GAAP adjustments to shareholders' equity presented in accordance with Article 9 of Regulation S-X. See Note 26(y) to our Audited Consolidated Financial Statements.

(21) Based on information published by the Central Bank.

Exchange Rates

Chile has two currency markets, the *Mercado Cambiario Formal*, or the "Formal Exchange Market" and the *Mercado Cambiario Informal*, or the "Informal Exchange Market." Under Law 18,840, the organizational law of the Central Bank, or the Central Bank Act (*Ley Orgánica Constitucional del Banco Central de Chile*), the Central Bank determines which purchases and sales of foreign currencies must be carried out in the Formal Exchange Market. Pursuant to Central Bank regulations which are currently in effect, all payments, remittances or transfers of foreign currency abroad which are required to be effected through the Formal Exchange Market may be effected with foreign currency procured outside the Formal Exchange Market. The Formal Exchange Market is comprised of the banks and other entities so authorized by the Central Bank. The conversion from pesos to U.S. dollars of all payments and distributions with respect to the ADSs described in this Annual Report must be transacted at the spot market rate in the Formal Exchange Market. Current regulations require that the Central Bank be informed of certain transactions and that they be effected through the Formal Exchange Market.

Purchases and sales of foreign currencies may be legally carried out in the Informal Exchange Market. The Informal Exchange Market reflects transactions carried out at informal exchange rates by entities not expressly authorized to operate in the Formal Exchange Market. There are no limits imposed on the extent to which the rate of exchange in the Informal Exchange Market can fluctuate above or below the observed exchange rate. On December 31, 2006 and March 31, 2007, the exchange rate in the Informal Exchange Market was Ch$533.38 and Ch$539.27, or 0.2% and 0.02%, respectively, lower than the published observed exchange rates for such dates of Ch$534.43 and Ch$539.37, respectively, per U.S.$1.00.

The following table sets forth the annual low, high, average and period end observed exchange rates for U.S. dollars for each of the following periods, as reported by the Central Bank. We make no representation that the Chilean peso or the U.S. dollar amounts referred to herein actually represent, could have been or could be converted into U.S. dollars or Chilean pesos, as the case may be, at the rates indicated, at any particular rate or at all.

	Daily Observed Exchange Rate Ch$ Per U.S.$(1)			
Year	**Low(2)**	**High(2)**	**Average(3)**	**Period End(4)**
2002	641.75	756.56	689.24	712.38
2003	593.10	758.21	691.54	599.42
2004	559.21	649.45	609.55	559.83
2005	509.70	592.75	559.86	514.21
2006	511.44	549.63	530.26	534.43
Month				
September 2006	536.63	540.80	538.65	538.22
October 2006	524.12	537.63	530.95	525.99
November 2006	523.34	530.61	527.44	529.29
December 2006	524.78	534.43	527.58	534.43
January 2007	532.39	545.18	540.51	545.18

February 2007	535.29	548.67	542.27	538.42
March 2007	535.36	541.95	538.49	539.37
April 2007	527.08	539.69	532.30	527.08
May 2007	517.64	527.52	522.02	527.52
June 2007 (through June 14)	524.30	529.32	526.88	529.32

Source: Central Bank.
(1) Nominal figures.

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(2) Exchange rates are the actual low and high, on a day-by-day basis for each period.

(3) The average of monthly average rates during the year.

(4) As reported by the Central Bank on the first business day of the following period.

Dividends

Under the current General Banking Law, a Chilean bank may only pay a single dividend per year (i.e., interim dividends are not permitted). Santander-Chile's annual dividend is proposed by its Board of Directors and is approved by the shareholders at the annual ordinary shareholders' meeting held the year following that in which the dividend is generated. For example, the 2005 dividend must be proposed and approved during the first four months of 2006. Following shareholder approval, the proposed dividend is declared and paid. Historically, the dividend for a particular year has been declared and paid no later than one month following the shareholders meeting. Dividends are paid to shareholders of record on the fifth day preceding the date set for payment of the dividend. The applicable record dated for the payment of dividends to holders of ADSs will, to the extent practicable, be the same.

Under the General Banking Law, *Ley General de Bancos, Decreto con Fuerza de Ley No.3 de 1997,* a bank must distribute cash dividends in respect of any fiscal year in an amount equal to at least 30% of its net income for that year, as long as the dividend does not result in a violation of minimal capital requirements. The balances of our distributable net income are generally retained for use in our business (including for the maintenance of any required legal reserves). Although our Board of Directors currently intends to pay regular annual dividends, the amount of dividend payments will depend upon, among other factors, our then current level of earnings, capital and legal reserve requirements, as well as market conditions, and there can be no assurance as to the amount or timing of future dividends.

Dividends payable to holders of ADSs are net of foreign currency conversion expenses of the depositary and will be subject to the Chilean withholding tax currently at the rate of 35% (subject to credits in certain cases as described in "Item 10: Additional Information—E. Taxation—Material Tax Consequences of Owning Shares of Our Common Stock or ADSs—Chilean Taxation"). See "Item 10: Additional Information—E. Taxation". Owners of the ADSs will not be charged any dividend remittance fees by the depositary with respect to cash or stock dividends.

Under the Foreign Investment Contract (as defined herein), the Depositary, on behalf of ADS holders, is granted access to the Formal Exchange Market to convert cash dividends from Chilean pesos to U.S. dollars and to pay such U.S. dollars to ADS holders outside Chile, net of taxes, and no separate registration by ADS holders is required. In the past, Chilean law required that holders of shares of Chilean companies who were not residents of Chile to register as foreign investors under one of the foreign investment regimes contemplated by Chilean law in order to have dividends, sale proceeds or other amounts with respect to their shares remitted outside Chile through the Formal Exchange Market. On April 19, 2001, the Central Bank deregulated the Exchange Market eliminating the need to obtain approval from the Central Bank in order to remit dividends, but at the same time this eliminated the possibility of accessing the Formal Exchange Market. These changes do not affect the current Foreign Investment Contract, which was signed prior to April 19, 2001, which grants access to the Formal Exchange Market with prior approval of the Central Bank. See "Item 10: Additional Information—D. Exchange Controls".

The following table presents dividends paid by us in nominal terms in the following years:

Year	Dividend Ch$ mn (1)	Per share Ch$/share (2)	Per ADR Ch$/ADR (3)	% of earnings (4)
2003	157,315	0.83	867.36	100%
2004	206,975	1.10	1,141.16	100%

2005	198,795	1.05	1,096.06	100%
2006	155,811	0.83	859.06	65%
2007	185,628	0.99	1,023.46	65%

(1) Million of nominal pesos.

(2) Calculated on the basis of 188,446 million shares.

(3) Calculated on the basis of 1,039 shares per ADS.

(4) Calculated by dividing dividend paid in the year by net income for the previous year.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

You should carefully consider the following risk factors, as well as all the other information presented in this Annual Report before investing in securities issued by us. The risks and uncertainties described below are not the only ones that we face. Additional risks and uncertainties that we do not know about or that we currently think are immaterial may also impair our business operations. Any of the following risks, if they actually occur, could materially and adversely affect our business, results of operations, prospects and financial condition.

We are subject to market risks that are presented both in this subsection and in “Item 5: Operating and Financial Review and Prospects” and “Item 11: Quantitative and Qualitative Disclosures about Market Risk.”

Risks Associated with Our Business

Increased competition and industry consolidation may adversely affect results of our operations.

The Chilean market for financial services is highly competitive. We compete with other Chilean private sector domestic and foreign banks, with Banco del Estado, a public sector bank, with department stores and the larger supermarket chains that make consumer loans and sell other financial products to a large portion of the Chilean population. The lower middle to middle income segments of the Chilean population and the small and medium sized corporate segments have become the target markets of several banks, and competition in these segments is likely to increase. As a result, net interest margins in these segments are likely to decline. Although we believe that demand for financial products and services from individuals and for small and medium sized companies will continue to grow during the remainder of the decade, we cannot assure you that net interest margins will be maintained at their current levels.

We also face competition from non-bank and non-finance competitors (principally department stores) with respect to some of our credit products, such as credit cards, consumer loans and insurance brokerage. In addition, we face competition from non-bank finance competitors, such as leasing, factoring and automobile finance companies, with respect to credit products, and from mutual funds, pension funds and insurance companies, with respect to savings products. Currently, banks continue to be the main suppliers of leasing, factoring and mutual funds, and the insurance sales business has seen rapid growth.

The increase in competition within the Chilean banking industry in recent years has led to, among other things, consolidation in the industry. We expect the trends of increased competition and consolidation to continue and result in the formation of new large financial groups. Consolidation, which can result in the creation of larger and stronger competitors, may adversely affect our financial condition and results of operations by decreasing the net interest margins we are able to generate. In addition, Law No. 19,769 allows insurance companies to participate and compete with us in the residential mortgage and credit card businesses.

Our allowances for impairment losses may not be adequate to cover our future actual losses to our loan portfolio.

At December 31, 2006, our allowance for impairment losses on loans was Ch$174,064 million, and the ratio of our allowance for impairment losses to total loans was 1.48%. The amount of allowances is based on our current

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assessment of and expectations concerning various factors affecting the quality of our loan portfolio. These factors include, among other things, our borrower's financial condition, repayment ability and repayment intention, the realizable value of any collateral, the prospects for support from any guarantor, Chile's economy, government macroeconomic policies, interest rates and legal and regulatory environment. Many of these factors are beyond our control. If our assessment of and expectations concerning the above mentioned factors differ from actual developments, or if the quality of our loan portfolio deteriorates or the future actual losses exceed our estimates, our allowance for impairment losses may not be adequate to cover actual losses and we may need to make additional provisions for impairment losses, which may materially and adversely affect our results of operations and financial condition.

Our exposure to individuals and small businesses could lead to higher levels of past due loans, allowances for loan losses and charge-offs.

A substantial number of our customers consists of individuals (approximately 43.2% of the value of the total loan portfolio at December 31, 2006) and, to a lesser extent, small and medium sized companies (those with annual sales of less than US$2.2 million) which comprised approximately 16.0% of the value of the total loan portfolio at December 31, 2006. As part of our business strategy, we seek to increase lending and other services to small companies and individuals. Small companies and individuals are, however, more likely to be adversely affected by downturns in the Chilean economy than large corporations and high income individuals. In addition, at December 31, 2006, our residential mortgage loans represented 23.7% of our total loans. If the economic conditions and real estate market in Chile experience a significant downturn, our asset quality, results of operations and financial condition may be materially and adversely affected. As a result of these factors, in the future we may experience higher levels of past due loans, which could result in higher provisions for loan losses. There can be no assurance that the levels of past due loans and subsequent write offs will not be materially higher in the future.

If we are unable to maintain the quality of our loan portfolio, our financial condition and results of operations may be materially and adversely affected.

At December 31, 2006, our past due loans were Ch$92,559 million, and the ratio of our past due loans to total loans was 0.79%. For additional information on our asset quality, see "Item 5: Operating and Financial Review and Prospects—D. Selected Statistical Information—Analysis of Substandard Loans and Amounts Past Due". We seek to continue to improve our credit risk management policies and procedures. However, we cannot assure you that our credit risk management policies, procedures and systems are free from any deficiency. Failure of credit risk management policies may result in an increase in level of non performing loans and adversely affect the quality of our loan portfolio. In addition, the quality of our loan portfolio may also deteriorate due to various other reasons, including factors beyond our control. If such deterioration were to occur, it would materially and adversely affect our financial conditions and results of operations.

The value of the collateral securing our loans may not be sufficient, and we may be unable to realize the full value of the collateral securing our loan portfolio.

The value of the collateral securing our loan portfolio may significantly fluctuate or decline due to factors beyond our control, including macroeconomic factors affecting Chile's economy. However, we may not have current information on the value of collateral, which may result in an inaccurate assessment for impairment losses of our loans secured by such collateral. If this were to occur, we may need to make additional provisions to cover actual impairment losses of our loans, which may materially and adversely affect our results of operations and financial condition.

Additionally, there are certain provisions under Chilean law that may affect our ability to foreclose or liquidate residential mortgages granted to us by our customers if the affected real estate has been declared as "family property" by a court. Furthermore, foreclosure will be extremely limited if any party using the real estate has filed with a court a petition requesting that such real estate be declared as family property.

The growth of our loan portfolio may expose us to increased loan losses.

From December 31, 2001 to December 31, 2006, our aggregate loan portfolio (on an unconsolidated combined basis) grew by 40.7% in nominal terms to Ch$11,784,906 million (US$22 billion), while our consumer loan portfolio grew by 146.7% in nominal terms to Ch$1,580,038 million (US$2,956 million), excluding lines of credit and calculated in accordance with the loan classification system of the Superintendency of Banks. Because the method of classification of loans used by the Superintendency of Banks for its public information differs in minor respects from that used by us for internal accounting purposes, the foregoing figures may differ from the figures included in our financial statements. The further expansion of our loan portfolio (particularly in the consumer, small- and mid-sized companies and real estate segments) can be expected to expose us to a higher level of loan losses and require us to establish higher levels of provisions for loan losses.

Our loan portfolio may not continue to grow at the same rate.

There can be no assurance that in the future our loan portfolio will continue to grow at the same or similar rates as the historical growth rate previously experienced by Santiago or Old Santander-Chile. Average loan growth has remained significant in the last five years. According to the Superintendency of Banks, from December 31, 2001 to December 31, 2006, the aggregate amount of loans outstanding in the Chilean banking system (on an unconsolidated basis) grew by 74.4% in nominal terms to Ch$52,782,245 million (US$98,764 million) at December 31, 2006. A reversal of the rate of growth of the Chilean economy, a slowdown in the growth of customer demand, an increase in market competition or changes in governmental regulations could adversely affect the rate of growth of our loan portfolio and our risk index and, accordingly, increase our required allowances for loan losses.

The effectiveness of our credit risk management is affected by the quality and scope of information available in Chile.

In assessing customers' creditworthiness, we rely largely on the credit information available from our own internal databases, the Superintendency of Banks, Dicom (a nationwide credit bureau) and other sources. Due to limitations on the availability of information and the developing information infrastructure in Chile, our assessment of the credit risks associated with a particular customer may not be based on complete, accurate or reliable information. In addition, although we have been improving our credit scoring systems to better assess borrowers' credit risk profiles, we cannot assure you that our credit scoring systems collect complete or accurate information reflecting the actual behavior of customers or that their credit risk can be assessed correctly. Without complete, accurate and reliable information, we have to rely on other publicly available resources and our internal resources, which may not be effective. As a result, our ability to effectively manage our credit risk may be materially and adversely affected.

Fluctuations in the rate of inflation may affect our results of operations.

Although Chilean inflation has been moderate in recent years, Chile has experienced high levels of inflation in the past. High levels of inflation in Chile could adversely affect the Chilean economy and have an adverse effect on our business, financial condition and results of operations. In 2006, inflation rate was 2.6% compared to 3.7% in 2005.

Our assets and liabilities are denominated in Chilean pesos, UF and foreign currencies. The UF is revalued in monthly cycles. On each day in the period beginning the tenth day of the current month through the ninth day of the succeeding month, the nominal peso value of the UF is indexed up (or down in the event of deflation) in order to reflect a proportional amount of the change in the Chilean Consumer Price Index during the prior calendar month. One UF equaled to Ch$17,317.05 at December 31, 2004, Ch$17,974.81 at December 31, 2005 and Ch$18,336.38 at December 31, 2006. The effect of any changes in the nominal peso value of our UF denominated assets and liabilities is reflected in our results of operations as an increase (or decrease, in the event of deflation) in interest revenue and expense, respectively. Our net interest revenue will be positively affected by an inflationary environment to the extent that our average UF denominated assets exceed our average UF denominated liabilities. Our net interest revenue will be negatively affected by inflation in any period in which our average UF denominated liabilities exceed our average UF denominated assets. Our average UF denominated assets exceeded our average UF denominated liabilities by Ch$1,285,290 million, Ch$1,446,290 and Ch$2,567,226 at December 31, 2004, 2005 and 2006, respectively. See "Item 5: Operating and Financial Review and Prospects—D. Selected Statistical Information—Average Balance Sheets, Income Earned from Interest-Earning Assets and Interest Paid on Interest-Bearing Liabilities ." We generally have more UF denominated financial assets than UF denominated financial liabilities and, therefore, benefit from positive monthly inflation figures and we actively manage the size of this gap in accordance with our views of futures inflation expectations. Although we currently benefit from moderate levels of inflation in Chile, due to the current structure of our assets and liabilities (i.e., a significant portion of our loans are indexed to the inflation rate, but there are no corresponding features in deposits, or other funding sources that would increase the size of our funding base), there can be no assurance that our business, financial condition and result of operations in the future will not be adversely affected by changing levels of inflation, especially in a period of deflation.

Our results of operations are affected by interest rate volatility.

Our results of operations depend to a great extent on our net interest revenue. In 2006, net interest revenue represented 77.2% of our operating revenue. Changes in market interest rates could affect the interest rates earned on our interest earning assets differently from the interest rates paid on our interest bearing liabilities leading to a reduction in our net interest revenue or result in a decrease in customer's demand for our loan or deposit products. Interest rates are highly sensitive to many factors beyond our control, including the reserve policies of the Central Bank, deregulation of the financial sector in Chile, domestic and international economic and political conditions and other factors. Any volatility in interest rates could adversely affect our business, our future financial performance and the price of our securities. The following table shows the yields on the Chilean government's 90-day notes as reported by the Central Bank of Chile at year end for the last five years.

Year	Period-end yield on 90-day notes (%)
2002	2.88
2003	2.58
2004	2.32
2005	4.75
2006	5.10

Source: Central Bank.

Since our principal sources of funds are short-term deposits, a sudden shortage of funds could cause an increase in costs of funding and an adverse effect on our revenues.

Customer deposits are our primary source of funding. At December 31, 2006, 84.8% of our customer deposits had remaining maturities of one year or less, or were payable on demand. A significant portion of our assets have longer maturities, resulting in a mismatch between the maturities of liabilities and the maturities of assets. If a substantial portion of our depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, our liquidity position, results of operations and financial condition may be materially and adversely affected. We cannot assure you that in the event of a sudden or unexpected shortage of funds in the banking system, any money markets in which we operate will be able to maintain levels of funding without our incurring high funding costs or the liquidation of certain assets. If this were to happen, our results of operations and financial condition may be materially and adversely affected.

We may be unable to meet requirements relating to capital adequacy.

We are required by the General Banking Law to maintain regulatory capital of at least 8% of our risk-weighted assets, net of required loan loss allowance and deductions, and paid-in capital and reserves (“basic capital”) of at least 3% of our total assets, net of required loan loss allowances. As a result of the merger between Old Santander-Chile and Santiago, we were required to maintain a minimum regulatory capital to risk weighted assets ratio of 12%, which was reduced to 11% as of January 1, 2005. At December 31, 2006, the ratio of our basic capital to total assets, net of loan loss allowance, was 6.2%, and the ratio of our regulatory capital to risk-weighted assets, net of loan loss allowance and deductions, was 12.6%. Certain developments could affect our ability to continue to satisfy the current capital adequacy requirements applicable to us, including:

- the increase in risk-weighted assets as a result of the expansion of our business;
- the failure to increase our capital correspondingly;
- losses resulting from a deterioration in our asset quality;
- declines in the value of our investment instrument portfolio; and
- changes in accounting rules or in the guidelines regarding the calculation of the capital adequacy ratios of banks in Chile.

We may also be required to raise additional capital in the future in order to maintain our capital adequacy ratios above the minimum required levels. Our ability to raise additional capital may be limited by numerous factors, including: our future financial condition, results of operations and cash flows; any necessary government regulatory approvals; our credit ratings; general market conditions for capital raising activities by commercial banks and other financial institutions; and domestic and international economic, political and other conditions.

If we require additional capital in the future, we cannot assure you that we will be able to obtain such capital on favorable terms, in a timely manner or at all. Furthermore, the Superintendency of Banks may increase the minimum capital adequacy requirements applicable to us. Accordingly, although we currently meet the applicable capital adequacy requirements, we may face difficulties in meeting these requirements in the future. If we fail to meet the capital adequacy requirements, we may be required to take corrective actions. These measures could materially and adversely affect our business reputation, financial condition and results of operations. In addition, if we are unable to raise sufficient capital in a timely manner, the growth of our loan portfolio and other risk-weighted assets may be restricted, and we may face significant challenges in implementing our business strategy. As a result, our prospects, results of operations and financial condition could be materially and adversely affected.

The restrictions on the exposure of Chilean pension funds may affect our access to funding

Chilean regulations impose restrictions on the share of assets that a Chilean pension fund management company (*Administrador de Fondos de Pension*, an "AFP") may allocate to a single issuer, which is currently 7% per fund managed by an AFP (including any securities issued by the issuer and any bank deposits with the issuer). If the exposure of an AFP to a single issuer exceeds the 7% limit, it is required to reduce its exposure below the limit within three years. At December 31, 2006, the aggregate exposure of AFPs to us was approximately Ch$2,519,789 million (US$4,715 million) or 5.4% of their total assets, and the largest exposure of a single AFP to us was 6.6% of its total assets. If the exposure of any AFP to us exceeds the regulatory limit, we would need to seek alternative sources of funding, which could be more expensive and, as a consequence, may have a material adverse effect on our financial condition and results of operations.

Pension funds must also comply with other investment limits. Proposed legislation in Chile may relax the limits on making investments abroad in order to permit pension funds to further diversify their investment portfolios. As a result, pension funds may change the composition of their portfolios, including reducing their deposits with local banks. At December 31, 2006, 28.2% of the Bank's time deposits were from AFPs. Although the proposed legislation referred to above is intended to promote a gradual relaxation of the investment limits, and we may be able to substitute the reduced institutional funds with retail deposits, there can be no assurance that this occurrence will not have a material adverse impact on our business, financial condition and results of operations.

Our business is highly dependant on proper functioning and improvement of information technology systems.

Our business is highly dependant on the ability of our information technology systems to accurately process a large number of transactions across numerous and diverse markets and products in a timely manner. The proper functioning of our financial control, risk management, accounting, customer service and other data processing systems is critical to our business and our ability to compete effectively. We have backup data for our key data

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processing systems that could be used in the event of a catastrophe or a failure of our primary systems, and have established alternative communication networks where available. However, we do not operate all of our redundant systems on a real time basis and cannot assure you that our business activities would not be materially disrupted if there were a partial or complete failure of any of these primary information technology systems or communication networks. Such failures could be caused by, among other things, software bugs, computer virus attacks or conversion errors due to system upgrading. In addition, any security breach caused by unauthorized access to information or systems, or intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, could have a material adverse effect on our business, results of operations and financial condition.

Our ability to remain competitive and achieve further growth will depend in part on our ability to upgrade our information technology systems and increase our capacity on a timely and cost effective basis. Any substantial failure to improve or upgrade information technology systems effectively or on timely basis could materially and adversely affect our competitiveness, results of operations and financial condition.

Operational problems or errors can have a material adverse impact on our business, financial condition and results of operations.

Santander-Chile, like all large financial institutions, is exposed to many types of operational risks, including the risk of fraud by employees and outsiders, failure to obtain proper internal authorizations, failure to properly document transactions, equipment failures and errors by employees. Fraud or other misconduct by employees or third parties may be difficult to detect and prevent and could subject us to financial losses and sanctions imposed by governmental authorities as well as seriously harm our reputation. Although Santander-Chile maintains a system of operational controls, there can be no assurance that operational problems or errors will not occur and that their occurrence will not have a material adverse impact on our business, financial condition and results of operations.

Banking regulations may restrict our operations and thereby adversely affect our financial condition and results of operations.

We are subject to regulation by the Superintendency of Banks. In addition, we are subject to regulation by the Central Bank with regard to certain matters, including reserve requirements and interest rates and foreign exchange mismatches and market risks . During the Chilean financial crisis of 1982 and 1983, the Central Bank and the Superintendency of Banks strictly controlled the funding, lending and general business matters of the banking industry in Chile.

Pursuant to the General Banking Law, all Chilean banks may, subject to the approval of the Superintendency of Banks, engage in certain businesses other than commercial banking depending on the risk associated with such business and the financial strength of the bank. Such additional businesses include securities brokerage, mutual fund management, securitization, insurance brokerage, leasing, factoring, financial advisory, custody and transportation of securities, loan collection and financial services. The General Banking Law also provides the Chilean banking system with a modified version of the capital adequacy guidelines issued by the Basle Committee on Banking Regulation and Supervisory Practices and limits the discretion of the Superintendency of Banks to deny new banking licenses. There can be no assurance that regulators will not in the future impose more restrictive limitations on the activities of banks, including us, than those currently in effect. Any such change could have a material adverse effect on our financial condition or results of operations.

Historically, Chilean banks have not paid interest on amounts deposited in checking accounts. However, since June 1, 2002, the Central Bank allows banks to pay interest on checking accounts. Currently, there are no applicable restrictions on the interest that may be paid on checking accounts. We have begun to pay interest on some checking accounts under certain conditions. If competition or other factors lead us to pay higher interest rates on checking accounts, to relax the conditions under which we pay interest or to increase the number of checking accounts on which we pay interest, any such change could have a material adverse effect on our financial condition or results of operations.

We must maintain higher regulatory capital to risk-weighted assets than other banks in Chile. The merger of Old Santander-Chile and Santiago required a special regulatory preapproval of the Superintendency of Banks, which was granted on May 16, 2002. The resolution granting this preapproval imposed a mandatory minimum regulatory capital to risk weighted assets ratio of 12% for the merged bank compared to the 8% minimum for other banks in Chile. Effective January 1, 2005, the Superintendency of Banks lowered our minimum regulatory capital to risk- weighted assets ratio to 11%. Although we have not failed in the past to comply with our capital maintenance obligations, there can be no assurance that we will be able to do so in the future.

We are subject to regulatory inspections and examinations.

We are also subject to various inspections, examinations, inquiries, audits and other regulatory requirements by Chilean regulatory authorities. We cannot assure you that we will be able to meet all the applicable regulatory requirements and guidelines, or that we will not be subject to sanctions, fines and other penalties in the future as a result of non-compliance. If sanctions, fines and other penalties are imposed on us for failure to comply with applicable requirements, guidelines or regulations, our business, financial condition, results of operations and our reputation and ability to engage in business may be materially and adversely affected.

Risks Relating to Chile

Our growth and profitability depend on the level of economic activity in Chile.

A substantial amount of our loans are to borrowers doing business in Chile. Accordingly, the recoverability of these loans in particular, our ability to increase the amount of loans outstanding and our results of operations and financial condition in general, are dependent to a significant extent on the level of economic activity in Chile. Our results of operations and financial condition could be affected by changes in economic or other policies of the Chilean government, which has exercised and continues to exercise a substantial influence over many aspects of the private sector, or other political or economic developments in Chile. We cannot assure you that the Chilean economy will continue to grow in the future or that those future developments in or affecting Chile’s exports will not materially and adversely affect our business, financial condition or results of operations.

Economic problems encountered by other countries may adversely affect the Chilean economy, our results of operations and the market value of our securities.

The prices of securities issued by Chilean companies, including banks, are to varying degrees influenced by economic and market considerations in other countries. We cannot assure you that future developments in or affecting the Chilean economy, including consequences of economic difficulties in other markets, will not materially and adversely affect our business, financial condition or results of operations.

We are directly exposed to risks related to the weakness and volatility of the economic and political situation in Latin America, especially in Argentina and Brazil. Although the government have stimulated economic growth in Argentina, if Argentina’s economic environment significantly deteriorates or does not further improve, the economy in Chile, as a neighboring country and trading partner, could also be affected and could experience slower growth than in recent years. The recent cuts in gas exports from Argentina to Chile could also adversely affect economic growth in Chile. Our business could be affected by an economic downturn in Brazil. This could result in the need for us to increase our loan allowances, thus affecting our financial results, our results of operations and the price of our securities. At December 31, 2006, approximately 3.3% of our loans were held abroad and 0.60% of our loans were comprised of loans to companies in Latin American countries. We cannot assure you that crisis and political uncertainty in other Latin American countries will not have an adverse effect on Chile, the price of our securities or our business.

Currency fluctuations could adversely affect our financial condition and results of operations and the value of our securities.

Any future changes in the value of the Chilean peso against the U.S. dollar could affect the dollar value of our securities. The peso has been subject to large devaluations and appreciations in the past and could be subject to significant fluctuations in the future. Our results of operations may be affected by fluctuations in the exchange rates between the peso and the dollar despite our policy and Chilean regulations relating to the general avoidance of material exchange rate exposure. In order to avoid material exchange rate exposure, we enter into forward exchange transactions. The following table shows the value of the Chilean peso relative to the U.S. dollar as reported by the Central Bank at year end for the last five years.

Year	Exchange rate (Ch$) Year-end	Devaluation (appreciation) (%)
2002	712.38	8.6%
2003	599.42	(15.9%)
2004	559.83	(6.6%)
2005	514.21	(8.1%)
2006	534.43	3.9%

Source: Central Bank.

We may decide to change our policy regarding exchange rate exposure. Regulations that limit such exposures may also be amended or eliminated. Greater exchange rate risk will increase our exposure to the devaluation of the peso, and any such devaluation may impair our capacity to service foreign currency obligations and may, therefore, materially and adversely affect our financial condition and results of operations. Notwithstanding the existence of general policies and regulations that limit material exchange rate exposures, the economic policies of the Chilean government and any future fluctuations of the peso against the dollar could affect our financial condition and results of operations.

Furthermore, Chilean tradings in the shares underlying our ADSs will be conducted in pesos. Cash distributions with respect to our shares of common stock are received in Chilean pesos by the depositary which then will convert such amounts to U.S. dollars at the then prevailing exchange rate for the purpose of making payments in respect of our ADSs. If the value of the Chilean peso falls relative to the U.S. dollar, the dollar value of our ADSs and any distributions to be received from the depositary will be reduced. In addition, the depositary will incur customary current conversion costs (to be borne by the holders of our ADSs) in connection with the conversion and subsequent distribution of dividends or other payments.

Chile's banking regulatory and capital markets environment is continually evolving and may change.

Chilean laws, regulations, policies and interpretations of laws relating to the banking sector and financial institutions are continually evolving and changing. For example, legislation is being discussed regarding the elimination of reserve requirements, permissions to enter the pension fund business and modifications to maximum lending rates. Changes in banking regulations may materially and adversely affect our business, financial condition and results of operations.

In addition, certain aspects of Chilean legislation governing the capital markets is currently being reviewed by the Constitutional Court, after being approved by the Chilean Congress and a new law known as *Mercado de Capitales II* ("MK2") is expected to be passed soon. MK2 is expected to, among other things, modify certain provisions set forth in the General Banking Law that limit the lending activity of banks. Under current legislation, banks are not allowed to grant unsecured loans to one individual or entity in an aggregate amount in excess of 5% of the regulatory capital of the bank. This limit is increased to 25% if the amount that exceeds said 5% corresponds to loans secured by collateral with an aggregate value equal to or higher than such excess. MK2 is expected to increase these limits to 10% and 30% of the regulatory capital of the bank, respectively, unless the loans are granted to individuals or entities directly or indirectly related to the property or management of the bank, in which case the limits are expected to be maintained in 5% and 25%, respectively. Although any such increase may increase our lending activity, it may also increase the risks associated with the growth of our loan portfolio. See "Item 3: Key Information—D. Risk Factors—Risks Associated with Our Business—The growth of our loan portfolio may expose us to increased loan losses."

Any downgrading of Chile debt credit rating for domestic and international debt by international credit rating agencies may adversely affect our business, our future financial performance, stockholder's equity and the price of our shares and ADSs.

Our ratings are equivalent to the Chilean sovereign ratings. In 2006, Moody's improved its rating for the Republic of Chile and also for us. Any adverse revisions to Chile's credit ratings for domestic and international debt by international rating agencies may adversely affect our ratings, and our business, future financial performance, stockholder's equity and the price of our equity shares and ADSs.

Chile has different corporate disclosure and accounting standards than those you may be familiar with in the United States.

We prepare our financial statements in accordance with Chilean GAAP, which requires management to make estimates and assumptions with respect to certain matters that are inherently uncertain. The consolidated financial statements include various estimates and assumptions, including but not limited to the adequacy of the allowance for loan losses, estimates of the fair value of certain financial instruments, the selection of useful lives of certain assets and the valuation and recoverability of goodwill and deferred taxes. We evaluate these estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results in future periods could differ from those produced by such estimates and assumptions, and if these differences were significant enough, our reported results of operations would be affected materially.

Accounting, financial reporting and securities disclosure requirements in Chile differ from those in the United States. Accordingly, the information about us available to you will not be the same as the information available to shareholders of a U.S. financial institution. There are also material differences between Chilean and U.S. accounting and financial reporting standards. As a result, Chilean financial statements and reported earnings generally differ from those reported based on U.S. accounting and reporting standards.

As a regulated financial institution, we are required to submit to the Superintendency of Banks unaudited unconsolidated balance sheets and income statements, excluding any note disclosure, prepared in accordance with Chilean GAAP and the rules of the Superintendency of Banks on a monthly basis. Such disclosure differs in a number of significant respects from information generally available in the United States with respect to U.S. financial institutions.

The securities laws of Chile, which govern open or publicly listed companies such as us, have a principal objective of promoting disclosure of all material corporate information to the public. Chilean disclosure requirements, however, differ from those in the United States in some material respects. In addition, although Chilean law imposes restrictions on insider trading and price manipulation, applicable Chilean laws are different from those in the United States and in certain respects the Chilean securities markets are not as highly regulated and supervised as the U.S. securities markets.

Our status as a controlled company and a foreign private issuer exempts us from certain of the corporate governance standards of the New York Stock Exchange, limiting the protections afforded to investors.

We are a "controlled company" and a "foreign private issuer" within the meaning of the New York Stock Exchange corporate governance standards. Under the New York Stock Exchange rules, a controlled company is exempt from certain New York Stock Exchange corporate governance requirements. In addition, a foreign private issuer may elect to comply with the practice of its home country and not to comply with certain New York Stock Exchange corporate governance requirements, including the requirements that (1) a majority of the board of directors consist of independent directors, (2) a nominating and corporate governance committee be established that is composed entirely of independent directors and has a written charter addressing the committee's purpose and responsibilities, (3) a compensation committee be established that is composed entirely of independent directors and has a written charter addressing the committee's purpose and responsibilities and (4) an annual performance evaluation of the nominating and corporate governance and compensation committees be undertaken. We currently use these exemptions and intend to continue using these exemptions. Accordingly, you will not have the same protections afforded to shareholders of companies that are subject to all New York Stock Exchange corporate governance requirements.

Chile imposes controls on foreign investment and repatriation of investments that may affect your investment in, and earnings from, our ADSs.

Equity investments in Chile by persons who are not Chilean residents have generally been subject to various exchange control regulations which restrict the repatriation of the investments and earnings therefrom. In April 2001, the Central Bank eliminated the regulations that affected foreign investors except that investors are still required to provide the Central Bank with information related to equity investments and conduct such operations within Chile's Formal Exchange Market. The ADSs are subject to a contract, dated May 17, 1994, among the depositary, us and the Central Bank (the "Foreign Investment Contract") that remains in full force and effect. The ADSs continue to be governed by the provisions of the Foreign Investment Contract subject to the regulations in existence prior to April 2001. The Foreign Investment Contract grants the depositary and the holders of the ADSs access to the Formal Exchange Market, which permits the depositary to remit dividends it receives from us to the holders of the ADSs. The Foreign Investment Contract also permits ADS holders to repatriate the proceeds from the sale of shares of our common stock withdrawn from the ADR facility, or that have been received free of payment as a consequence of spin offs, mergers, capital increases, wind-ups, share dividends or preemptive rights transfers, enabling them to acquire the foreign currency necessary to repatriate earnings from such investments. Pursuant to Chilean law, the Foreign Investment Contract cannot be amended unilaterally by the Central Bank, and there are judicial precedents (although not binding with respect to future judicial decisions) indicating that contracts of this type may not be abrogated by future legislative changes or resolutions of the Advisory Council of the Central Bank. Holders of shares of our common stock, except for shares of our common stock withdrawn from the ADS facility or received in the manner described above, are not entitled to the benefits of the Foreign Investment Contract, may not have access to the Formal Exchange Market, and may have restrictions on their ability to repatriate investments in shares of our common stock and earnings therefrom.

Holders of ADSs are entitled to receive dividends on the underlying shares to the same extent as the holders of shares. Dividends received by holders of ADSs will be paid net of foreign currency exchange fees and expenses of the depositary and will be subject to Chilean withholding tax, currently imposed at a rate of 35.0% (subject to credits in certain cases). If for any reason, including changes in Chilean law, the depositary were unable to convert Chilean pesos to U.S. dollars, investors would receive dividends and other distributions, if any, in Chilean pesos.

We cannot assure you that additional Chilean restrictions applicable to holders of our ADSs, the disposition of the shares underlying them or the repatriation of the proceeds from such disposition or the payment of dividends will not be imposed in the future, nor can we advise you as to the duration or impact of such restrictions if imposed.

ADS holders may not be able to effect service of process on, or enforce judgments or bring original actions against, us, our directors or our executive officers, which may limit the ability of holders of ADSs to seek relief against us.

We are a Chilean corporation. None of our directors are residents of the United States and most of our executive officers reside outside the United States. In addition, a substantial portion of our assets and the assets of our directors and executive officers are located outside the United States. As a result, it may be difficult for ADS holders to effect service of process outside Chile upon us or our directors and executive officers or to bring an action against us or such persons in the United States or Chile to enforce liabilities based on U.S. federal securities laws. It may also be difficult for ADS holders to enforce in the United States or in Chilean courts money judgments obtained in United States courts against us or our directors and executive officers based on civil liability provisions of the U.S. federal securities laws. If a U.S. court grants a final money judgment in an action based on the civil liability provisions of the federal securities laws of the United States, enforceability of this money judgment in Chile will be subject to the obtaining of the relevant "exequatur" (i.e., recognition and enforcement of the foreign judgment) according to Chilean civil procedure law currently in force, and consequently, subject to the satisfaction of certain factors. The most important of these factors are the existence of reciprocity, the absence of a conflicting judgment by a Chilean court relating to the same parties and arising from the same facts and circumstances and the Chilean courts' determination that the U.S. courts had jurisdiction, that process was appropriately served on the defendant and that enforcement would not violate Chilean public policy. Failure to satisfy any of such requirements may result in non-enforcement of your rights.

We cannot assure you of the accuracy or comparability of facts, forecasts and statistics contained in this report with respect to Chile, its economy and global banking industries.

Facts, forecasts and statistics in this document relating to Chile, Chile's economy and Chilean global banking industries, including market share information, are derived form various official and other publicly available sources generally believed to be reliable. However, we cannot guarantee the quality and reliability of such official and other sources of materials. In addition, these facts, forecasts and statistics have not been independently verified by us and, therefore, we make no representation as to the accuracy of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside of Chile and may not be complete or up to date. We have taken reasonable care in reproducing or extracting the information from such sources. However, because of possible flawed or ineffective methodologies underlying the published information or discrepancies between the published information and market practice and other problems, these facts, forecasts or statistics may be inaccurate and may not be comparable from period to period or to facts, forecasts or statistics produced for other economies, and you should not unduly rely upon them.

Risks Relating to our ADSs

There may be a lack of liquidity and market for our shares and ADSs.

The ADSs are listed and traded on the NYSE. The common stock is listed and traded on the Santiago Stock Exchange, the Chile Electronic Stock Exchange and the Valparaiso Stock Exchange, which we refer to collectively as the Chilean Stock Exchanges, although the trading market for the common stock is small by international standards. At December 31, 2006, we had 188,446,126,794 shares of common stock outstanding. The Chilean securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. According to Article 14 of the *Ley de Mercado de Valores, Ley No. 18,045*, or the Chilean Securities Market Law, the *Superintendencia de Valores y Seguros*, or the Superintendency of Securities and Insurance, may suspend the offer, quotation or trading of shares of any company listed on one or more Chilean Stock Exchanges for up to 30 days if, in its opinion, such suspension is necessary to protect investors or is justified for reasons of public interest. Such suspension may be extended for up to 120 days. If, at the expiration of the extension, the circumstances giving rise to the original suspension have not changed, the Superintendency of Securities and Insurance will then cancel the relevant listing in the registry of securities. In addition, the Santiago Stock Exchange may inquire as to any movement in the price of any securities in excess of 10% and suspend trading in such securities for a day if it deems necessary.

Although the common stock is traded on the Chilean Stock Exchanges, there can be no assurance that a liquid trading market for the common stock will continue. Approximately 23.09% of our outstanding common stock is held by the public (i.e., shareholders other than Banco Santander Central Hispano S.A., to which we refer as Banco Santander Central Hispano, and its affiliates), including our shares that are represented by ADSs trading on the NYSE. A limited trading market in general and our concentrated ownership in particular may impair the ability of an ADS holder to sell in the Chilean market shares of common stock obtained upon withdrawal of such shares from the ADR facility in the amount and at the price and time such holder desires, and could increase the volatility of the price of the ADSs.

You may be unable to exercise preemptive rights.

The *Ley Sobre Sociedades Anónimas, Ley No. 18,046* and the *Reglamento de Sociedades Anónimas*, which we refer to collectively as the Chilean Companies Law, and applicable regulations require that whenever we issue new common stock for cash, we grant preemptive rights to all of our shareholders (including holders of ADSs), giving them the right to purchase a sufficient number of shares to maintain their existing ownership percentage. Such an offering would not be possible unless a registration statement under the U.S. Securities Act of 1933, as amended, were effective with respect to such rights and common stock or an exemption from the registration requirements thereunder were available.

Since we are not obligated to elect to make a registration statement available with respect to such rights and the common stock, you may not be able to exercise your preemptive rights. If a registration statement is not filed or an applicable exemption is not available, the depositary will sell such holders' preemptive rights and distribute the proceeds thereof if a premium can be recognized over the cost of any such sale.

You may have fewer and less well defined shareholders' rights than with shares of a company in the United States.

Our corporate affairs are governed by our *estatutos*, or bylaws, and the laws of Chile. Under such laws, our shareholders may have fewer or less well defined rights than they might have as shareholders of a corporation incorporated in a U.S. jurisdiction. For example, under legislation applicable to Chilean banks, our shareholders would not be entitled to appraisal rights in the event of a merger or other business combination undertaken by us.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Overview

We were formed on August 1, 2002 through the merger of Santiago and Old Santander-Chile, both of which were subsidiaries of our controlling shareholder, Banco Santander Central Hispano. We are the largest bank in Chile in terms of total assets, total deposits, loans and shareholders' equity. At December 31, 2006, we had total assets of Ch$14,843,439 million (US$27,774 million), loans net of allowances outstanding of Ch$11,614,895 million (US$21,733 million), deposits of Ch$9,392,332 million (US$17,574 million) and shareholders' equity of Ch$1,245,339 million (US$2,330 million). As of December 31, 2006, we employed 8,184 people (on a consolidated basis) and had the largest private branch network in Chile with 397 branches (includes payment centers Santander SuperCaja). Our headquarters are located in Santiago and we operate in every major region of Chile.

We provide a broad range of commercial and retail banking services to our customers, including Chilean peso and foreign currency denominated loans to finance a variety of commercial transactions, trade financing, foreign currency forward contracts, credit lines and a variety of retail banking services, including mortgage financing. We seek to offer our customers a wide range of products while providing high levels of service. In addition to our traditional banking operations, we offer a variety of financial services including financial leasing, financial advisory services, mutual fund management, securities brokerage, insurance brokerage and investment management.

The legal predecessor of Santander-Chile was Banco Santiago (Santiago). Santiago was incorporated by public deed dated September 7, 1977 granted at the Notary Office of Alfredo Astaburuaga Gálvez. Santiago received its permission to incorporate and function as a bank by Resolution No. 118 of the Superintendency of Banks on October 27, 1977. The Bank's bylaws were approved by Resolution No. 103 of the Superintendency of Banks on September 22, 1977. In January 1997, Santiago merged with Banco O'Higgins with Santiago being the surviving entity. In 1999, Santiago became a controlled subsidiary of Banco Santander Central Hispano. As of June 30, 2002, Santiago was the second largest private sector bank in Chile in terms of total assets, deposits, loans and shareholders' equity.

Old Santander-Chile was established as a subsidiary of Banco Santander Central Hispano in 1978. In 1982, Old Santander-Chile acquired a significant portion of the assets and liabilities of Banco Español-Chile, a domestic bank that had become insolvent. In July 1996, Old Santander-Chile was merged into Banco Osorno y la Unión ("Banco Osorno") becoming "Banco Santander-Chile", the third largest private bank in terms of outstanding loans at that date.

Our principal executive offices are located at Bandera 140, Santiago, Chile. Our telephone number is 562-320-2000 and our website is www.santandersantiago.cl. None of the information contained on our website is incorporated by reference into, or forms part of, this Annual Report. Our agent for service of process in the United States is Puglisi &

Associates.

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Relationship with Banco Santander Central Hispano

We believe that our relationship with our controlling shareholder, Banco Santander Central Hispano, offers us a significant competitive advantage over our peer Chilean banks. Banco Santander Central Hispano is one of the largest financial groups in Latin America, in terms of total assets measured on a region-wide basis. It is the largest financial group in Spain and is a major player elsewhere in Europe, including the United Kingdom through its Abbey subsidiary and Portugal, where it is the third-largest banking group. Through Santander Consumer it also operates a leading consumer finance franchise in Germany, Italy, Spain and several other European countries.

Our relationship with Banco Santander Central Hispano provides us with access to the group's client base, while its multinational focus allows us to offer international solutions to our clients' financial needs. We also have the benefit of selectively borrowing from Banco Santander Central Hispano's product offerings in other countries as well as benefiting from their know-how in systems management. We believe that our relationship with Banco Santander Central Hispano will also enhance our ability to manage credit and market risks by adopting policies and know-how developed by Banco Santander Central Hispano. Our internal auditing function has been strengthened and is more independent from management as a result of the addition of an internal auditing department that concurrently reports directly to our Audit Committee and the audit committee of Banco Santander Central Hispano. We believe that this structure leads to improved monitoring and control of our exposure to operational risks.

Banco Santander Central Hispano's support includes the assignment of managerial personnel to key supervisory areas of Santander-Chile, like Risks, Auditing, Accounting and Financial Control. Santander-Chile does not pay any management fees to Banco Santander Central Hispano in connection with these support services.

B. Organizational Structure

Banco Santander Central Hispano controls Santander-Chile through its holdings in Teatinos Siglo XXI S.A., which we refer to as "Teatinos Siglo XXI", and Santander-Chile Holding, both controlled subsidiaries. This gives Santander Central Hispano control over 76.91% of the shares of the Bank. Economic participation when excluding minority shareholders that participate in Santander Chile Holding is 76.73%.

Shareholder	Number of Shares	Percentage
Teatinos Siglo XXI S.A.	78,108,391,607	41.45%
Santander Chile Holding	66,822,519,695	35.46%

Management Team

The chart below sets forth the names and areas of responsibility of our senior commercial managers.

The chart below sets forth the names and areas of responsibilities of our operating managers.

C. Business Overview

We have 375 branches in total, 103 of which operated under the Santander Banefe brand name. The remaining 272 branches are operated under the Santander Santiago brand name. In addition, we have 22 payment centers with a brand name of Santander SuperCaja. We provide a full range of financial services to corporate and individual customers. We divide our clients into the following segments:

The retail segment primarily serves the following types of customers:

- *Lower-middle to middle-income (Santander Banefe)*, consisting of individuals with monthly income between Ch$120,000 (US$225) and Ch$400,000 (US$749), which are served through our Banefe branch network. This segment accounts for 5.1% of our loans at December 31, 2006. This segment offers customers a range of products, including consumer loans, credit cards, auto loans, residential mortgage loans, debit card accounts, savings products, mutual funds and insurance brokerage.

- *Middle- and upper-income*, consisting of individuals with a monthly income greater than Ch$400,000 (US$749). Clients in this segment account for 38.1% of our loans at December 31, 2006 and are offered a range of products, including consumer loans, credit cards, auto loans, commercial loans, foreign trade financing, residential mortgage loans, checking accounts, savings products, mutual funds and insurance brokerage.

- *Small businesses*, consisting of small companies with annual sales less than Ch$1,200 million (US$2.2 million). At December 31, 2006, small companies, or SMEs, represented approximately 16.0% of our total loans outstanding. Customers in this segment are offered a range of products, including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, savings products, mutual funds and insurance brokerage.

The Middle-market segment consists primarily of mid-sized companies, companies in the real estate sector and large companies.

- *Mid-sized companies*, consisting of companies with annual sales over Ch$1,200 million (US$2.2 million) and up to Ch$3,500 million (US$6.5 million). Customers in this segment are offered a wide range of products, including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, cash management, treasury services, financial advisory, savings products, mutual funds and insurance brokerage. At December 31, 2006, these clients represented 8.2% of our total loans outstanding.

- *Real estate*. This segment includes all companies in the real estate sector. At December 31, 2006, these clients represented 4.7% of our total loans outstanding. Apart from traditional banking services, we also offer clients in the real estate sector specialized services for financing primarily residential projects in order to increase the sale of residential mortgage loans.

- *Large companies*, consisting of companies with annual sales over Ch$3,500 million (US$6.5 million). Customers in this segment are offered a wide range of products, including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, cash management, treasury services, financial advisory, savings products, mutual funds and insurance brokerage. At December 31, 2006, these clients represented 9.6% of our total loans outstanding.

The Wholesale segment is comprised of:

- Companies that are foreign multinationals or part of a large Chilean economic group with sales over Ch$3,500 million (US$6.5 million). At December 31, 2006, these clients represented 15.1% of our total loans outstanding. Customers in this segment are offered a wide range of products, including commercial loans, leasing, factoring, foreign trade, mortgage loans, checking accounts, cash management, treasury services, financial advisory, savings products, mutual funds and insurance brokerage.

The Institutional segment is comprised of:

- Institutional corporations such as universities, government agencies, municipalities and regional governments. At December 31, 2006, these clients represented 1.9% of our total loans outstanding. We offer these customers a range of products, including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, cash management, savings products, mutual funds and insurance brokerage.

The Treasury Division provides sophisticated financial products mainly to companies in the wholesale banking and the middle market segments, including such products as short-term financing and funding, securities brokerage, interest rate and foreign currency derivatives, securitization services and other tailored financial products. The Treasury division also manages the Bank’s trading positions as well as the non-trading investment portfolio.

Our leasing subsidiary (Santiago Leasing S.A.) has been segmented into the above categories. The subsidiary Santander S.A. Agente de Valores is included in the Treasury Division and the mutual fund and insurance brokerage subsidiaries are included in the various sub-segments (other than in the Treasury Division).

The table below sets forth our lines of business and certain statistical information relating to each of them at and for the year ended December 31, 2006. Please see Note 26(y) to our Audited Consolidated Financial Statements for details of revenue by business segment in the last three years.

	At and for the year ended December 31, 2006					
Segment	**Loans**	**Net interest revenue**	**Fees, net**	**Net loan loss provisions (1)**	**Financial transactions, net (2)**	**Net segment contribution (3)**
	(in millions of constant Ch$ as of December 31, 2006)					
Individuals	**5,097,010**	**332,444**	**103,476**	**(101,753)**	**-**	**334,167**
Santander Banefe	602,960	104,505	22,059	(51,893)	-	74,671
Middle-upper income	4,487,044	227,590	81,374	(49,957)	-	259,007
Santiago Leasing S.A.	7,006	349	43	97	-	489
Small companies	**1,890,736**	**129,854**	**28,671**	**(20,840)**	**-**	**137,685**
Total Retail	**6,987,746**	**462,298**	**132,147**	**(122,593)**	**-**	**471,852**
Middle-market	**2,679,108**	**73,820**	**13,981**	**(720)**	**-**	**87,081**

Mid-sized companies	962,649	33,341	6,846	(3,501)	-	36,686
Real estate	554,294	10,350	1,422	1,634	-	13,406
Large companies	1,128,536	28,456	5,508	680	-	34,644
Santiago Leasing S.A.	33,629	1,673	205	467	-	2,345
Wholesale	**1,782,052**	**30,469**	**7,536**	**703**	**-**	**38,708**

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	At and for the year ended December 31, 2006					
Segment	Loans	Net interest revenue	Fees, net	Net loan loss provisions (1)	Financial transactions, net (2)	Net segment contribution (3)
	(in millions of constant Ch$ as of December 31, 2006)					
Institutional	**229,242**	**9,510**	**1,201**	**481**	**-**	**11,192**
Treasury (4)	**-**	**32,479**	**1,303**	**-**	**51,604**	**85,386**
Others (5)	**110,811**	**3,678**	**6,382**	**(893)**	**-**	**9,167**
Total	**11,788,959**	**612,254**	**162,550**	**(123,022)**	**51,604**	**703,386**

(1) Includes gross provisions for loan losses, net of releases on recoveries.

(2) Includes the net gains from trading, net mark-to-market gains and net foreign exchange transactions.

(3) Equal to the sum of net interest revenue, net fee income and net financial transactions, minus net provision for loan losses.

(4) Includes Santander S.A. Agente de Valores.

(5) Includes contribution of other Bank subsidiaries and other non-segmented items.

Operations through Subsidiaries

The General Banking Law was amended on November 4, 1997, to extend the scope of a bank's permissible activities, which permitted us to directly provide leasing and financial advisory services we could formerly offer only through our subsidiaries, to offer investment advisory services outside of Chile and to undertake activities we could not formerly offer directly or through subsidiaries, such as factoring, securitization, foreign investment funds, custody and transport of securities and insurance brokerage services.

For the year ended December 31, 2006, our subsidiaries collectively accounted for approximately 13% of our consolidated net income. The assets and operating income of these subsidiaries as of and for the year ended December 31, 2006 represented 5.6% and 7.6% of our total assets and operating income, respectively.

	Percentage Owned					
	At December 31, 2005			At December 31, 2006		
	Direct %	Indirect %	Total %	Direct %	Indirect %	Total %
Subsidiary						
Santiago Leasing S.A.	99.50	—	99.50	99.50	—	99.50
Santiago Corredores de Bolsa Ltda.	99.19	0.81	100.00	99.19	0.81	100.00
Santander Santiago S.A. Administradora General de Fondos	99.96	0.02	99.98	99.96	0.02	99.98
Santander S.A. Agente de Valores	99.03	—	99.03	99.03	—	99.03
Santander Santiago S.A. Sociedad Securitizadora	99.64	—	99.64	99.64	—	99.64
Santander Santiago Corredora de Seguros Ltda.	99.99	—	99.99	99.99	—	99.99

Santander Servicios de Recaudación y Pagos Ltda.	—	—	—	99.90	0.10	100.00

The Board of Directors has approved the merger between Santiago Corredores de Bolsa Ltda, a subsidiary of the Bank, and Santander Investment S.A. Corredores de Bolsa, an indirect subsidiary of Banco Santander Central Hispano. As a result of the proposed merger, the Bank will own 50.6% of the merged entity.

Competition

Overview

The Chilean financial services market consists of a variety of largely distinct sectors. The most important sector, commercial banking, includes a number of privately-owned banks and one public-sector bank, Banco del Estado (which operates within the same legal and regulatory framework as the private-sector banks). The private-sector banks include local banks and a number of foreign-owned banks which are operating in Chile. The Chilean banking system is comprised of 25 private-sector banks and one public-sector bank. Five private-sector banks along with the state-owned bank together accounted for 80.4% of all outstanding loans by Chilean financial institutions at December 31, 2006.

The Chilean banking system has experienced increased competition in recent years largely due to consolidation in the industry and new legislation. For example, the merger of Banco de Chile with Banco de A. Edwards, effective January 2, 2002, resulted in the creation at that moment of the largest bank in Chile. Shortly after that merger was consummated, Banco Santander Central Hispano announced the merger of the two banks it owned in Chile, Banco Santander-Chile and Banco Santiago, creating the largest bank in Chile. We also face competition from non-bank and non-finance competitors (principally department stores) with respect to some of our credit products, such as credit cards, consumer loans and insurance brokerage. In addition, we face competition from non-bank finance competitors, such as leasing, factoring and automobile finance companies, with respect to credit products, and mutual funds, pension funds and insurance companies, with respect to savings products. In May 2007, Falabella, Chile's largest retailer, and DKS, Chile's largest food retailer, announced plans to merge. According to our internal estimates, this would create the largest non-bank consumer finance company in Chile. Currently, banks continue to be the main suppliers of leasing, factoring and mutual funds, and the insurance sales business has grown rapidly.

As shown in the following table, we are the market leader in substantially all types of banking services in Chile:

	Market Share at December 31, 2005	**Market Share at December 31, 2006**	**Rank as of at December 31, 2006**
Commercial loans	19.8%	18.7%	2
Consumer loans	25.6	26.7	1
Mortgage loans (residential and general purpose)	23.5	24.2	1
Residential mortgage loans	24.9	25.9	1
Foreign trade loans (loans for export, import and contingent)	22.0	21.5	1
Total loans	22.6	22.3	1
Deposits	21.5	22.0	1
Mutual funds (assets managed)	21.6	22.1	2
Credit card accounts	37.3	35.8	1
Checking Accounts (1)	25.7	27.1	1
Branches (2)	20.3	20.3	1
ATM locations (3)	28.1	28.6	1

Source: Superintendency of Banks

(1) According to latest data available as of November 2006.

(2) According to latest data available as of March 2007. Excluding special-service payment centers.

(3) According to latest data available as of September 2006.

Our market share in Chile's commercial loan market decreased from December 31, 2005 to December 31, 2006, and we ranked the second in this market at December 31, 2006, compared to the first at December 31, 2005. This is primarily due to our reduction of the relatively low yielding large corporate portfolio.

The following tables set out certain statistics comparing our market position to that of our peer group, defined as the five largest banks in Chile in terms of shareholders' equity as of December 31, 2006.

Loans

As of December 31, 2006, our loan portfolio was the largest among Chilean banks. Our loan portfolio on a stand-alone basis represented 22.3% of the market for loans in the Chilean financial system at such date. The following table sets forth our and our peer group's market shares in terms of loans at the dates indicated.

	At December 31, 2006			At December 31, 2005
Loans	**Ch$ million**	**US$ million**	**Market Share**	**Market Share**
Santander-Chile	11,759,586	22,004	22.3%	22.6%
Banco de Chile	9,503,886	17,783	18.0	18.1
Banco del Estado	6,999,019	13,096	13.3	13.3

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	At December 31, 2006			At December 31, 2005
Loans	**Ch$ million**	**US$ million**	**Market Share**	**Market Share**
Banco de Crédito e Inversiones	6,544,576	12,246	12.4	12.3
BBVA, Chile	4,281,059	8,011	8.1	8.0
Corpbanca	3,331,824	6,234	6.3	6.4
Others	10,362,296	19,389	19.6	19.3
Chilean financial system	52,782,246	98,763	100.0%	100.0%

Source: Superintendency of Banks

Deposits

On a stand alone basis, we had a 22.0% market share in deposits, ranking the first place among banks in Chile at December 31, 2006. Deposit market share is based on total time deposits at the respective dates and the average monthly checking and demand deposit accounts for the corresponding months net of clearance. The following table sets forth our and our peer group's market shares in terms of deposits at the dates indicated.

	At December 31, 2006			At December 31, 2005
Deposits	**Ch$ million**	**US$ million**	**Market Share(1)**	**Market Share**
Santander-Chile	9,208,199	17,230	22.0%	21.5%
Banco de Chile	7,399,525	13,846	17.7	16.4
Banco del Estado	6,401,831	11,979	15.3	17.2
Banco de Crédito e Inversiones	5,206,214	9,742	12.4	12.0
BBVA, Chile	3,394,178	6,351	8.1	8.0
Corpbanca	1,930,245	3,612	4.6	5.2
Others	8,331,739	15,590	19.9	19.7
Chilean financial system	41,871,931	78,350	100.0%	100.0%

(1) The balances of checking and demand deposit accounts are the average monthly balances instead of year-end balances, as we believe that period-end balances are not always reflective of a bank's position in checking and demand deposit accounts. The source for the average balances is the Superintendency of Banks.

Shareholders' equity

With Ch$1,245,339 million (US$2,330 million) in shareholders' equity, at December 31, 2006, we were the largest commercial bank in Chile in terms of shareholders' equity. The following table sets forth our and our peer group's shareholders' equity at December 31, 2005 and 2006.

Equity(1)	At December 31, 2006 Ch$ million	US$ million	Market Share	At December 31, 2005 Market Share
Santander-Chile	1,245,339	2,330	21.9%	21.1%
Banco de Chile	834,631	1,562	14.7	15.1
Banco del Estado	502,232	940	8.8	8.7
Banco de Crédito e Inversiones	587,599	1,099	10.3	9.8
BBVA, Chile	295,786	553	5.2	5.6
Corpbanca	433,249	811	7.6	7.9
Others	1,798,086	3,365	31.5	31.8
Chilean financial system	5,696,922	10,660	100.0%	100.0%

Source: Superintendency of Banks.

(1) Percentage of total shareholders’ equity of all Chilean banks.

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Efficiency

For the year ended December 31, 2006, we were the most efficient bank in our peer group. The following table sets forth our and our peer group's efficiency ratio (defined as operating expenses as a percentage of operating revenue, which is aggregate of net interest revenue, fees and income from services (net) and other operating income (net)) for the year indicated.

Efficiency ratio	As of December 31, 2006 %	As of December 31, 2005 %
Santander-Chile	40.6%	44.0%
Banco de Chile	53.0	50.4
Banco del Estado	58.9	60.7
Banco de Crédito e Inversiones	57.3	52.7
BBVA, Chile	66.6	