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.$", "U.S. dollars" and "dollars" are to United States dollars, references to "Chilean pesos," "pesos" or "Ch$" are to Chilean pesos and references to "UF" are to *Unidades de Fomento*. The UF is an inflation indexed Chilean monetary unit with a value in Chilean pesos that changes daily to reflect changes in the official Consumer Price Index ("CPI") of the *Instituto Nacional de Estadísticas* (the Chilean National Institute of Statistics) for the previous month. 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 thousands of U.S.$)(1)(2) |
| | (in millions of constant Ch$ as of December 31, 2006)(1) | | | | | |
| **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 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 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.

**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.

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**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 |

| | 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 | 68.6 |
| Corpbanca | 56.6 | 40.7 |
| Chilean financial system | 52.5% | 54.1% |

Source: Superintendency of Banks, stand alone basis

***Return on average equity***

As of December 31, 2006, we were the second most profitable bank in our peer group (as measured by return on average equity) and the second most capitalized bank as measured by the BIS ratio. The following table sets forth our and our peer group's return on average equity for the year ended December 31, 2005 and 2006 and BIS ratio at the dates indicated:

| | Return on average equity for the year ended December 31, | | BIS Ratio at December 31, | |
|---|---|---|---|---|
| | 2006 % | 2005 % | 2006 % | 2005 % |
| Santander-Chile | 24.8% | 24.1% | 12.6% | 12.9% |
| Banco de Chile | 25.5 | 26.7 | 10.7 | 11.2 |
| Banco del Estado | 9.9 | 9.2 | 11.1 | 10.7 |
| Banco de Crédito e Inversiones | 22.6 | 23.4 | 10.3 | 10.3 |
| BBVA, Chile | 10.0 | 10.7 | 10.3 | 10.8 |
| Corpbanca | 9.5 | 13.8 | 13.6 | 13.5 |
| Chilean Financial System | 16.7% | 16.3% | 12.5% | 13.0% |

Source: Superintendency of Banks, except Santander-Chile. Calculated by dividing annual net income by monthly average equity. For Santander-Chile, the average equity is calculated on a daily basis by the Bank (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.

***Asset Quality***

At December 31, 2006, on a stand alone basis, we had the fourth lowest loan loss allowance to total loans ratio in our peer group. The following table sets forth our and our peer group's loan loss allowance to total loans ratios as defined by the Superintendency of Banks at the dates indicated.

| | Loan Loss allowances/total loans at December 31, | |
|---|---|---|
| | 2006 | 2005 |
| Santander-Chile | 1.46% | 1.42% |
| Banco de Chile | 1.48 | 1.70 |
| Banco del Estado | 1.67 | 1.64 |
| Banco de Crédito e Inversiones | 1.27 | 1.54 |
| BBVA, Chile | 1.14 | 1.35 |
| Corpbanca | 1.40 | 1.56 |
| Chilean financial system | 1.48% | 1.61% |

Source: Superintendency of Banks

**D. Regulation and Supervision**

**General**

In Chile, only banks may maintain checking accounts for their customers, conduct foreign trade operations, and together with non-banking financial institutions, accept time deposits. The principal authorities that regulate financial institutions in Chile are the Superintendency of Banks and the Central Bank. Chilean banks are primarily subject to the General Banking Law and secondarily, to the extent not inconsistent with this statute, the provisions of the Chilean Companies Law governing public corporations, except for certain provisions which are expressly excluded.

The modern Chilean banking system dates from 1925 and has been characterized by periods of substantial regulation and state intervention, as well as periods of deregulation. The most recent period of deregulation commenced in 1975 and culminated in the adoption of a series of amendments to General Banking Law. That law, amended most recently in 2001, granted additional powers to banks, including general underwriting powers for new issues of certain debt and equity securities and the power to create subsidiaries to engage in activities related to banking, such as brokerage, investment advisory and mutual fund services, administration of investment funds, factoring, securitization products and financial leasing services.

**The Central Bank**

The Central Bank is an autonomous legal entity created by the Chilean Constitution. It is subject to the Chilean Constitution and its own *ley orgánica constitucional*, or organic constitutional law. To the extent not inconsistent with the Chilean Constitution or the Central Bank's organic constitutional law, the Central Bank is also subject to private sector laws (but in no event is it subject to the laws applicable to the public sector). It is directed and administered by a board of directors composed of five members designated by the President of Chile, subject to the approval of the Senate.

The legal purpose of the Central Bank is to maintain the stability of the Chilean peso and the orderly functioning of Chile's internal and external payment system. The Central Bank's powers include setting reserve requirements, regulating the amount of money and credit in circulation, establishing regulations and guidelines regarding finance companies, foreign exchange (including the Formal Exchange Market) and banks' deposit-taking activities.

**The Superintendency of Banks**

Banks are supervised and controlled by the Superintendency of Banks, an independent Chilean governmental agency. The Superintendency of Banks authorizes the creation of new banks and has broad powers to interpret and enforce legal and regulatory requirements applicable to banks and financial companies. Furthermore, in case of noncompliance with such legal and regulatory requirements, the Superintendency of Banks has the ability to impose sanctions. In extreme cases, it can appoint, with the prior approval of the board of directors of the Central Bank, a provisional administrator to manage a bank. It must also approve any amendment to a bank's bylaws or any increase in its capital.

The Superintendency of Banks examines all banks from time to time, generally at least once a year. Banks are also required to submit their financial statements monthly to the Superintendency of Banks, and a bank's financial statements are published at least four times a year in a newspaper with countrywide coverage. In addition, banks are required to provide extensive information regarding their operations at various periodic intervals to the Superintendency of Banks. A bank's annual financial statements and the opinion of its independent auditors must also be submitted to the Superintendency of Banks.

Any person wishing to acquire, directly or indirectly, 10.0% or more of the share capital of a bank must obtain the prior approval of the Superintendency of Banks. Absent such approval, the acquiror of shares so acquired will not have the right to vote them. The Superintendency of Banks may refuse to grant its approval only based on specific grounds set forth in the General Banking Law.

According to Article 35 bis of the General Banking Law, the prior authorization of the Superintendency of Banks is required for:

- the merger of two or more banks;
- the acquisition of all or a substantial portion of a banks' assets and liabilities by another bank;
- the control by the same person, or controlling group, of two or more banks; or
- a substantial increase in the existing control of a bank by a controlling shareholder of that bank.

Such prior authorization is required solely when the acquiring bank or the resulting group of banks would own a significant market share in loans, defined by the Superintendency of Banks to be more than 15.0% of all loans in the Chilean banking system. The intended purchase, merger or expansion may be denied by the Superintendency of Banks; or, if the acquiring bank or resulting group would own a market share in loans determined to be more than 20.0% of all loans in the Chilean banking system, the purchase, merger, or expansion may be conditioned on one or more of the following:

- that the bank or banks maintain regulatory capital higher than 8.0% and up to 14.0% of their risk-weighted assets;
- that the technical reserve established in article 65 of the General Banking Law be applicable when deposits exceed one and a half times the resulting bank's paid-in capital and reserves; or
- that the margin for interbank loans be reduced to 20.0% of the resulting bank's regulatory capital.

If the acquiring bank or resulting group would own a market share in loans determined by the Superintendency of Banks to be more than 15% but less than 20%, the authorization will be conditioned on the bank or banks maintaining a regulatory capital not lower than 10% of their risks-weighted assets for the period specified by the Superintendency of Banks, which may not be less than one year. The calculation of the risk-weighted assets is based on a five-category risk classification system applied to a bank's assets that is based on the Basel Committee recommendations.

Pursuant to the regulations of the Superintendency of Banks, the following ownership disclosures are required:

- a bank is required to inform the Superintendency of Banks of the identity of any person owning, directly or indirectly, 5.0% or more of such banks' shares;
- holders of ADSs must disclose to the depositary the identity of beneficial owners of ADSs registered under such holders' names;

- the depositary is required to notify the bank as to the identity of beneficial owners of ADSs which such depositary has registered and the bank, in turn, is required to notify the Superintendency of Banks as to the identity of the beneficial owners of the ADSs representing 5.0% or more of such banks' shares; and

- bank shareholders who individually hold 10.0% or more of a bank's capital stock and who are controlling shareholders must periodically inform the Superintendency of Banks of their financial condition.

**Limitations on Types of Activities**

Chilean banks can only conduct those activities allowed by the General Banking Law: making loans, accepting deposits and, subject to limitations, making investments and performing financial services. Investments are restricted to real estates for the bank's own use, gold, foreign currencies and debt securities. Through subsidiaries, banks may also engage in other specific financial service activities such as securities brokerage services, equity investments, securities, mutual fund management, investment fund management, financial advisory and leasing activities. Subject to specific limitations and the prior approval of the Superintendency of Banks and the Central Bank, Chilean banks may own majority or minority interests in foreign banks.

On March 2, 2002, the Central Bank of Chile authorized banks to pay interest on checking accounts. On March 20, 2002, the Superintendency of Banks published guidelines establishing that beginning on June 1, 2002, banks could offer a new checking account product that pays interest. The Superintendency of Banks also stated that these accounts may be subject to minimum balance limits and different interest rates depending on average balances held in the account and that banks may also charge fees for the use of this new product. For banks with a solvency score of less than A, the Central Bank has also imposed additional caps to the interest rate that can be paid.

**Deposit Insurance**

The Chilean government guarantees up to 90.0% of the principal amount of certain time and demand deposits and savings accounts held by natural persons with a maximum value of UF120 per person (Ch$2,200,366 or U.S.$4,117 at December 31, 2006) per calendar year in the entire financial system.

**Reserve Requirements**

Deposits are subject to a reserve requirement of 9.0% for peso and foreign currency-denominated demand deposits and 3.6% for UF, peso and foreign currency-denominated time deposits (with terms of less than one year). For purposes of calculating the reserve obligation, banks are authorized to deduct daily from their foreign currency denominated liabilities, the balance in foreign currencies of certain loans and financial investments held outside of Chile, the most relevant of which include:

- cash clearance account, which should be deducted from demand deposits for calculating reserve requirement;
- certain payment orders issued by pension providers;
- the amount set aside for "technical reserve" (as described below), which can be deducted from reserve requirement.

The Central Bank has statutory authority to require banks to maintain reserves of up to an average of 40.0% for demand deposits and up to 20.0% for time deposits (irrespective, in each case, of the currency in which they are denominated) to implement monetary policy. In addition, to the extent that the aggregate amount of the following types of liabilities exceeds 2.5 times the amount of a bank's paid-in capital and reserves, a bank must maintain a 100% "technical reserve" against them: demand deposits, deposits in checking accounts, or obligations payable on sight incurred in the ordinary course of business, other deposits unconditionally payable immediately or within a term of less than 30 days and time deposits payable within 10 days prior to maturity.

The Chilean Congress is currently reviewing legislation that will reform various laws regulating the Chilean capital markets (*Reforma al Mercado de Capitales II*). Among other things, the regulations with respect to "technical reserve" will be modified to permit banks to use regulatory capital to determine the amount of the reserve.

**Minimum Capital**

Under the General Banking Law, a bank is required to have a minimum of UF800,000 (approximately Ch$14,669 million and US$27.4 million as of December 31, 2006) of paid-in capital and reserves, a regulatory capital of at least 8% of its risk-weighted assets, net of required allowances, and paid-in capital and reserves of at least 3% of its total assets, net of required allowances.

However, a bank may begin its operations with 50.0% of such amount, provided that it has a regulatory capital of not less than 12.0% of its risk-weighted assets. Regulatory capital is defined as the aggregate of:

- a bank's paid-in capital and reserves, excluding capital attributable to subsidiaries and foreign branches or *capital básico*;
- its subordinated bonds, valued at their placement price (but decreasing by 20.0% for each year during the period commencing six years prior to maturity), for an amount up to 50.0% of its basic capital; and
- its voluntary allowances for loan losses for an amount of up to 1.25% of risk weighted-assets.

In 2002, the General Banking Law was modified, allowing banks to begin operations with a minimum capital of UF 400,000 (approximately US$13.7 million as of December 31, 2006) of paid-in capital and reserves with the obligation to increase it to UF 800,000 (approximately US$27.4 million as of December 31, 2006) in an undetermined period of time. If a bank maintains a minimum capital of UF 400,000 (approximately US$13.7 million as of December 31, 2006), it is required to maintain a minimum BIS ratio of 12%. When such a bank's paid-in capital reaches UF600,000 (approximately Ch$11,001 million and US$20.6 million as of December 31, 2006), the total capital ratio required is reduced to 10.0%.

**Capital Adequacy Requirements**

According to the General Banking Law, each bank should have a regulatory capital of at least 8.0% of its risk-weighted assets, net of required allowances. The calculation of risk-weighted assets is based on a five-category risk classification system for bank assets that is based on the Basle Committee recommendations. In 2007, the third pillar of Basel II in Chile will include the implementation of capital limits with market risk- and operational risk-weighted assets.

Banks should also have *capital básico*, or basic capital, of at least 3.0% of their total assets, net of allowances. Basic capital is defined as a bank's paid-in capital and reserves and is similar to Tier 1 capital except that it does not include net income for the period.

**Lending Limits**

Under the General Banking Law, Chilean banks are subject to certain lending limits, including the following material limits:

- A bank may not extend to any entity or individual (or any one group of related entities), except for another financial institution, directly or indirectly, unsecured credit in an amount that exceeds 5.0% of the bank's regulatory capital, or in an amount that exceeds 25.0% of its regulatory capital if the excess over 5.0% is secured by certain assets with a value equal to or higher than such excess. In the case of foreign export trade financing, the 5.0% ceiling for unsecured credits is raised to 10.0% and the 25.0% ceiling for secured credits to 30.0%. In the case of financing infrastructure projects built by government concession, the 5.0% ceiling for unsecured credits is raised to 15.0% if secured by a pledge over the concession, or if granted by two or more banks or finance companies which have executed a credit agreement with the builder or holder of the concession;

- a bank may not extend loans to another financial institution subject to the General Banking Law in an aggregate amount exceeding 30.0% of its regulatory capital;

- a bank may not directly or indirectly grant a loan whose purpose is to allow an individual or entity to acquire shares of the lender bank;

- a bank may not lend, directly or indirectly, to a director or any other person who has the power to act on behalf of the bank; and

- a bank may not grant loans to related parties (including holders of more than 1.0% of its shares) on more favorable terms than those generally offered to non-related parties. Loans granted to related parties are subject to the limitations described in the first bullet point above. In addition, the aggregate amount of loans to related parties may not exceed a bank's regulatory capital.

In addition, the General Banking Law limits the aggregate amount of loans that a bank may grant to its employees to 1.5% of its regulatory capital, and provides that no individual employee may receive loans in excess of 10.0% of this 1.5% limit. Notwithstanding these limitations, a bank may grant to each of its employees a single residential mortgage loan for personal use once during such employee's term of employment.

Certain aspects of Chilean legislation governing capital markets is currently being reviewed by the Chilean Congress. MK2 is expected to, among other things, modify some of the provisions concerning lending limits. The 5% limit affecting unsecured credit referred above is expected to be raised to 10% and the ceiling for secured credits is expected to be raised to 30%. Such limits are expected to be maintained in 5% and 25% for unsecured and secured credits, respectively, granted to individuals or entities directly or indirectly related to the property or management of the bank. See "Item 3: Key Information—D. Risk Factors—Risks Relating to Chile—Chile's banking regulatory and capital markets environment is continually evolving and may change."

**Allowance for Loan Losses**

Chilean banks are required to provide to the Superintendency of Banks detailed information regarding their loan portfolio on a monthly basis. The Superintendency of Banks examines and evaluates each financial institution's credit management process, including its compliance with the loan classification guidelines. Banks are classified into four categories: 1, 2, 3 and 4. Each bank's category depends on the models and methods used by the bank to classify its loan portfolio, as determined by the Superintendency of Banks. Category 1 banks are those banks whose methods and models are satisfactory to the Superintendency of Banks. Category 1 banks will be entitled to continue using the same methods and models they currently have in place. A bank classified as a category 2 bank will have to maintain the minimum levels of reserves established by the Superintendency of Banks while its board of directors will be made aware of the problems detected by the Superintendency of Banks and required to take steps to correct them. Banks classified as categories 3 and 4 will have to maintain the minimum levels of reserves established by the Superintendency of Banks until they are authorized by the Superintendency of Banks to do otherwise. We are classified in category 1.

Under the classifications effective January 1, 2004, loans are divided into: (i) consumer loans (including loans granted to individuals for the purpose of financing the acquisition of consumer goods or payment of services); (ii) residential mortgage loans (including loans granted to individuals for the acquisition, construction or repair of residential real estate, in which the value of the property covers at least 100% of the amount of the loan); and (iii) commercial loans (includes all loans other than consumer loans and residential mortgage loans).

In accordance with the regulations, which became effective as of January 1, 2004, the models and methods used to classify our loan portfolio must follow the following guiding principles, which have been established by the Superintendency of Banks and approved by our Board of Directors. In 2006, these models have been improved and various changes were and are being introduced. Group rating are being phased out and replaced by statistical scoring systems. A detailed description of this accounting policy is discussed below under "Item 5: Operating and Financial

Review and Prospects—D. Selected Statistical Information—Loan Portfolio,” and “—Loans by Economic Activity—Classification of Loan Portfolio” and in Note 1 of our Audited Consolidated Financial Statements.

**Capital Markets**

Under the General Banking Law, banks in Chile may purchase, sell, place, underwrite and act as paying agents with respect to certain debt securities. Likewise, banks in Chile may place and underwrite certain equity securities. Bank subsidiaries may also engage in debt placement and dealing, equity issuance advice and securities brokerage, as well as in financial leasing, mutual fund and investment fund administration, investment advisory services and merger and acquisition services. These subsidiaries are regulated by the Superintendency of Banks and, in some cases, also by the Superintendency of Securities and Insurance, the regulator of the Chilean securities market, open-stock corporations and insurance companies.

**Legal Provisions Regarding Banking Institutions with Economic Difficulties**

The General Banking Law provides that if specified adverse circumstances exist at any bank, its board of directors must correct the situation within 30 days from the date of receipt of the relevant financial statements. If the board of directors is unable to do so, it must call a special shareholders' meeting to increase the capital of the bank by the amount necessary to return the bank to financial stability. If the shareholders reject the capital increase, or if it is not effected within the term and in the manner agreed to at the meeting, or if the Superintendency of Banks does not approve the board of directors' proposal, the bank will be barred from increasing its loan portfolio beyond that stated in the financial statements presented to the board of directors and from making any further investments in any instrument other than in instruments issued by the Central Bank. In such a case, or in the event that a bank is unable to make timely payment in respect of its obligations, or if a bank is under provisional administration of the Superintendency of Banks, the General Banking Law provides that the bank may receive a two-year term loan from another bank. The terms and conditions of such a loan must be approved by the directors of both banks, as well as by the Superintendency of Banks, but need not be submitted to the borrowing bank's shareholders for their approval. In any event, a creditor bank cannot grant interbank loans to an insolvent bank in an amount exceeding 25.0% of the creditor bank's regulatory capital. The board of directors of a bank that is unable to make timely payment of its obligations must present a reorganization plan to its creditors in order to capitalize the credits, extend their respective terms, condone debts or take other measures for the payment of the debts. If the board of directors of a bank submits a reorganization plan to its creditors and such arrangement is approved, all subordinated debt issued by the bank, whether or not matured, will be converted by operation of law into common stock in the amount required for the ratio of regulatory capital to risk-weighted assets not to be lower than 12.0% . If a bank fails to pay an obligation, it must notify the Superintendency of Banks, which shall determine if the bank is solvent.

**Dissolution and Liquidation of Banks**

The Superintendency of Banks may establish that a bank should be liquidated for the benefit of its depositors or other creditors when such bank does not have the necessary solvency to continue its operations. In such case, the Superintendency of Banks must revoke a bank's authorization to exist and order its mandatory liquidation, subject to agreement by the Central Bank. The Superintendency of Banks must also revoke a bank's authorization if the reorganization plan of such bank has been rejected twice. The resolution by the Superintendency of Banks must state the reason for ordering the liquidation and must name a liquidator, unless the Chilean Superintendency of Banks assumes this responsibility. When a liquidation is declared, all checking accounts, other demand deposits received in the ordinary course of business, other deposits unconditionally payable immediately or that have a maturity of no more than 30 days, and any other deposits and receipts payable within 10 days, are required to be paid by using existing funds of the bank, its deposits with the Central Bank or its investments in instruments that represent its reserves. If these funds are insufficient to pay these obligations, the liquidator may seize the rest of the bank's assets, as needed. If necessary and in specified circumstances, the Central Bank will lend the bank the funds necessary to pay these obligations. Any such loans are preferential to any claims of other creditors of the liquidated bank.

**Obligations Denominated in Foreign Currencies**

Foreign currency denominated obligations of Chilean banks are subject to various limits and obligations. The regulations of the Central Bank do not permit the difference, whether positive or negative, between a bank's assets and liabilities denominated in any foreign currency (including assets and liabilities denominated in U.S. dollars but payable in pesos, as well as those denominated in pesos and indexed to the U.S. dollar exchange rate) to exceed 20%

of the bank's paid-in capital and reserves; except in the case where the balance of such assets exceeds the balance of such liabilities and the excess difference does not exceed the bank's allowances and reserves denominated in such foreign currency (excluding profits to be remitted abroad). Santander-Chile must also comply with various regulatory and internal limits regarding exposure to movements in foreign exchange rates (See "Item 11: Quantitative and Qualitative Disclosures About Market Risk").

**Investments in Foreign Securities**

Under current Chilean banking regulations, banks in Chile may grant loans to foreign individuals and entities and invest in certain securities of foreign issuers. Chilean banks may only invest in equity securities of foreign banks and certain other foreign companies which may be affiliates of the bank or which would be complementary to the bank's business if such companies were incorporated in Chile. Banks in Chile may also invest in debt securities traded in formal secondary markets. Such debt securities must be (1) securities issued or guaranteed by foreign sovereign states or their central banks or other foreign or international financial entities, and (2) bonds issued by foreign companies. A Bank may invest up to 5% of its regulatory capital in securities of foreign issuers. Such securities must have a minimum rating as follows:

Table 1

| Rating Agency | Short Term | Long Term |
|---|---|---|
| Moody's | P2 | Baa3 |
| Standard and Poor's | A3 | BBB- |
| Fitch IBCA | F2 | BBB- |
| Duff & Phelps | D2 | BBB- |
| Thomson Bank Watch | TBW2 | BBB |

In the event that the sum of the investments in foreign securities which have a: (i) rating below that indicated in Table 1 above, and equal or exceeds the ratings mentioned in the Table 2 below; and (ii) loans granted to other entities resident abroad exceed 20% (and 30% for banks with a BIS ratio equal or exceeding 10%), of the regulatory capital of such bank, the excess is subject to a mandatory reserve of 100%.

Table 2

| Rating Agency | Short Term | Long Term |
|---|---|---|
| Moody's | P2 | Ba3 |
| Standard and Poor's | A3 | BB- |
| Fitch IBCA | F2 | BB- |
| Duff & Phelps | D2 | BB- |
| Thomson Bank Watch | TBW2 | B |

In addition, banks may invest in foreign securities for an additional amount equal to a 70% of their regulatory capital which ratings are equal or exceeds those mentioned in the following Table 3. This limit constitutes an additional margin and it is not subject to the 100% mandatory reserve.

Additionally, a Chilean Bank may invest in foreign securities whose rating is equal or exceeds those mentioned in the following Table 3 in: (i) term deposits with foreign banks; and (ii) securities issued or guaranteed by sovereign states or their central banks or those securities issued or guaranteed by foreign entities within the Chilean State; such investment will be subject to the limits by issuer up to 30% and 50%, respectively, of the regulatory capital of the

Chilean bank that makes the investment.

Table 3

| Rating Agency | Short Term | Long Term |
|---|---|---|
| Moody's | P1 | Aa3 |
| Standard and Poor's | A1+ | AA- |
| Fitch IBCA | F1+ | AA- |
| Duff & Phelps | D1+ | AA- |
| Thomson Bank Watch | TBW1 | BB |

Chilean banks may invest in securities without ratings issued or guaranteed by sovereign states or their central banks and structured notes issued by investment banks with a rating equal or above that in the immediately preceding Table 3, which return is linked with a corporate or sovereign note with a rating equal or above that in Table 2.

Subject to specific conditions, a bank may grant loans in U.S. dollars to subsidiaries or branches of Chilean companies located abroad, to companies listed on foreign stock exchanges authorized by the Central Bank and, in general, to individuals and entities domiciled abroad, as long as the Central Bank is kept informed of such activities.

**New Regulations Regarding Market Risk**

In 2005, the Superintendency of Banks introduced new market risk limits and measures for Chilean banks. On an unconsolidated basis, the Bank must separate its balance sheet into two separate categories: trading portfolio (*Libro de Negociación*) and non-trading, or permanent, portfolio (*Libro de Banca*). The trading portfolio as defined by the Superintendency of Banks includes all instruments that are valued for accounting purposes at market prices, free of any restrictions on immediate sale and frequently bought and sold by the Bank or maintained with the intention of selling them in the short-term in order to profit from short-term price variations. The non-trading portfolio is defined as all instruments in the balance sheet not considered in the trading portfolio (See Item 11: Quantitative and Qualitative Disclosures about Market Risk ).

**D. Property, Plants and Equipment**

We are domiciled in Chile and own our principal executive offices located at Bandera 140, Santiago, Chile. We also own fifteen other buildings in the vicinity of our headquarters and we rent four other buildings. At December 31, 2006, we owned the premises at which 53% of our branches were located. The remaining branches operate at rented locations. We believe that our existing physical facilities are adequate for our needs.

| Main properties as of December 31, 2006 | Number |
|---|---|
| **Central Offices** | |
| Owned | 13 |
| Rented | 8 |
| Total | 21 |
| | |
| **Branches (1)** | |
| Owned | 165 |
| Rented | 163 |
| Total | 328 |
| | |
| **Other property (2)** | |

| | |
|---|---|
| Owned | 43 |
| Rented | 19 |
| Total | 62 |

(1) Some branches are located inside central office buildings and other properties. Including these branches, the total number of branches is 375.

(2) Consists mainly of parking lots, mini-branches and property owned by our subsidiaries.

The following table sets forth a summary of the main computer hardware and other systems-equipment that we own.

| Category | Brand | Application |
|---|---|---|
| Mainframe | IBM | Back-end, Core-System Altair, Payment means and foreign trade. |
| Midrange | IBM | Interconnections between Mainframe and mid-range |
| Midrange | Stratus | Tellers |
| | SUN/Unix | Interconnections applications Credit & debit cards |
| | SUN/UNIX | Treasury, MIS, Work Flow, Accounting |
| Midrange | IBM | WEB |
| Desktop | IBM | Platform applications |
| Call Center | Avaya | Telephone system |
| | Genesys | Integration Voice/data |
| | Nice | Voice recorder |
| | Periphonics | IVR |

The main software systems that we use are:

| Category | Product | Origin |
|---|---|---|
| Core-System | ALTAMIRA | Accenture |
| Data base | DB2 | IBM |
| Data base | Oracle | Oracle |
| Data base | SQL Server | Microsoft |
| WEB Service | Internet Information Server | Microsoft |
| Message Service | MQSeries | IBM |
| Transformation | MQIntegrator | IBM |

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

As of the date of the filing of this Annual Report on 20-F, we do not have any unresolved comments from the Securities and Exchange Commission staff regarding our periodical reports under the Exchange Act.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

**A. New Accounting Standards for Financial investments and Derivatives**

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 are required to adopt the new accounting standards set forth in Circular N° 3345 in preparing their financial statements at and for the six-months ended June 30, 2006 and going forward.

The following table summarizes the primary changes to the accounting standards as a result of our implementation of Circular N° 3345.

| | | Before changes to accounting principles | After changes to accounting principles |
|---|---|---|---|
| **Derivatives** | · foreign exchange forward contracts | · valued at closing spot exchange rate, initial discount/premium amortized over the life of contract | recognized at fair value;<br><br>trading contracts:<br>· recorded at market/fair value on the balance sheet |
| | · forward contracts between U.S. dollars and Ch$/UF | · valued at closing spot exchange rate, initial discount/premium amortized over the life of contract | · revaluation gains or losses recorded as gains or losses from trading activities |
| | · interest rate swaps | · difference between interest income/expense recorded in net income in the period when agreement is settled in cash;<br><br>· fair value and revaluation gains or losses are not recognized<br><br>· net nominal amounts are recorded under "other assets" or "other liabilities" | hedge contracts:<br>· fair value hedges: hedged assets and liabilities are also recognized at fair value; revaluation gains or losses on both derivatives and hedged items are recognized as "gains/losses from trading activities" on the income statement<br><br>· cash flow hedges: effective portion of revaluation gains or losses on hedged risk recognized in shareholders' equity (such amount is recognized in income statement when the offsetting changes hedged affect income statement); ineffective portion of revaluation gains or losses recognized in income statement |
| **Other financial investments** | · non- permanent investments (Trading instruments) | · recognized at fair value on balance sheet; revaluation gains or losses and realized gains or losses are recognized in income statements under "gains/losses from trading activities"; interest income and indexation adjustments are reported as "interest revenue" | · No changes |
| | · permanent investments (Available-for-Sale investment instruments) | · recognized at fair value on balance sheet; revaluation gains or losses are reported under shareholders' equity, and recognized in income statement under "gains/losses from trading activities" when sold or impaired | · line item "available-for-sale" portfolio changed from "permanent" |
| | · Held-to-maturity investment | · N/A | · New category; recorded at cost plus accrued interest and adjustments, less |

| | |
|---|---|
| instruments | allowance for impairment |

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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” on 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, on our consolidated balance sheet and income statement at and for the year ended December 31, 2006.

The net effect of the accounting changes on our net income for the year ended December 31, 2006 was a gain of Ch$12,580 million. 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. As a result, our results of operations and financial condition at and for the year ended December 31, 2006 are not entirely comparable to those at any dates or for any periods prior to January 1, 2006 previously reported by us. If we had applied the valuation of derivatives to market prices in the year ended December 31, 2005, the net effect on our net income would have been a gain of Ch$7,008 million.

In connection with our implementation of the new accounting standards, for the year ended December 31, 2006, interest revenue and interest expense no longer include the translation gain or loss of financial assets and liabilities indexed to foreign currencies. Such gain or loss is now reclassified as results of foreign exchange transactions. Amounts reported for the years ended December 31, 2004 and 2005 have been reclassified on a comparable basis. Gains or losses on investments in mutual funds have also been reclassified from net interest income to other operating income for the years ended December 31, 2004, 2005 and 2006.

For the year ended December 31, 2006, gains and losses on forward transactions have been reclassified to net gains (losses) on trading activities. In prior periods, such transactions were not marked to market and the difference between the interest paid and received on a specified notional amount was recorded under “foreign exchange transactions, net”. Such amounts for the years ended December 31, 2004 and 2005 have been reclassified to net gains (losses) on trading activities in order to be more comparable to the results for the year ended December 31, 2006, but have not been retroactively adjusted to reflect the fair value of these instruments.

**B. Critical Accounting Policies**

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. We also reconcile our financial statements to U.S. GAAP (See Note 26 to our Audited Consolidated Financial Statements) and are required to make estimates and assumptions in this reconciliation process. Certain critical accounting policies, in particular those relating to goodwill and intangible assets, are only applicable for U.S. GAAP purposes. Our 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. We evaluate these estimates and assumptions on an ongoing basis. Management bases its estimates and assumptions 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 estimates and assumptions, and if these differences were significant enough, our reported results of operations would be affected materially.

We believe that the following are the more critical judgment areas or involve a higher degree of complexity in the application of the accounting policies that currently affect our financial condition and results of operations:

*Derivative activities*

At December 31, 2006, derivatives are valued at market price on the balance sheet and the net unrealized gain (loss) on derivatives is classified as a separate line item on the income statement. In prior periods, the notional amounts were carried off the balance sheet. Our derivative holdings at December 31, 2005 have been reclassified

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from "other assets" and "other liabilities" to "derivatives", but have not been marked to market as would be required under currently applicable accounting principles.

Pursuant to the new accounting standards, banks must mark to market derivatives. A derivative financial instrument held for trading purposes must be marked to market and the unrealized gain or loss recognized in income statement. New accounting standards have also been adopted for derivatives held for hedging purposes with effect for the six months ended June 30, 2006 and thereafter, changes in book value of hedged items are included in the mark to market and trading line items, except to the extent set forth below.

The Superintendency of Banks recognizes three kinds of hedge accounting: (i) cash flow hedges, (ii) fair value hedges and (iii) hedging of foreign investments.

- When a cash flow hedge exists, the fair value movements on the part of the hedging instrument that is effective are recognized in equity. Any ineffective portion of the fair value movement on the hedging instrument is recognized in the income statement.

- When a fair value hedge exists, the fair value movements on the hedging instrument and the corresponding fair value movements on the hedged item are recognized in the income statement. Hedged items in the balance sheet are presented at their market value in 2006.

- When a hedge of foreign investment exposure exists (i.e. investment in a foreign branch), the fair value movements on the part of the hedging instrument that is effective are recognized in equity. Any ineffective portion of the fair value movement on the hedging instrument is recognized in the income statement.

We enter into forward contracts for our own account and for the accounts of our customers. The values of the forward contracts are marked to market on a monthly basis and the revaluation gain or loss is recognized in the line item mark to market and trading activities. Previously, they were classified as foreign exchange transactions, except gains or losses on UF – Ch$ forwards, which used to be classified as net interest income.

*Allowance for loan losses*

Chilean banks are required to maintain loan loss allowances in amounts determined in accordance with the regulations issued by the Superintendency of Banks. Under these regulations, we must classify our portfolio into various categories of payment capability. The minimum amount of required loan loss allowances is determined based on fixed percentages of estimated loan losses assigned to each category. Since January 1, 2006, we have improved our credit scoring systems for consumer and mortgage loans. The new credit scoring system considers both the length of time by which the loan is overdue and the borrower's risk profile, which includes the borrower's overall indebtedness and credit behavior under the obligations to third parties. See Item 5: Operating and Financial Review and Prospects – D. Selected Statistical Information – Loan Portfolio – Classification of Loan Portfolio – Allowances for consumer and mortgage loans.

In 2006, we improved our internal provisioning models by not only focusing on non-performance, but introducing statistical models that take into account a borrower's credit history and indebtedness levels. Group ratings that determine loan loss allowances based only on non-performance are being phased out and replaced by statistical scoring systems. Commencing in December 2006, we no longer analyze large commercial loans on a group basis. All large commercial loans have since been rated on an individual basis. For large commercial loans, leasing and factoring, we assign a risk category level to each borrower and his respective loans. We consider the following risk factors in classifying a borrower's risk category: the borrower's industry or sector, owners or managers, financial condition, payment ability and payment behavior. For a detailed description of the models we use to determine loan loss allowances for commercial loans, see Item 5: Operating and Financial Review and Prospects – D. Selected Statistical Information – Loan Portfolio – Classification of Loan Portfolio – Allowances for large commercial loans.

Group assessment for loan loss allowances is permitted for a large number of borrowers whose individual loan amounts are relatively insignificant. Currently, we use group analysis to determine loan loss allowances for certain types of loans, such as loans to small- and mid-sized companies and commercial loans to individuals. See Item 5: Operating and Financial Review and Prospects – D. Selected Statistical Information – Loan Portfolio – Classification of Loan Portfolio – Allowances for group evaluations on small- and mid-sized commercial loans.

*Goodwill and Intangible Assets with Indefinite Useful Lives*

Under U.S. GAAP, we have significant intangible assets consisting of goodwill and trademarks. We record all assets and liabilities acquired in purchase acquisitions, including goodwill and other acquired intangibles, at their fair value. These include amounts pushed down from Santander Chile Holding, S.A. and Teatinos Siglo XXI, S.A., each a direct or indirect subsidiary of Banco Santander Central Hispano, and, together, our majority shareholders. In 2006, we decided to change our branding strategy to increasing the use of the brand "Santander" and phasing out the brand "Santiago". As a result, we have decided to amortize the brand "Santiago" in five years using a straight-line amortization method.

Goodwill and indefinite lived assets are no longer amortized over their estimated useful lives using straight line and accelerated methods, and are subject to at least an annual impairment review. The initial goodwill and intangibles recorded and subsequent impairment analysis requires management to make subjective judgments concerning estimates of how the acquired asset will perform in the future using a discounted cash flow analysis. Additionally, estimated cash flows may extend beyond ten years and, by their nature, are difficult to determine. Events and factors that may significantly affect the estimates include, among others, competitive forces, customer behavior and attrition, changes in revenue growth trends, cost structures and technology and changes in interest rates and specific industry or market sector conditions. For a further discussion of accounting practices for goodwill and intangible assets with indefinite useful lives under U.S. GAAP, see Note 26 to our Audited Consolidated Financial Statements.

**Differences between Chilean and United States Generally Accepted Accounting Principles**

Accounting principles generally accepted in Chile vary in certain important respects from the accounting principles generally accepted in the United States. Such differences involve certain methods for measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by accounting principles generally accepted in the United States and the accounting treatment of the merger.

Note 26 to our Audited Consolidated Financial Statements presents a description of the significant differences between Chilean GAAP and U.S. GAAP. Note 26(ac) sets forth recent accounting pronouncements under U.S. GAAP.

**C. Operating Results**

**Chilean Economy**

All of our operations and substantially all of our customers are located in Chile. Accordingly, our financial condition and results of operations are substantially dependent upon economic conditions prevailing in Chile. In 2006, Chile's GDP grew by 4.0%. The Chile GDP grew by 6.4% in 2005 following growth of 6.1% in 2004 and 3.7% in 2003. The strength of the global economy has continued to benefit Chile's economy despite the rise in international oil prices. These positive external economic conditions have also led to strong growth of internal consumption and investment demand that grew 6.0% in 2006. The average unemployment rate decreased to 8.0% in 2006 from 9.3% in 2005.

The export sector in Chile increased by 4.2% in 2006. Despite higher commodity prices, lower production affected growth in this sector. The price of copper increased by 45.8% in 2006, 45.4% in 2005 and 42.7% in 2004. Exports of copper totaled US$33 billion, or 56%, of total Chilean exports in 2006.

CPI Inflation in 2006 was 2.6%, compared to 3.7% in 2005. The sharp decrease in international oil prices in the last quarter of 2006 was the main factor that explains this decline. As a result, the Central Bank slowed the pace of interest rate increases in the year. The overnight interbank rate set by the Central Bank increased by 225 basis points in 2005 to 4.5% in December 2005. In 2006, the Central Bank has raised its reference rate three times to 5.25%, but this rate was lowered to 5.00% in January 2007.

After surging in the last quarter of 2005, long-term rates declined throughout 2006 as inflation descended. The yield on the Chilean Central Bank's 10-year note in real terms was 3.29% at December 31, 2005. At December 31, 2006, the yield was 3.02%.

Despite these developments in 2006 at the macroeconomic level, economic activities in Chile may slow down given the volatility of international markets and the possible slow-down of the world economic growth.

**Impact of Inflation**

Inflation impacts our results of operations. Although Chile's inflation rate 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. Negative inflation rates also negatively impact our results. In 2006, the inflation rate in Chile was 2.6% compared to 3.7% in 2005 and 2.4% in 2004. There can be no assurance that Chilean inflation will not change significantly from the current level. 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. In summary:

- *UF denominated assets and liabilities.* 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$2,567,226 million in 2006 compared to Ch$1,446,290 million in 2005. See "—D. Selected Statistical Information—Average Balance Sheets, Income Earned from Interest-Earned Assets and Interest Paid on Onterest-Bearing Liabilities." The Bank generally has more UF denominated financial assets than UF denominated financial liabilities. In the year ended December 31, 2006, the interest gained on interest earning assets denominated in UF decreased by 8.4% compared to 2005 as a result of the lower inflation rate in 2006 compared to 2005, partially offset by the effect of the larger amount of assets than liabilities denominated in UF. The interest paid on these liabilities decreased by 29.4% during this period.

- *Price level restatement.* Chilean GAAP requires that financial statements be restated to reflect the full effects of loss in the purchasing power of the Chilean peso on the financial position and results of operations of reporting entities. The Bank must adjust its capital, fixed assets and other non financial assets for variations in price levels. Since the Bank's capital is generally larger than the sum of fixed and other non financial assets, in an inflationary economy, the Bank would record a loss from price level restatement. For the year ended December 31, 2006, the loss from price level restatement totaled Ch$13,782 million compared to Ch$18,524 million in 2005. The inflation rate used for calculating price level restatement was 2.12% in 2006 and 3.62% in 2005.

| | At December 31, | | |
|---|---|---|---|
| **IIInflation sensitive income** | **2005** | **2006** | **% Change** |
| | **(In million of constant Chilean pesos at December 31, 2006)** | | |
| Interest gained on UF assets | 475,760 | 435,593 | (8.4%) |
| Interest paid on UF liabilities | (252,692) | (178,468) | (29.4%) |
| Price level restatement | (18,524) | (13,782) | (25.6%) |
| Net Gain | 204,544 | 243,343 | 19.0% |

- *Peso denominated assets and liabilities*. Interest rates prevailing in Chile during any period primarily reflect the inflation rate during the period and the expectations of future inflation. The sensitivity of our peso denominated interest earning assets and interest bearing liabilities to changes to such prevailing rates varies. See "—Interest Rates" below. We maintain a substantial amount of non interest bearing peso denominated demand deposits. Because such deposits are not sensitive to inflation, any decline in the rate of inflation would adversely affect our net interest margin on inflation indexed assets funded with such deposits, and any increase in the rate of inflation would increase the net interest margin on such assets. The ratio of the average of such demand deposits to average interest-earning assets was 16.6%, 16.4% and 13.9% for the years ended December 31, 2004, 2005 and 2006, respectively.

**Interest Rates**

Interest rates earned and paid on our assets and liabilities reflect, to a certain degree, inflation, expectations regarding inflation, changes in short-term interest rates set by the Central Bank and movements in long-term real rates. The Central Bank manages short-term interest rates based on its objectives of balancing low inflation and economic growth. Because our liabilities generally reprice sooner than our assets, changes in the rate of inflation or short-term rates in the economy are reflected in the rates of interest paid by us on our liabilities before such changes are reflected in the rates of interest earned by us on our assets. Therefore, when short-term interest rates fall, our net interest margin is positively impacted, but when short-term rates increase, our interest margin is negatively affected. At the same time, our net interest margin tends to be adversely affected in the short-term by a decrease in inflation rates since generally our UF denominated assets exceed our UF denominated liabilities. See "—Impact of Inflation—Peso denominated assets and liabilities." An increase in long-term rates has a positive effect on our net interest margin, because our interest earning assets generally have longer tenors than our interest bearing liabilities. In addition, because our peso denominated liabilities have relatively short repricing periods, they are generally more responsive to changes in inflation or short-term rates than our UF denominated liabilities. As a result, during periods when current inflation or expected inflation exceeds the previous period's inflation, customers often switch funds from UF denominated deposits to peso denominated deposits, which generally bear higher interest rates, thereby adversely affecting our net interest margin.

**Foreign Exchange Fluctuations**

The Chilean government's economic policies and any future changes in the value of the Chilean peso against the U.S. dollar could adversely affect our financial condition and results of operations. The Chilean peso has been subject to significant devaluation in the past and may be subject to significant fluctuations in the future. In 2004 and 2005, the Chilean peso appreciated by 6.6% and 8.1% against the dollar, respectively. In 2006, the Chilean peso depreciated by 3.9% against the U.S. dollar. See "Item 3: Key Information—A. Selected Financial Data—Exchange Rates." A significant portion of our assets and liabilities are denominated in foreign currencies, principally the U.S. dollar, and we historically have maintained and may continue to maintain material gaps between the balances of such assets and liabilities. Because such assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains and losses realized upon the sale of such assets, are translated to Chilean pesos in preparing our financial statements, our reported income is affected by changes in the value of the Chilean peso relative to foreign currencies (principally the U.S. dollar).

Foreign currencies denominated obligations of Chilean banks are subject to various limits and obligations. The regulations of the Central Bank do not permit the difference, whether positive or negative, between a bank's assets and liabilities denominated in any foreign currency (including assets and liabilities denominated in U.S. dollars but payable in pesos, as well as those denominated in pesos and indexed to the U.S. dollar exchange rate) to exceed 20% of the bank's paid in capital and reserves; except in the case where the balance of such assets exceeds the balance of such liabilities and the excess difference does not exceed the bank's allowances and reserves denominated in such foreign currency (excluding profits to be remitted abroad). The Bank also uses a sensitivity analysis to analyze and limit the potential loss in net interest income resulting from fluctuations of interest rates on U.S. dollar denominated assets and liabilities and a VaR model to measure and limit foreign currency trading risk (See "Item 11: Quantitative and Qualitative Disclosures About Market Risk").

**Results of Operations for the Years Ended December 31, 2004, 2005 and 2006**

The following discussion is based upon and should be read in conjunction with the Audited Consolidated Financial Statements. The Audited Consolidated Financial Statements have been prepared in accordance with Chilean GAAP (including the rules of the Superintendency of Banks relating thereto), which differ in certain significant respects from U.S. GAAP. Note 26 to the Audited Consolidated Financial Statements describes the principal differences between Chilean GAAP and U.S. GAAP and includes a reconciliation to U.S. GAAP of our net income for the years ended December 31, 2004, 2005 and 2006 and of our shareholders' equity at December 31, 2005 and 2006. The Audited Consolidated Financial Statements have been restated in constant Chilean pesos of December 31, 2006. See Note 1(c) to the Audited Consolidated Financial Statements.

**Introduction**

The following table sets forth the principal components of our net income for the years ended December 31, 2004, 2005 and 2006.

| | For the year ended December 31, | | | | % Change | |
|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2006 | 2004/2005 | 2005/2006 |
| | (in millions of constant Ch$ as of December 31, 2006) | | | (in thousands of US$)(1) | | |
| **CONSOLIDATED INCOME STATEMENT DATA Chilean GAAP:** | | | | | | |
| **Interest income and expense** | | | | | | |
| Interest revenue | 841,588 | 1,017,830 | 1,168,851 | 2,187,098 | 20.9% | 14.8% |
| Interest expense | (339,079) | (459,564) | (556,597) | (1,041,478) | 35.5% | 21.1% |
| Net interest revenue | 502,509 | 558,266 | 612,254 | 1,145,620 | 11.1% | 9.7% |
| **Provision for loan losses** | (85,451) | (64,879) | (123,022) | (230,193) | (24.1%) | 89.6% |
| **Fees and income from services** | | | | | | |
| Fees and other services income | 156,298 | 173,386 | 198,326 | 371,098 | 10.9% | 14.4% |
| Other services expense | (28,294) | (32,086) | (35,776) | (66,942) | 13.4% | 11.5% |
| Total fees and income from services, net | 128,004 | 141,300 | 162,550 | 304,156 | 10.4% | 15.0% |
| **Other operating income, net** | | | | | | |
| Net gain (loss) from trading and brokerage | (7,410) | (62,569) | 100,312 | 187,699 | 744.4% | —% |
| Foreign exchange transactions, net | 47,445 | 72,381 | (48,708) | (91,140) | 52.6% | —% |
| Others, net | (25,294) | (23,407) | (32,961) | (61,675) | (7.4%) | 40.8% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total other operating income, net | 14,741 | (13,595) | 18,643 | 34,884 | —% | —% |
| **Other income and expenses** | | | | | | |
| Non-operating income, net | (4,669) | (22,480) | (4,214) | (7,885) | 381.5% | (81.3%) |
| Income attributable to investments in other companies | 568 | 693 | 786 | 1,471 | 22.0% | 13.5% |
| Losses attributable to minority interest | (194) | (136) | (151) | (283) | (29.8%) | 11.0% |
| Total other income and expenses | (4,295) | (21,923) | (3,579) | (6,697) | 410.5% | (83.7%) |

| | For the year ended December 31, | | | | % Change | |
|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2006 | 2004/2005 | 2005/2006 |
| | (in millions of constant Ch$ as of December 31, 2006) | | | (in thousands of US$)(1) | | |
| **Operating expenses** | | | | | | |
| Personnel salaries and expenses | (140,746) | (142,171) | (159,722) | (298,864) | 1.0% | 12.3% |
| Administrative and other expenses | (102,159) | (102,717) | (110,948) | (207,601) | 0.5% | 8.0% |
| Depreciation and amortization | (40,978) | (40,080) | (38,613) | (72,251) | (2.2%) | (3.7%) |
| Total operating expenses | (283,883) | (284,968) | (309,283) | (578,716) | 0.4% | 8.5% |
| **Loss from price-level restatement** | (12,680) | (18,524) | (13,782) | (25,788) | 46.1% | (25.%6) |
| **Income before income taxes** | 258,945 | 295,677 | 343,781 | 643,266 | 14.2% | 16.3% |
| **Income taxes** | (48,587) | (50,885) | (58,199) | (108,899) | 4.7% | 14.4% |
| **Net income** | 210,358 | 244,792 | 285,582 | 534,367 | 16.4% | 16.7% |

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

*2006 and 2005.* Net income for the year ended December 31, 2006 increased by 16.7% to Ch$285,582 million compared to Ch$244,792 million for the year ended December 31, 2005, primarily reflecting the growth of the Chilean economy, which continued to fuel loan growth and banking activities, especially in the higher yielding retail banking segments, which in turn has led to the growth of our net interest revenue and fee income. Our net interest revenue increased by 9.7% to Ch$612,254 million for the year ended December 31, 2006 compared to 2005, and fee income grew by 15.0% to Ch$162,550 million in 2006 compared to 2005. Net interest revenue growth was led by an increase in net interest revenue from our retail banking and middle-market segments. Net interest revenue from the retail banking segment increased by 24.2% to Ch$462,297 million in 2006, with increases of 19.4% in the individuals segment and 38.6% in the SMEs segment. Net interest revenue in the middle-market segment increased by 38.4% to Ch$73,820 million in 2006 compared to 2005. The average balance of our interest-earning assets increased by 10.6% to Ch$13,079 billion in 2006 compared to 2005. As a result, our net interest margin remained stable at 4.7% in 2006 compared to 2005.

Total net fee income increased by 15.0% to Ch$162,550 million for the year ended December 31, 2006 compared to 2005. Fees from the retail banking segment increased by 38.8% in 2006 compared to 2005, mainly due to increases in fees from checking accounts, lines of credit and insurance brokerage and credit card fees. Fees from the wholesale banking segment decreased by 1.3% in 2006, primarily reflecting the decline in fees from payment agency services, letters of credit, guarantees, pledges and other contingent loan fees, fees from the sale and purchase of foreign currencies and underwriting fees. This was partially offset by a higher contribution from the sale of derivatives and other treasury services and a higher return on cash management services provided to our wholesale customers.

The increases in net interest revenue and fee income were partially offset by an 89.6% increase in provisions for loan losses to Ch$123,022 million for the year ended December 31, 2006 compared to 2005, primarily due to an 80.3% increase in net provision expense in the retail banking segment. Provision expense rose from a reversal of Ch$27,674 million in 2005 to a charge of Ch$26,614 million in 2006, primarily as a result of the growth of the Bank's retail loans portfolio as a proportion of its total portfolio. Retail loans are generally higher-yielding, however, they present relatively higher credit risks than the Bank's corporate loans. Charge-offs increased by 2.8% in 2006 compared to 2005, primarily as a result of the growth of our consumer loan portfolio, for which credit risk is higher and provisions are required to be made within much shorter periods than the rest of the loan portfolio. Charge-offs of the consumer loan portfolio increased by 50.0% to Ch$102,246 million in 2006 compared to 2005. In addition, recoveries on loans previously charged off remained stable in 2006 compared to 2005.

Operating expenses in 2006 increased by 8.5% compared to 2005, which was primarily due to a 12.3% rise in personnel salaries and expenses as a result of our payment of an end-of-negotiation bonus in conjunction with the signing of the new collective bargaining agreement in the fourth quarter of 2006. This new collective bargaining agreement enters into effect on March 1, 2007 and expires on March 1, 2011. As a part of this process, an end-of-negotiation bonus was paid, which resulted in a one-time cost of Ch$8,622 million in 2006. Administrative expenses increased by 8.0% for the same periods, reflecting an increase in expenses as a result of the expansion our distribution network. Our efficiency ratio, despite higher costs, continued to improve, reaching a record low of 39.0% for the year ended December 31, 2006 compared to 41.5% in 2005.

We recorded a net gain of Ch$18,643 million for the year ended December 31, 2006 under total other operating income, net, compared to a loss of Ch$13,595 million for 2005. Results in 2006 included a gain from trading activities of Ch$12,580 million as a result of our adoption of the new accounting standards for valuing financial instruments. If we had applied the new accounting standards for the year ended December 31, 2005, the net effect on our results would have been a gain of Ch$7,008 million. See Item 5: Operating and Financial Review and Prospect — A. New Accounting Standards for Financial Investments and Derivatives.

The net loss recorded in other income and expenses decreased by 83.7% in 2006 compared to 2005, primarily due to a lower level of provisions for other contingencies.

*2004 and 2005*. Net income for the year ended December 31, 2005 increased by 16.4% compared to net income in 2004. This increase was mainly due to an 11.1% increase in net interest revenue, a 24.1% decline in provisions for loan losses and a 10.4% increase in fee income. In 2005, the positive economic environment led to higher loan growth and banking activities in general, which fueled the increases in net interest revenue and net fee income. At the same time, the quality of the Bank’s loan portfolio improved, resulting in the decrease in provision expenses.

Other operating income, net totaled a loss of Ch$13,595 million in 2005 compared to a gain of Ch$14,741 million in 2004. This was mainly due to a 79.5% decline in net gains from financial transactions, primarily reflecting the movement in long-term local interest rates in 2005 compared to 2004.

Net non-operating losses also increased by 410.5% in 2005 compared to 2004 because results in 2004 included a one-time gain of Ch$23,093 million from the sale of our Santiago Express division to Empresas París.

Operating expenses in 2005 increased slightly by 0.4% and the efficiency ratio, representing operating expenses divided by operating income, improved to 41.5% in 2005 compared to 44.0% in 2004.

***Net interest revenue***

| | Year Ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2004/2005** | **2005/2006** |
| | (in millions of constant Ch$ as of December 31, 2006, except percentages) | | | | |
| Total individuals | 241,092 | 278,433 | 332,444 | 15.5% | 19.4% |
| SMEs | 73,587 | 93,657 | 129,854 | 27.2% | 38.6% |
| **Total retail** | 314,679 | 372,090 | 462,298 | 18.2% | 24.2% |
| **Total middle-market** | 51,911 | 53,332 | 73,820 | 2.7% | 38.4% |
| **Wholesale banking** | 25,904 | 27,083 | 30,469 | 4.5% | 12.5% |
| **Institutional lending** | 5,654 | 6,640 | 9,510 | 17.4% | 43.2% |
| **Treasury** | 72,802 | 77,238 | 32,479 | 6.1% | (57.9%) |
| Other | 31,559 | 21,883 | 3,678 | (48.2%) | (83.2%) |
| **Net interest revenue** | 502,509 | 558,266 | 612,254 | 11.1% | 9.7% |
| Average interest-earning assets | 11,149,321 | 11,830,880 | 13,079,254 | 6.1% | 10.6% |
| | 1,855,619 | 1,945,572 | 1,823,018 | 4.8% | (6.3%) |

| | | | |
|---|---|---|---|
| Average non-interest-bearing demand deposits | | | |
| **Net interest margin(1)** | 4.5% | 4.7% | 4.7% |
| Average shareholders' equity and average non-interest-bearing demand deposits to total average interest-earning assets | 26.0% | 25.0% | 22.7% |

(1) Net interest margin is net interest revenue divided by average interest-earning assets.

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*2005 and 2006*. Net interest revenue for the year ended December 31, 2006 increased by 9.7% compared to 2005, mainly reflecting a 10.6% increase in average interest-earning assets.

The increase in net interest revenue was primarily attributable to an increase in net interest revenue from our retail banking and middle-market segments. Net interest revenue from the retail banking segment increased by 24.2% to Ch$462,298 million in 2006, with increases of 19.4% in the individuals segment and 38.6% in the SMEs segment. Loans to higher yielding retail banking segments increased by 20.7% in 2006 compared to 2005. Net interest revenue from the middle-market segment increased by 38.4%, primarily due to a 14% increase in the average balance of the loans and increased net interest spread in this segment. In the wholesale banking segment, net interest revenue increased by 12.5%, primarily due to the higher interest rate environment for short-term lines of credit and trade finance. Total loans in this segment decreased by 1.8% from December 31, 2005 to December 31, 2006. The average balance of loans in this segment also decreased in 2006 compared to 2005. Net interest revenue in the treasury segment decreased by 57.9%, primarily reflecting the Bank's strategy of shifting the asset mix to higher yielding assets. Total financial investments decreased by 20.3% from December 31, 2005 to December 31, 2006. The average balance of financial investments decreased by 31.0% from 2005 to 2006.

This change in asset mix was the principal factor positively affecting the net interest margin. The increase in average interest-earning assets was primarily attributable to a 15.0% increase in average balance of loans. This growth in lending was driven by the stable economic environment and an increase in our market share in retail lending. Our total loan market share decreased by 30 basis points from 22.6% as of December 31, 2005 to 22.3% as of December 31, 2006. Market share in lending to individuals increased from 25.2% as of December 31, 2005 to 26.2% as of December 31, 2006 led by a 101 basis point increase in residential mortgage lending and a 111 basis point increase in consumer lending market share. The average balance of consumer loans, which are higher yielding compared to our other loan products, increased by 29.3% in 2006 compared to 2005. The nominal rate earned on consumer loans in 2006 reached 20.9%. The average nominal rate earned on loans was 9.4% compared to 8.9% earned on interest-earning assets in 2006.

At the same time, higher interest rates on short-term debt also helped to increase margins in 2006, notwithstanding the decline in long-term rates.

The principal factors negatively affecting the net interest margin were the decrease in inflation rates, the increase in short-term interest rates and a decrease in the ratio of the average balances of non interest bearing demand deposits and shareholders' equity to interest earning assets.

Our average UF denominated assets exceeded our average UF denominated liabilities by Ch$2,567,226 million in 2006, compared to Ch$1,446,290 million in 2005. Inflation in 2006, measured by the annual variation of the UF, was 2.01% in 2006 compared to 3.80% in 2005. As a result, the nominal rate earned on UF-denominated interest-earning assets declined from 8.6% in 2005 to 7.0% in 2006. See " Impact of Inflation" for a quantitative disclosure of the impact of inflation on our net interest income.

As interest-bearing liabilities generally have shorter terms than interest-earning assets, a rise in short-term rates has a negative effect on our funding costs. As of December 31, 2006, the amount of our interest-bearing liabilities with a maturity of 90 days or less exceeded our interest-earning assets with the same maturity by Ch$353,602 million. The Central Bank's overnight reference rate reached 5.25% as of December 31, 2006 compared to 4.50% as of December 31, 2005. The average 90 day Central Bank rate, a benchmark rate for deposits, increased in nominal terms from 3.53% in 2005 to 4.83% in 2006. The average nominal rate paid on interest-bearing liabilities increased from 5.3% in 2005 to 5.7% in 2006. The average nominal rate paid on time deposits, which represented 64.8% of our average interest-bearing liabilities in 2006, increased from 4.7% in 2005 to 5.6% in 2006.

As short-term interest rates increased, so did the attractiveness of time deposits, thereby increasing the costs of our funding mix. Average balance of time deposits increased by 23.2% in 2006 compared to 2005. Average balance of time deposits represented 64.8% of our average interest-bearing liabilities in 2006, compared to 60.2% in 2005. In addition, we lengthened the maturities of time deposits with institutional investors in order to partially offset the negative effects caused by the rising short-term interest rate environment.

The ratio of the average balance of free funds (non-interest bearing demand deposits and shareholders' equity) to the average balance of interest-earning assets also decreased from 25.0% in 2005 to 22.7% in 2006, primarily as a result of the increase in short-term rates. This was partially offset by the increase in the spread earned on the free funds as a result of the rising interest rate environment.

*2004 and 2005*. Net interest revenue for the year ended December 31, 2005 increased by 11.1% compared to 2004, mainly as a result of the 6.1% increase in the average balance of interest-earning assets and an increase in our net interest margin from 4.5% in 2004 to 4.7% in 2005.

The principal factors positively affecting our net interest margin were the change in our asset mix and the higher inflation rate. The average balance of total loans increased by 8.3% in 2005, compared to a 6.1% increase in the average balance of our interest-earning assets. The average balance of loans represented 79.4% of the average balance of our interest-earning assets in 2005, compared to 77.8% in 2004. The average nominal rate earned on loans was 9.5%, compared to 8.5% earned on interest-earning assets as a whole in 2005.

At the same time, the higher inflation rate in 2005 compared to 2004 also contributed to the increase in the net interest margin. In 2005, the inflation rate reached 3.7% compared to 2.4% in 2004. The 12.5% increase in the gap between the average balances of UF-denominated assets and UF-denominated liabilities, combined with a higher inflation rate, had a positive effect on the net interest margin. See "  Impact of Inflation".

The principal factors negatively affecting the net interest margin were the rise in short-term interest rates and a decrease in the ratio of the average balances of non-interest-bearing demand deposits and shareholders' equity to interest-earning assets. As interest-bearing liabilities generally have shorter terms than interest-earning assets, a rise in short-term rates has a negative effect on the Bank's net interest margin.

The average nominal rate paid on interest-bearing liabilities increased from 4.2% in 2004 to 5.3% in 2005. In 2005, the overnight reference rate set by the Chilean Central Bank increased by 225 basis points to 4.50% in December 2005. The average 90-day Central Bank rate, a benchmark rate for deposits, increased in nominal terms from 1.83% in 2004 to 3.53% in 2005. As of December 31, 2005, the amount of our interest-bearing liabilities with a maturity of 90 days or less exceeded our interest-earning assets with the same maturity by Ch$501,595 million. The main reason for this gap is that interest-bearing liabilities are mainly comprised of short-term time deposits and short-term repurchase agreements. The average balance of time deposits represented 60.2% of the average balance of our interest-bearing liabilities in 2005 compared to 54.4% in 2004.

The rise in short-term interest rates also negatively affected our funding mix. The average balance of time deposits increased by 22.0% in 2005, compared to a 4.8% increase in the average balance of our non-interest-bearing demand deposits. As short-term interest rates increased, so did the attractiveness of time deposits. In order to reduce the impact of rising interest rates on our net interest margin, the Bank lengthened the maturity of deposits. In 2005, 15.6% of time deposits had a maturity greater than 12 months, compared to 6.6% in 2004. The ratio of the average balance of free funds (non-interest-bearing liabilities and shareholders' equity) to the average balance of our interest-earning assets also decreased as a result of the decrease in short-term interest rates from 26.0% in 2004 to 25.0% in 2005. This was partially offset by the rise in the interest spread earned on free funds as a result of the higher inflation rate in 2005 compared to 2004.

***Provision for loan losses***

In accordance with applicable Chilean regulations, which became effective as of January 1, 2004, the models and methods for classifying our loan portfolio must follow the following guiding principles established by the Superintendency of Banks and approved by our Board of Directors. Under our loan classification categories effective January 1, 2004, loans are divided into: (i) consumer loans (including loans granted to individuals for the purpose of financing the purchase of consumer goods or payment of services); (ii) residential mortgage loans (including loans granted to individuals for the purchase, construction or improvements of residential real estate, in which the value of the property covers at least 100% of the amount of the loan); and (iii) commercial loans (includes all loans other than consumer loans and residential mortgage loans).

In 2006, we improved our internal provisioning models by not only focusing on non-performance, but introducing statistical models that take into account a borrower's credit history and indebtedness levels. Group ratings that determine loan loss allowances based only on non-performance are being phased out and replaced by statistical scoring systems. Commencing in December 2006, we no longer analyze large commercial loans on a group basis. All large commercial loans have since been rated on an individual basis. For large commercial loans, leasing and factoring, we assign a risk category level to each borrower and his respective loans. We consider the following risk factors in classifying a borrower's risk category: the borrower's industry or sector, owners or managers, financial condition, payment ability and payment behavior.

Group assessment for loan loss allowances is permitted for a large number of borrowers whose individual loan amounts are relatively insignificant. Currently, we use group analysis to determine loan loss allowances for certain types of loans, such as loans to small- and mid-sized companies and commercial loans to individuals.

Commencing in 2006, we improved and modified the methodology for analyzing consumer and mortgage loans. All consumer and mortgage loans are assigned a provisioning level on an individual borrower basis using a more automated and sophisticated statistical model which considers a borrower's credit history, including any defaults on obligations to other creditors, as well as the overdue periods with respect to loans granted by us. Once the borrower's rating is determined, the allowance for consumer or mortgage loans is calculated based on the risk category and the respective provisioning ratio which is directly related to the aging of the loan.

For a detailed description of the models we use to determine loan loss allowances, see Item 5: Operating and Financial Review and Prospects— D. Selected Statistical Information – Loan Portfolio – Classification of Loan Portfolio.

For statistical information with respect to our substandard loans and allowance for probable loan losses, see "—D. Selected Statistical Information—Analysis of Substandard Loans and Amounts Past Due" and "—D. Selected Statistical Information—Analysis of Loan Loss Allowances", as well as Note 7 to the Audited Consolidated Financial Statements. The amount of provision charged to income statement in any period consists of net provisions established for possible loan losses, net of recoveries on loans previously charged off.

The following table sets forth, for the years indicated, certain information relating to our provision expenses.

| | Year Ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2004/2005 | 2005/2006 |
| | (in millions of constant Ch$ as of December 31, 2006, except percentages) | | | | |
| Provision expenses | (9,829) | 27,674 | (26,614) | — | — |
| Charge-offs | (126,394) | (139,632) | (143,475) | 10.5% | 2.8% |
| Recoveries for loans previously charged off | 50,772 | 47,079 | 47,067 | (7.3%) | (0.0%) |
| Provision expenses, net | (85,451) | (64,879) | (123,022) | (24.1%) | 89.6% |
| Year-end loans | 9,121,022 | 10,359,334 | 11,788,959 | 13.6% | 13.8% |
| Substandard loans (1) | 338,547 | 271,541 | 345,481 | (19.8%) | 27.2% |
| Past-due loans | 138,692 | 108,799 | 92,559 | (21.6%) | (14.9%) |
| Loan loss allowance | 183,366 | 151,000 | 174,064 | (17.7%) | 15.3% |
| Substandard loans / Year-end loans | 3.71% | 2.62% | 2.93% | | |
| Past due loans / Year-end loans | 1.52% | 1.05% | 0.79% | | |

| | | | |
|---|---|---|---|
| Consolidated risk index (2) | 2.01% | 1.46% | 1.48% |
| Coverage ratio (3) | 132.21% | 138.79% | 188.06% |

(1) Substandard loans are all mortgage and consumer loans rated B or worse and all commercial loans rated C2 or worse.

(2) Loan loss allowance divided by year end loans.

(3) Loan loss allowance divided by past due loans.

*2005 and 2006.* Net provision expenses for loan losses totaled Ch$123,022 million for the year ended December 31, 2006, an increase of 89.6% compared to 2005, primarily due to increase in provision expense and charge-offs. Provision expense rose from a reversal of Ch$27,674 million in 2005 to a charge of Ch$26,614 million in 2006. The Bank's risk index or expected loan loss ratio, which is calculated according to the guidelines set by the Superintendency of Banks and our Board, increased from 1.46% in 2005 to 1.48% in 2006. This index is the main determinant of loan loss allowances. Loan loss allowances must be equal to the risk index multiplied by total loans. As the loan portfolio increased by 13.8% in 2006 and the risk index rose 2 basis points, required loan loss allowances rose 15.3% to Ch$174,064 million, resulting in the Ch$26,614 million provision expense in 2006. See "—D. Selected Statistical Information—Loan by Economic Activity—Classification of Loan Portfolio".

Charge-offs increased by 2.8% in 2006 compared to 2005, primarily as a result of the growth of our consumer loan portfolio, for which credit risk is higher and loans become loss within much shorter periods than the rest of the loan portfolio. Charge-offs of the consumer loan portfolio increased by 50.0% to Ch$102,246 million. This was partially offset by the 44.8% decrease in charge-offs in the commercial loan portfolio. In 2005, the Bank charged off various commercial loans that had been previously restructured and that bear no interest. See "—D. Selected Statistical Information - Analysis of Loan Loss Allowances" and "—Classification of Loan Portfolio Based on the Borrower's Payment Performance". These loans were already classified as D2 and were 90% provisioned for. Therefore, this increase in charge-offs was offset by the subsequent release of provisions recorded in 2005.

The following table sets forth, for the years indicated, a breakdown of our charged off loans.

| | **Year Ended December 31,** | | | **% Change** | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2004/2005** | **2005/2006** |
| | **(in millions of constant Ch$ as of December 31, 2006, except percentages)** | | | | |
| Consumer loans | 86,703 | 68,144 | 102,246 | (21.4%) | 50.0% |
| Mortgage loans | 4,149 | 7,314 | 5,789 | 76.3% | (20.9%) |
| Commercial loans | 35,542 | 64,174 | 35,440 | 80.6% | (44.8%) |
| Total charge-offs | 126,394 | 139,632 | 143,475 | 10.5% | 2.8% |

In addition, recoveries on loans previously charged off remained effectively stable in 2006 compared to 2005. Our recovery department is currently being reorganized and expanded in order to keep up with the growth in our retail lending business.

Overall asset quality indicators remained healthy in 2006. Past due loans at December 31, 2006 decreased by 14.9% compared to December 31, 2005. Past due loans as a percentage of total loans decreased from 1.05% at December 31, 2005 to 0.79% at December 31, 2006. Substandard loans increased by 27.2%, primarily due to an increase in substandard consumer loans, which rose mainly as a result of loan growth in this product. Total substandard loans as a percentage of total loans increased from 2.62% at year-end 2005 to 2.93% at year-end 2006, mainly due to the change in loan mix towards higher yielding retail loans, which generally present relatively higher risk than other retail loans.

The following table sets forth, for the years indicated, the components of our net provision expenses.

| | **Year Ended December 31,** | | | **% Change** | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2004/2005** | **2005/2006** |
| | **(in millions of constant Ch$ as of December 31, 2006, except percentages)** | | | | |
| Total individuals | (73,566) | (52,255) | (101,753) | (29.0%) | 94.7% |
| SMEs | (16,630) | (15,737) | (20,840) | (5.4%) | 32.4% |
| Total retail | (90,196) | (67,992) | (122,593) | (24.6%) | 80.3% |

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| | Year Ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2004/2005 | 2005/2006 |
| | (in millions of constant Ch$ as of December 31, 2006, except percentages) | | | | |
| Total middle-market | 8,156 | 1,113 | (720) | (86.4%) | —% |
| Wholesale banking | 3,286 | 1,960 | 703 | (40.4%) | (64.1%) |
| Institutional lending | (562) | (16) | 481 | (97.2%) | —% |
| Treasury | — | — | — | — | — |
| Other (1) | (6,135) | 56 | (893) | —% | —% |
| Provision expense, net | (85,451) | (64,879) | (123,022) | (24.1%) | 89.6% |

(1) Consists primarily of additional allowances on loans which are not assigned to any of the above types or segments, if any, and provisions for repossessed assets.

Provision expense increased by 80.3% in the retail banking segment, mainly as a result of the growth of our retail loan portfolio, for which credit risk is higher and provisions are required to be made within much shorter periods than the rest of the loan portfolio. Charge-off of the consumer loan portfolio increased by 50.0% in 2006 compared to 2005. Provision expense in the SMEs segment increased in line with loan growth in this segment. Net provision expense in the rest of the segments remained relatively stable, reflecting the generally healthy credit quality indicators in those segments.

We expect provisions for loan losses to increase in future periods in line with the overall growth of our loan portfolio and our increased lending to small companies and individuals which poses a higher risk of default than lending to traditional corporate and commercial customers. See "Item 3: Key Information—D. Risk Factors—Risks Associated with Business—Our exposure to individuals and small businesses could lead to higher levels of past due loans, allowances for loan losses and charge-offs" and "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."

*2004 and 2005*. Provisions for loan losses decreased by 24.1% in 2005 compared to 2004. The growth of the Chilean economy has led to an improvement in asset quality indicators, which in turn resulted in a lower provision expense in the year. Past due loans at year-end 2005 decreased by 21.6% from year-end 2004. Past due loans as a percentage of total loans decreased from 1.52% at year-end 2004 to 1.05% at year-end 2005. Substandard loans at year-end 2005 decreased by 19.8% from year-end 2004. The coverage ratio (loan loss allowance as a percentage of past due loans) improved to 138.79% at year-end 2005 from 132.21% at year-end 2004.

Charge-offs in 2005 increased by 10.5% in 2005 compared to 2004, mainly as a result of an increase in charge-off of commercial loans that had been previously restructured and that bear no interest. See "—D. Selected Statistical Information—Analysis of Loan Loss Allowances" and "—Classification of Loan Portfolio Based on the Borrower's Payment Performance". These loans were already classified as D2 and were 90% provisioned for. Therefore, this increase in charge-offs was offset by the subsequent release of provisions previously set aside for these loans.

***Fee income***

The following table sets forth certain components of our income from services (net of fees paid to third parties directly connected to providing those services, principally fees relating to credit card processing and ATM network administration) in the years ended December 31, 2004, 2005 and 2006.

| | Year ended December 31, | % Change |
|---|---|---|

| | 2004 | 2005 | 2006 | 2004/2005 | 2005/2006 |
|---|---|---|---|---|---|
| | (in million of constant Ch$ as of December 31, 2006, except percentages) | | | | |
| Checking accounts & lines of credit | 35,400 | 42,429 | 53,731 | 19.9% | 26.6% |
| Collection and administration of insurance policies | 17,694 | 20,598 | 23,233 | 16.4% | 12.8% |

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| | Year ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2004/2005 | 2005/2006 |
| | (in million of constant Ch$ as of December 31, 2006, except percentages) | | | | |
| Mutual fund services | 19,087 | 19,275 | 20,039 | 1.0% | 4.0% |
| Credit cards | 13,466 | 14,117 | 18,650 | 4.8% | 32.1% |
| Automatic teller cards | 13,022 | 13,859 | 14,272 | 6.4% | 3.0% |
| Insurance brokerage | 6,788 | 8,406 | 11,397 | 23.8% | 35.6% |
| Sales and purchase of foreign currencies | 5,271 | 6,619 | 5,957 | 25.6% | (10.0%) |
| Payment agency services | 4,187 | 2,881 | 2,671 | (31.2%) | (7.3%) |
| Office Banking | — | 1,380 | 2,602 | —% | 88.6% |
| Letters of credit, guarantees, pledges and other contingent loans | 4,828 | 2,816 | 2,522 | (41.7%) | (10.4%) |
| Stock brokerage | 1,416 | 1,654 | 1,393 | 16.7% | (15.7%) |
| Underwriting | 6,322 | 2,383 | 1,345 | (62.3%) | (43.5%) |
| Bank drafts and fund transfers | 260 | 258 | 624 | (0.8%) | 141.9% |
| Custody and trust services | 590 | 651 | 365 | 10.5% | (43.9%) |
| Savings accounts | 262 | 244 | 253 | (6.9%) | 3.7% |
| Other | (589) | 3,730 | 3,496 | —% | (6.3%) |
| Total | 128,004 | 141,300 | 162,550 | 10.4% | 15.0% |

*2005 and 2006.* Total net fee income increased by 15.0% to Ch$162,550 million for the year ended December 31, 2006 compared to 2005. The positive economic environment and the bank's successful marketing efforts led to an overall increase in the usage and penetration of bank products in 2006. The Bank's total retail banking client base increased by 11.8% in 2006, totaling 2.4 million clients. The number of retail clients with a checking account increased by 23.0% in 2006, reaching 496 thousand. Middle- and upper-income individual clients who are cross sold, defined as clients with a checking account who also uses at least four other banking products, increased by 30.8% at December 31, 2006 compared to December 31, 2005. In Santander Banefe, the number of cross sold clients (clients who also use at least two other products) rose by 18.1% at December 31, 2006 compared to December 31, 2005.

Fees from checking accounts and lines of credit increased by 26.6%, primarily as a result of the growth of our checking accounts and credit lines. These products are offered together and, therefore, are being analyzed as a single product. Our market share in checking accounts at November 2006, the last figure available, was 27.1% compared to 25.5% at November 2005. In this same period, our checking account base increased by 17.1%, compared to the 10.3% increase in the market as a whole.

Fees from collection and administration of insurance policies increased by 12.8% for the year ended December 31, 2006 compared to 2005, primarily due to the growth of our mortgage loan book and lower than estimated claim rates, which results in higher administration fees paid by insurers to us.

Fees from our mutual fund asset management subsidiary increased by 4.0%. Total assets under management increased by 35.9% to Ch$2,092,192 million (US$3.9 billion) at December 31, 2006 compared to December 31, 2005.

Credit card fees increased by 32.1% in 2006 compared to 2005. We were the market leader in bank credit card accounts, with a 35.8% market share as of December 31, 2006. The transaction volumes of credit cards issued by us, measured in UFs, increased by 12.9% in 2006 compared to 2005. The number of our credit card customer accounts increased by 16.0% to 948,918 at December 31, 2006 compared to December 31, 2005. The rise in credit card fees is partially offset by the other credit card expenses reflected in "Other operating losses, net."

The 3.0% rise in ATM fees was mainly driven by the increase in the number of ATMs installed by the Bank. As of December 31, 2006, the Bank had 1,588 ATMs compared to 1,422 as of December 31, 2005. The rise in ATMs was offset by increased competition in order to obtain ATM locations with large retailers.

Insurance brokerage fees increased by 35.6% for the year ended December 31, 2006 compared to 2005. This was mainly as a result of an industry-wide expansion of insurance brokerage business as banks have successfully introduced simple and low cost insurance products to the market.

The decrease in fees from payment agency services, letters of credit, guarantees, pledges and other contingent loan fees, fees form the sale and purchase of foreign currencies, underwriting fees and other fees was mainly due to increased competitive pressure in the Corporate and Middle-market segments. This was offset by an increase in the sales of derivatives and other treasury services, which were included in “Other operating income” and a higher return on cash management services provided to these customers, which was reflected in our net interest income.

Office banking fees increased by 88.6% in 2006 compared to 2005 as the Bank has also sought to increase the coverage and pricing of its on-line corporate banking services in order to offset the decrease in collection fees.

By segment, changes in our fee income also reflects the increase in retail banking products. Retail banking fees increased by 38.8% in 2006 compared to 2005, mainly due to the rise in fees from checking accounts, lines of credit, insurance brokerage and credit cards.

Fees from the middle market increased by 62.4% in 2006 compared to 2005, led by the increase in office banking services and the reclassification of the fees from the mutual fund asset management from “other” fee income to fees from the middle market in 2006.

Fees from wholesale banking decreased by 1.3%, reflecting the decline in fees from payment agency services, letters of credit, guarantees, pledges and other contingent loan fees, fees form the sale and purchase of foreign currencies and underwriting fees. This was offset by an increase in sales of derivatives and other treasury services and a higher return on cash management services provided to these customers.

The following table set forth, for the years indicated, a breakdown of our fee income by segment.

| | Year ended December 31, | | | % Change | % Change |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2004/2005 | 2005/2006 |
| | (in million of constant Ch$ as of December 31, 2006, except percentages) | | | | |
| Total individuals | 66,574 | 76,057 | 103,476 | 14.2% | 36.0% |
| SMEs | 14,496 | 19,136 | 28,671 | 32.0% | 49.8% |
| Total retail | 81,070 | 95,193 | 132,147 | 17.4% | 38.8% |
| Total middle-market | 8,543 | 8,611 | 13,981 | 0.8% | 62.4% |
| Wholesale banking | 6,875 | 7,636 | 7,536 | 11.1% | (1.3%) |
| Institutional lending | 1,570 | 1,668 | 1,201 | 6.3% | (28.0%) |
| Treasury | 3,666 | — | 1,303 | —% | —% |
| Other | 26,280 | 28,192 | 6,382 | 7.3% | (77.4%) |
| Total | 128,004 | 141,300 | 162,550 | 10.4% | 15.0% |

*2004 and 2005*. In 2005, total fee income increased by 10.4%. The positive economic environment led to an overall increase in the usage and penetration of bank products in 2005. Fees from checking accounts and lines of credit increased by 19.9%, mainly a result of the growth of our checking accounts and credit lines. These products are sold together and, therefore, are being analyzed as a single product.

Insurance brokerage fees increased by 23.8%, mainly as a result of an industry-wide expansion of the insurance brokerage business as banks have successfully introduced simple and low cost insurance products to the market. The 6.4% rise in ATM fees was mainly driven by the rise of ATMs installed by the Bank that increased by 19.5% in 2005 to 1,422 tellers. This was offset in part by the US$2 million one-time fee earned in 2004 as a result of the strategic alliance signed between the Bank and Empresas París in December 2004. Excluding this item, ATM fees increased by 17.1%, generally in line with the increase of ATMs in the period.

The increase in other fees was mainly due to Ch$2,147 million in fees paid to the Bank in connection with financial advisory services provided to a company.

Fees from our mutual fund asset management subsidiary increased by 1.0%. Total assets under management increased by 4.7% in 2005 compared to 2004. In 2005, the Bank launched 12 new funds. The inflow to these new funds offset a reduction in amount managed in fixed income funds as money flowed away from these funds toward bank deposits due to an increase in short-term interest rates.

The growth in fees was offset by a 41.7% decrease in fees from letters of credit, guarantees, pledges and other contingent operations, in line with the decline in low yielding contingent loans. Underwriting fees decreased by 62.3%, mainly due to lower corporate bond issuances in 2005 compared to 2004. Payment agency service fees declined by 31.2% in 2005 compared to 2004. These charges are mainly related to collection services the Bank performs on behalf of corporate customers. These services are increasingly being performed through our internet banking services. Fees charged for office banking, which is internet banking service for companies, totaled Ch$1,380 million in 2005 compared to no significant income in previous years.

***Other operating income (expenses), net***

The following table sets forth information regarding our other operating income (expenses), net in the years ended December 31, 2004, 2005 and 2006.

| | Year ended December 31, | | | % Change | % Change |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2004/2005** | **2005/2006** |
| | **(in millions of constant Ch$ as of December 31, 2006, except percentages)** | | | | |
| Net gains from trading and mark-to-market | (7,410) | (62,569) | 100,312 | 744.4% | — |
| Foreign exchange transactions, net | 47,444 | 72,381 | (48,708) | 52.6% | — |
| Other operating losses, net | (25,293) | (23,407) | (32,961) | (7.4%) | 40.8% |
| Total other operating income | 14,741 | (13,595) | 18,643 | — | — |

*2005 and 2006.* Total other operating income, net, amounted to a gain of Ch$18,643 million for the year ended December 31, 2006 compared to a loss of Ch$13,595 million for 2005. Total other operating income, net, consists primarily of (i) the results of our Treasury Department's trading and hedging activities and financial transactions with customers, and (ii) other operating income and expenses primarily relating to repossessed assets that have not been charged-off, sales force expenses and other expenses relating to the Bank's marketing and promotional efforts.

Net gains from trading activities and mark-to-market adjustments totaled Ch$100,312 million in 2006. This line item in 2006 included: (i) unrealized gains of Ch$83,825 million from mark-to-market adjustments of our derivatives portfolio (including foreign exchange derivatives) and, (ii) gains of Ch$16,487 million from mark to market adjustments and realized gains made in the securities portfolio. The net result from foreign exchange transactions totaled a loss of Ch$48,708 million in 2006. These results mainly included the translation loss of assets and liabilities denominated in foreign currencies (excluding derivatives), which was largely offset by the hedged positions with derivatives. Our exposure to the foreign currency market is limited by guidelines of the Central Bank and our Market Risk Department *(See Item 11: Quantitative and Qualitative Disclosures about Market Risk).*

Net gains from trading activities and mark-to-market adjustments and foreign exchange transactions for the years ended December 31, 2006 and 2005 are not strictly comparable since 2006 figures include the mark-to-market adjustments of derivatives. In accordance with Circular No. 3345 issued by the Superintendency of Banks, effective January 1, 2006, the accounting standards for valuing financial instruments acquired for trading or investment purposes, including derivative instruments, were amended. In summary, we must record our derivatives portfolio at fair value, and hedge accounting was introduced. See Item 5: Operation and Financial Review and Prospects — A. New Accounting Standards for Financial Investments and Derivatives. Results in 2006 included a gain of Ch$12,580 million following the adoption of new accounting standards reflecting recognizing financial instruments at fair value, which resulted in a gain from trading activities. If we had applied the new accounting standards for the year ended

December 31, 2005, the net effect on our results would have been a gain of Ch$7,008 million (this figure has been calculated based on the adjustment under U.S. GAAP for hedge accounting. See Note 26(m) to our Audited Consolidated Financial Statements).

In 2006, other operating losses, net, increased by 40.8% to Ch$32,961 million compared to a loss of Ch$23,407 million in 2005. This was primarily due to our increased business activities, which resulted in increases in credit card related expenses and other customer related expenses. Expenses relating to our credit card business increased by 117.7% to Ch$5,013 million for the year ended December 31, 2006 compared to 2005, primarily as a result of relatively higher premium rates on fraud insurance covering some of our new cards and an increase in the membership fees paid to Transbank, the company collectively owned by major banks in Chile which runs credit card payment networks in Chile. These increased costs were offset by increased fees from our credit cards.

Customer service expenses, which consist primarily of expenses paid to third parties for transporting funds for corporate customers as part of cash management agreements, and the costs of our call center, increased by 105.0% to Ch$10,889 million in 2006 compared to 2005. This was offset by positive performance of our cash management business. We generate fees for collection and corporate e-banking services and generate interest income on the floating balances of these clients. The growth of these expenses also reflects the shift towards more efficient sales channels such as our call center compared to the outsourced sales force.

The results from the sales and expenses in maintaining repossessed assets decreased by 78.2% to Ch$842 million in 2006 compared to 2005. In 2005, we recognized a gain of Ch$1,123 million from the leasing of a large repossessed asset, which mainly explains the decline in income in this line item in 2006.

*2004 and 2005*. Other operating income, net totaled a loss of Ch$13,595 million in 2005 compared to a gain of Ch$14,741 million in 2004. This was mainly due to an increase in net loss from trading and mark-to-market adjustments primarily reflecting the movement of long-term local interest rates in 2005 compared to 2004. In the first nine months of 2005, strong liquidity in the Chilean financial systems dampened long-term yields, resulting in mark-to-market gains. As the economy improved and inflation continued to rise, this trend reversed sharply in the last quarter of the year, reversing a substantial portion of the gains recorded to that point in the year. As of December 31, 2004, the market rate on the 10-year Central Bank bond in real terms was 3.29%. As of September 30, 2005, the yield on this same instrument had declined to 2.43%, but by December 31, 2005, it recovered to 3.29%. In 2004, the 10-year Chilean Central Bank bond was yielding 3.23%, down 104 basis points from year-end 2003. This was partially offset by a 52.6% increase in foreign exchange transactions. This line item in 2004 and 2005 includes net gain or loss in book value of assets or liabilities indexed to a foreign currency. The increase in gains from foreign exchange transactions was primarily attributable to a 8.1% appreciation of the peso during 2005, which partially offset the financial results on forward contracts included in net gains from trading and mark-to-market. Our exposure to the foreign currency market is limited by guidelines of the Central Bank and our Market Risk Department *(See Item 11: Quantitative and Qualitative Disclosures about Market Risk).*

Other operating losses, net decreased by 7.4% in 2005 compared to 2004, totaling a loss of Ch$23,407 million. This decrease was mainly due to a 20.9% decrease in commissions paid to our external sales force, which totaled Ch$17,227 million in 2005, primarily attributable to the fact that in 2004 sales force expenses included the recognition of Ch$4,174 million in one-time sales force expenses as a result of the sale of the Santiago Express Division to Empresas París. Expenses on assets received in lieu of payment also decreased by 84.4% in 2005 compared to 2004. This was offset by a 16.6% decline in income from the sale of repossessed assets and a rise in other expenses related to our credit card business.

***Other income and expenses, net***

The following table sets forth information regarding our other income and expenses in the years ended December 31, 2004, 2005 and 2006.

| | Year ended December 31, | | | % Change | % Change |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2004/2005 | 2005/2006 |
| | (in millions of constant Ch$ as of December 31, 2006, except percentages) | | | | |
| Non-operating income (loss), net | (4,669) | (22,480) | (4,214) | 381.5% | (81.3%) |
| Income attributable to investments in other companies | 568 | 693 | 786 | 21.9% | 13.4% |
| Losses attributable to minority interest | (194) | (136) | (151) | (30.0%) | 11.0% |
| Total | (4,295) | (21,923) | (3,579) | 410.4% | (83.7%) |

*2005 and 2006*. The net loss recorded in other income and expenses, net, decreased by 83.7% in 2006 compared to 2005, primarily due to a lower level of provisions for other contingencies. These contingencies are mainly related to non credit risks, including non specific contingencies, tax contingencies and other non credit contingencies or impairments. In 2006, these provisions totaled Ch$6,515 million, a decrease of 67.8% compared to 2005. The lower non-operating loss was also due to a lower level of charge-offs of repossessed assets, which totaled Ch$13,616 million in 2006, a decrease of 36.2% compared to 2005. This was partially offset by a 52.6% decrease in gains from the sales of repossessed assets previously charged off, which totaled Ch$8,050 million in 2006. (See Note 17 to our Audited Consolidated Financial Statements).

*2004 and 2005*. The net loss recorded in other income and expenses, net, increased by 410.4% in 2005 compared to 2004. In 2004, the Bank recognized a one-time gain of Ch$23,093 million from the sale of our former Santiago Express Division to Empresas París. Excluding the sale, the net loss recorded in other income and expenses, net would decrease by 20.0% in 2005 compared to 2004, mainly as a result of a 141.1% increase in income from the sale of repossessed assets previously charged off. This was partially offset by a 73.2% increase in provisions for other contingencies.

***Operating expenses***

The following table sets forth information regarding our operating expenses in the years ended December 31, 2004, 2005 and 2006.

| | Year ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2004/2005** | **2005/2006** |
| | **(in millions of constant Ch$ as of December 31, 2006, except percentages)** | | | | |
| Personnel salaries and expenses | 140,746 | 142,171 | 159,722 | 1.0% | 12.3% |
| Administrative expenses | 102,159 | 102,717 | 110,948 | 0.6% | 8.0% |
| Depreciation and amortization | 40,978 | 40,080 | 38,613 | (2.2%) | (3.7%) |
| Total | 283,883 | 284,968 | 309,283 | 0.4% | 8.5% |
| Efficiency ratio(1) | 44.0% | 41.5% | 39.0% | | |

(1) The efficiency ratio is the ratio of total operating expenses to total operating revenue. Total operating revenue consists of net interest revenue, fee income from services, net, and other operating income, net.

*2005 and 2006.* Operating expenses in 2006 increased by 8.5% compared to 2005. The 12.3% rise in personnel salaries and expenses was mainly due to the end-of-negotiation bonus paid in conjunction with the signing of the new collective bargaining agreement in the fourth quarter of 2006. This new collective bargaining agreement enters into effect on March 1, 2007 and expires on March 1, 2011. As a part of this process, an end-of-negotiation bonus was to be paid, which resulted in a one-time cost of Ch$8,622 million in 2006. Personnel costs also grew as a result of the 5.4% rise in average headcount in 2006 compared to 2005 and an increase in bonuses paid to business teams for reaching business targets. Our efficiency ratio, despite higher costs, continued to improve, reaching a record low of 39.0% for the year ended December 31, 2006 compared to 41.5% in 2005.

Administrative expenses increased by 8.0% for the same periods, reflecting an increase in expenses as a result of the expansion of our distribution network. The branch network totaled 397 branches as of December 31, 2006, an increase of 12.8% since

December 2005. Our ATM network totaled 1,588 machines, an increase of 11.7% since December 2005. We expect personnel and administrative expenses to grow at a higher pace in future periods as a result of our strategy to expand our retail banking business.

Depreciation and amortization expenses decreased by 3.7% in 2006 compared to 2005. In the fourth quarter of 2005, the Bank accelerated the depreciation of obsolete IT projects, which resulted in the decline in depreciation expense in 2006. Going forward we expect depreciation expenses to rise as the Bank continues to invest in branches and other fixed assets.

The expansion of our branch and ATM network helped us increase our retail business. The relatively larger expenses incurred as a result of the expansion of the branch and ATM network has been partially offset by increases in productivity as gross operating income increased by 15.7%. As a result, our efficiency ratio, representing operating expenses divided by operating income, improved from 41.5% in 2005 to a record low of 39.0% in 2006. The pace of expansion of our branch and ATM network in the medium-term may vary with fluctuations in the outlook of the Chilean economy.

*2004 and 2005.* Operating expenses in 2005 increased by 0.4% compared to 2004. The 1.0% rise in personnel expenses reflects an increase in variable compensation paid to commercial teams for reaching commercial targets. This was partially offset by a 1.7% decrease in average headcount in 2005 compared to 2004 as a result of the sale of Santiago Express. The 0.6% increase in administrative expenses reflect an increase in expenditures for branches and ATMs, which was partially offset by savings produced by the outsourcing of certain back office functions, such as systems management and mortgage processing, which we believe has improved productivity. We expect personnel and administrative expenses to grow at a higher pace in future periods as a result of our strategy to expand our retail banking business. This trend was already observable in the second half of 2005.

Depreciation and amortization expenses decreased by 2.2% in 2005 compared to 2004, which were positively affected by the completion of the depreciation schedule of our core IT systems.

***Loss from price level restatement***

*2005 and 2006.* The loss from price level restatement totaled Ch$13,782 million in 2006, a decrease of 25.6% compared to 2005. We must adjust our capital, fixed assets and other assets for the variations in price levels. Because our capital is larger than the sum of our fixed and other assets, price level restatement usually results in a loss and fluctuates with the inflation rate. The inflation rate used for calculating price level restatement decreased in 2006 compared to 2005 (2.01% in 2006 and 3.80% in 2005), resulting in a lower loss from price level restatement. This was partially offset by an increase in the gap between equity and other assets as we decreased our dividend payment in 2006. The lower loss from price level restatement is also partially offset by the negative impact on net interest income due to lower inflation rates.

*2004 and 2005.* Losses from price level restatement increased by 46.1% compared to 2004. The higher loss from price level restatement reflected the higher inflation rate used for calculating price level restatement in 2005 compared to 2004 (3.62% in 2005 compared to 2.35% in 2004).

***Income tax***

*2005 and 2006.* Our income tax expense increased by 14.4% to Ch$58,199 million for the year ended December 31, 2006 compared to 2005, primarily due to a 16.3% growth of income before taxes. The effective tax rate for 2006 was 16.9%, compared to 17.2% for 2005. The statutory corporate tax rate was 17% (See Note 20 to our Audited Consolidated Financial Statements).

*2004 and 2005.* Our income tax expense increased 4.7% for the year ended December 31, 2005 compared to 2004. This rise was mainly due to a net charge to deferred taxes of Ch$4,857 million compared to a net benefit of Ch$12,985 million in 2004. This was partially offset by a 23.7% decrease in income tax provisions in 2005 compared to 2004. (See Note 20 to our Audited Consolidated Financial Statements). As a result, the total income tax expenses in 2005 increased at a lower rate than the growth of pre-tax income, leading to a lower effective tax rate. The Bank's effective tax rate was 17.2% for the year ended December 31, 2005, compared to 18.8% in 2004.

## C. Liquidity and Capital Resources

### Sources of Liquidity

Santander-Chile's liquidity depends upon its (i) capital, (ii) reserves and (iii) financial investments, including investments in government securities. To cover any liquidity shortfalls and to augment its liquidity position, Santander-Chile has established lines of credit with foreign and domestic banks and also has access to Central Bank borrowings.

The following table sets forth our contractual obligations and commercial commitments by time remaining to maturity. At December 31, 2006, the scheduled maturities of our contractual obligations and of other commercial commitments, including accrued interest, were as follows:

| Contractual Obligations | Due within 1 year | Due after 1 year but within 3 years | Due after 3 years but within 6 years | Due after 6 years | Total 2006 |
|---|---|---|---|---|---|
| | (in millions of constant Ch$ as of December 31, 2006) | | | | |
| Deposit and other obligations(1) | 5,483,618 | 1,196,139 | 219,126 | 10,452 | 6,909,335 |
| Mortgage finance bonds | 65,493 | 105,746 | 133,680 | 225,287 | 530,206 |
| Subordinated bonds | 40,294 | — | 133,427 | 316,695 | 490,416 |
| Bonds | 1,140 | 213,700 | 172,048 | 178,765 | 565,653 |
| Chilean Central Bank borrowings: | | | | | |
| Credit lines for renegotiations of Loans | 5,080 | — | — | — | 5,080 |
| Other Central Bank borrowings | 134,417 | — | — | — | 134,417 |
| Borrowings from domestic financial institutions | | | | | |
| Investments sold under agreements to repurchase | 19,929 | — | — | — | 19,929 |
| Foreign borrowings | 717,979 | 91,021 | 3,267 | — | 812,267 |
| Derivatives | 266,651 | 27,629 | 49,680 | 11,962 | 355,922 |
| Other obligations | 52,221 | 5,607 | 4,802 | 1,563 | 64,193 |
| Total cash obligations | 6,786,822 | 1,639,842 | 716,030 | 744,724 | 9,887,418 |

(1) Excludes demand deposit accounts and saving accounts.

The Bank as of the date of the filing of this 20-F has no significant purchase obligations.

### Operational leases

Certain bank premises and equipment are leased under various operating leases. Future minimum rental commitments as of December 31, 2006 under non-cancelable leases are as follows:

| | As of December 31, 2006 (in millions of constant Ch$ as of December 31, 2006) |
|---|---|
| Due within 1 year | 8,383 |
| Due after 1 year but within 2 years | 7,363 |
| Due after 2 years but within 3 years | 5,394 |

| | |
|---|---|
| Due after 3 years but within 4 years | 3,006 |
| Due after 4 years but within 5 years | 1,539 |
| Due after 5 years | 254 |
| Total | 25,939 |

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**Other Commercial Commitments**

At December 31, 2006, the scheduled maturities of other commercial commitments, including accrued interest, were as follows:

| Other Commercial Commitments | Due within 1 year | Due after 1 year but within 3 years | Due after 3 years but within 6 years | Due after 6 years | Total |
|---|---|---|---|---|---|
| | (in millions of constant Ch$ as of December 2006) | | | | |
| Letters of credit | 102,707 | 50,448 | 13,093 | — | 166,248 |
| Guarantees | 553,833 | 22,132 | 642 | — | 576,607 |
| Other commercial commitments | 275,723 | 5,403 | 67 | — | 281,193 |
| Total other commercial commitments | 932,263 | 77,983 | 13,802 | — | 1,024,048 |

**Capital and Reserves**

We currently have regulatory capital in excess of the minimum requirement under the current Chilean regulations. According to the General Banking Law, a bank should have regulatory capital of at least 8% of its risk weighted assets, net of required loan loss allowances, and paid-in capital and reserves (“basic capital”) of at least 3% of its total assets, net of required loan loss allowances. For these purposes, the regulatory capital of a bank is the sum of (1) the bank’s basic capital, (2) subordinated bonds issued by the bank valued at their placement price for an amount up to 50% of its basic capital; provided that the value of the bonds shall decrease by 20% for each year that elapses during the period commencing six years prior to their maturity, and (3) its voluntary allowances for loan losses, for an amount of up to 1.25% of its risk weighted assets. 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 regulatory capital to risk weighted assets ratio of 12% for the merged bank. This indicator was reduced to 11% by the Superintendency of Banks effective January 1, 2005. For purposes of weighing the risk of a bank’s assets, the General Banking Law considers five different categories of assets, based on the nature of the issuer, the availability of funds, the nature of the assets and the existence of collateral securing such assets.

The following table sets forth our regulatory capital at the dates indicated. See Note 13 to our Audited Consolidated Financial Statements for a description of the minimum capital requirements.

| | As of December 31, 2005 | 2006 |
|---|---|---|
| | (in millions of constant Ch$ as of December 31,2006, except percentages) | |
| Base net capital | 859,975 | 959,757 |
| 3% of total assets net of provisions | (402,432) | (461,315) |
| Excess over minimum required capital | 457,543 | 498,442 |
| Base net capital as a percentage of the total assets, net of provisions | 6.4% | 6.2% |
| Regulatory capital | 1,231,997 | 1,418,752 |
| 11% of risk-weighted assets | (1,051,696) | (1,234,458) |
| Excess over minimum required capital | 180,301 | 184,294 |
| Regulatory capital as a percentage of risk-weighted assets | 12.9% | 12.6% |

**Financial Investments**

The following table sets forth our investment in Chilean government and corporate securities and certain other financial investments at the dates indicated. Financial investments that have a secondary market are carried at market value. All other financial investments are carried at acquisition cost, plus accrued interest and indexation readjustments, as applicable.

**a) Trading**

| | As of December 31, 2005 | 2006 |
|---|---|---|
| | (in millions of constant Ch$ as of December 31, 2006) | |
| **Central Bank and Government Securities** | | |
| Central Bank securities | 390,002 | 381,260 |
| Chilean Treasury Bonds | — | 40,521 |
| Other securities | 17,101 | 357 |
| Subtotal | 407,103 | 422,138 |
| **Others Financial Securities** | | |
| Time deposits in Chilean financial institutions | 89,151 | 3,554 |
| Mortgage finance bonds | 59,555 | 23,189 |
| Chilean financial institutions bonds | — | 44 |
| Chilean corporate bonds | 2,002 | 22,561 |
| Other Chilean securities | 58,902 | 7,264 |
| Other foreign securities | 59,248 | 160,711 |
| Subtotal | 268,858 | 217,323 |
| Total | 675,961 | 639,461 |

**b) Available for sale**

| | As of December 31, 2005 | 2006 |
|---|---|---|
| | (in millions of constant Ch$ as of December 31, 2006) | |
| **Central Bank and Government Securities** | | |
| Central Bank securities | 86,114 | 77,738 |
| Chilean Treasury Bonds | 1,226 | 623 |
| Other securities | 34,494 | 18,531 |
| Subtotal | 121,834 | 96,892 |
| **Others Financial Securities** | | |
| Mortgage finance bonds | 423,970 | 222,672 |
| Other Foreign securities | 29,224 | 25,544 |
| Subtotal | 453,194 | 248,216 |
| Total | 575,028 | 345,108 |

**c) Held- to-maturity**

No financial investments were classified as held-to-maturity as of December 31, 2005 and 2006.

***Remaining Maturities and Weighted Average Rates***

The following table sets forth an analysis of our investments at December 31, 2006, by remaining maturity and the weighted average nominal rates of our investments:

| | Within one year | Weighted average Nominal Rate | After one year but within five years | Weighted average Nominal Rate | After five years but within ten years | Weighted average Nominal Rate | After ten years | Weighted average Nominal Rate | Total | Weighted average Nominal Rate |
|---|---|---|---|---|---|---|---|---|---|---|
| | (in millions of constant Ch$ as of December 31, 2006, except percentages) | | | | | | | | | |
| **Held for Trading Central Bank and Government Securities** | | | | | | | | | | |
| Central Bank securities | 67,797 | 4.0% | 252,424 | 3.7% | 42,580 | 2.8% | 18,459 | 2.7% | 381,260 | 4.0% |
| Chilean Treasury Bonds | | | | | 40,521 | 4.7% | | | 40,521 | 4.7% |
| Others securities | 208 | 2.7% | 104 | 3.1% | 17 | 3.0% | 28 | 3.2% | 357 | 3.0% |
| Subtotal | 68,005 | | 252,528 | | 83,118 | | 18,487 | | 422,138 | |
| **Others Financial Securities** | | | | | | | | | | |
| Time deposits in Chilean financial institutions | 1,166 | 6.2% | 2,388 | 6.0% | | | | | 3,554 | 6.0% |
| Mortgage finance bonds | 229 | 5.0% | 1,034 | 4.4% | 3,790 | 5.6% | 18,136 | 4.0% | 23,189 | 4.0% |
| Chilean financial institutions bonds | 33 | 6.1% | 11 | 3.4% | | | | | 44 | 5.4% |
| Chilean corporate bonds | 599 | 6.9% | 56 | 5.0% | 16,178 | 4.1% | 5,728 | 4.0% | 22,561 | 4.0% |
| Other Chilean securities | 7,264 | | | | | | | | 7,264 | |
| Others foreign securities | 160,711 | | | | | | | | 160,711 | |
| Subtotal | 170,002 | | 3,489 | | 19,968 | | 23,864 | 0.0% | 217,323 | |
| **Total** | **238,007** | | **256,017** | | **103,086** | | **42,351** | **0.0%** | **639,461** | |
| **Available-for-sale Investments** | | | | | | | | | | |
| **Central Bank and Government Securities** | | | | | | | | | | |
| Central Bank securities | 21,187 | 4.3% | 55,849 | 3.5% | 702 | 4.7% | | | 77,738 | 3.8% |
| Chilean Treasury Bonds | 623 | 5.7% | | | | | | | 623 | 5.7% |
| Others securities | 8,538 | 3.3% | 8,056 | 3.0% | 1,197 | 3.0% | 740 | 3.2% | 18,531 | 3.2% |
| Subtotal | 30,348 | | 63,905 | | 1,899 | | 740 | | 96,892 | |
| **Others Financial Securities** | | | | | | | | | | |
| Mortgage finance bonds | 173 | 5.2% | 2,030 | 4.6% | 16,860 | 4.0% | 203,609 | 4.2% | 222,672 | 4.2% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Others foreign securities | 14,557 | 5.2% | | 10,987 | 5.7% | | 25,544 | 5.5% |
| Subtotal | 14,730 | | 2,030 | 27,847 | | 203,609 | 248,216 | |
| Total | 45,078 | | 65,935 | 29,746 | | 204,349 | 345,108 | |

**Unused sources of liquidity**

The Bank also has credit ratings from three international agencies. We believe our credit ratings are a positive factor when obtaining financing.

| **Moody's** | **Rating** |
|---|---|
| Long-term bank deposits | A2 |
| Senior bonds | Aa3 |
| Subordinated debt | Aa3 |
| Bank deposits in local currency | Aa2 |
| Bank financial strength | B- |
| Short-term deposits | P-1 |
| Outlook | Stable |

| **Standard & Poor's** | **Rating** |
|---|---|
| Long-term Foreign Issuer Credit | A |
| Long-term Local Issuer Credit | A |
| Short-term Foreign Issuer Credit | A-1 |
| Short-term Local Issuer Credit | A-1 |
| Outlook | Positive |

| Fitch | Rating |
|---|---|
| Foreign Currency Long-term Debt | A+ |
| Local Currency Long-term Debt | A+ |
| Foreign Currency Short-term Debt | F1 |
| Local Currency Short-term Debt | F1 |
| Outlook | Stable |

**Working capital**

As a bank, we satisfy our working capital needs through general funding, the majority of which derives from deposits and other borrowings from the public. See "Item 5: Operating and Financial Review and Prospects—C. Liquidity and Capital Resources—Deposits and Other Borrowings." In our opinion, our working capital is sufficient for our present needs.

**Liquidity Management**

Liquidity management seeks to ensure that, even under adverse conditions, we have access to the funds necessary to cover client needs, maturing liabilities and capital requirements. Liquidity risk arises in the general funding for our financing, trading and investment activities. It includes the risk of unexpected increases in the cost of funding the portfolio of assets at appropriate maturities and rates, the risk of being unable to liquidate a position in a timely manner at a reasonable price and the risk that we will be required to repay liabilities earlier than anticipated.

Our general policy is to maintain liquidity adequate to ensure our ability to honor withdrawals of deposits, make repayments of other liabilities at maturity, extend loans and meet our own working capital needs. Our minimum amount of liquidity is determined by the statutory reserve requirements of the Central Bank. Deposits are subject to a statutory reserve requirement of 9% for demand deposits and 3.6% for peso, UF denominated and foreign currency denominated time deposits with a term of less than a year. See "Item 4: Information on the Company—D. Regulation and Supervision." The Central Bank has statutory authority to increase these percentages to up to 40% for demand deposits and up to 20% for time deposits. In addition, a 100% special reserve (reserva técnica) applies to demand deposits, deposits in checking accounts, other demand deposits received or obligations payable on sight and incurred in the ordinary course of business, other than deposits unconditionally payable immediately or within a term of less than 30 days and other time deposits payable within 10 days. This special reserve requirement applies to the amount by which the total of such deposits exceeds 2.5 times the amount of a bank's paid-in capital and reserves. Interbank loans are deemed to have a maturity of more than 30 days, even if payable within the following 10 days.

The Central Bank also requires us to comply with the following liquidity limits:

- Our total liabilities with maturities of less than 30 days cannot exceed our total assets with maturities of less than 30 days by an amount greater than our capital. This limit must be calculated in local currency and foreign currencies together as one gap.

- Our total liabilities with maturities of less than 90 days cannot exceed our total assets with maturities of less than 90 days by more than twice of our capital. This limit must be calculated in local currency and foreign currencies together as one gap.

We have set other liquidity limits and ratios that minimize liquidity risk. See "Item 11: Quantitative and Qualitative Disclosure About Market Risk."

**Cash Flow**

The tables below set forth our main sources of cash. The subsidiaries are not an important source of cash flow for us and therefore have no impact on our ability to meet our cash obligations. No legal or economic restrictions exist on the ability of subsidiaries to transfer funds to us in the form of loans or cash dividends as long as these subsidiaries abide by the regulations of the *Ley de Sociedad Anónimas* regarding loans to related parties and minimum dividend payments.

| | Year ended December 31, | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | (in millions of constant Ch$ as of December 31, 2006) | | |
| Net cash provided by operating activities | 420,710 | 333,611 | 453,379 |

The Ch$119,768 million increase in cash provided by operating activities in 2006 compared to 2005 was mainly due to (i) a Ch$66,187 million variation in the net change in interest accruals and (ii) higher level of commercial activities reflected in an increase in net interest revenue and net fee income.

The Ch$87,099 million reduction in cash provided by operating activities in 2005 compared to 2004 was mainly due to a Ch$143,619 million decrease in the net change in interest accruals in the same period.

| | Year ended December 31, | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | (in millions of constant Ch$ as of December 31, 2006) | | |
| Net cash provided by (used in) investing activities | (1,076,366) | (682,519) | (1,195,508) |

Net cash used in investing activities in 2006 totaled Ch$1,195,508 million, mainly as a result of the growth of the Bank's loan and financial investment portfolios. In 2005, the increase in loans was partially offset by the decrease in financial investments. In 2004, the increase in loans also resulted in a reduction in cash flow for the Bank.

| | Year ended December 31, | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | (in millions of constant Ch$ as of December 31, 2006) | | |
| Net cash provided by (used in) financing activities | 590,145 | 593,002 | 608,364 |

In 2006, the Bank financed its lending activities with increases in current accounts, time deposits, short term funds borrowed and senior bonds. The rise in cash from financing activities compared to 2005 was mainly due to greater amounts of bonds issued and short term funds borrowed. In 2005, the Bank financed its activities with an increase in time deposits and senior bonds, which explains the slight rise in cash from financing activities in 2005 compared to 2004.

**Deposits and Other Borrowings**

The following table sets forth our average daily balance of liabilities for the years ended December 31, 2004, 2005 and 2006, in each case together with the related average nominal interest rates paid thereon.

| | Year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2004 | | | 2005 | | | 2006 | | |
| | Average Balance | % of Total Average Liabilities | Average Nominal Rate | Average Balance | % of Total Average Liabilities | Average Nominal Rate | Average Balance | % of Total Average Liabilities | Average Nominal Rate |
| | (in millions of constant Ch$ as of December 31, 2006, except percentages) | | | | | | | | |
| Savings accounts | 140,589 | 1.1% | 2.0% | 118,109 | 0.9% | 4.3% | 105,849 | 0.7% | 1.3% |
| Time deposits | 4,254,985 | 33.4% | 3.0% | 5,192,563 | 37.7% | 4.7% | 6,401,824 | 43.5% | 5.6% |
| | 38,690 | 0.3% | 4.5% | 129,145 | 0.9% | 3.7% | 84,102 | 0.6% | 5.1% |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Central Bank borrowings | | | | | | | | | |
| Repurchase agreements | 659,423 | 5.2% | 1.9% | 527,861 | 3.8% | 5.0% | 546,042 | 3.7% | 4.9% |
| Mortgage finance bonds | 1,334,363 | 10.5% | 8.2% | 820,807 | 6.0% | 9.4% | 578,410 | 3.9% | 7.5% |
| Other interest-bearing liabilities | 1,395,910 | 11.0% | 5.2% | 1,830,061 | 13.2% | 5.6% | 2,157,951 | 14.6% | 6.2% |
| Subtotal interest-bearing liabilities | 7,823,960 | 61.5% | 4.2% | 8,618,546 | 62.5% | 5.3% | 9,874,178 | 67.0% | 5.7% |

| | Year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2004 | | | 2005 | | | 2006 | | |
| | Average Balance | % of Total Average Liabilities | Average Nominal Rate | Average Balance | % of Total Average Liabilities | Average Nominal Rate | Average Balance | % of Total Average Liabilities | Average Nominal Rate |
| | (in millions of constant Ch$ as of December 31, 2006, except percentages) | | | | | | | | |
| Non-interest bearing liabilities | | | | | | | | | |
| Non-interest bearing deposits | 1,855,619 | 14.6% | | 1,945,572 | 14.1% | | 1,823,018 | 12.4% | |
| Contingent liabilities | 1,031,017 | 8.1% | | 894,393 | 6.5% | | 949,725 | 6.5% | |
| Other non-interest bearing liabilities | 976,710 | 7.7% | | 1,310,156 | 9.5% | | 920,752 | 6.3% | |
| Shareholders' equity | 1,038,970 | 8.7% | | 1,015,385 | 7.4% | | 1,150,156 | 7.8% | |
| Subtotal non-interest bearing liabilities | 4,902,316 | 38.5% | | 5,165,506 | 37.5% | | 4,843,651 | 33.0% | |
| Total liabilities | 12,726,276 | 100.0% | | 13,784,052 | 100.0% | | 14,717,829 | 100.0% | |

Our most important source of funding is our time deposits. Average time deposits represented 43.5% of our average total liabilities and shareholders' equity in 2006. Our current funding strategy is to continue to utilize all sources of funding in accordance with their costs, their availability and our general asset and liability management strategy. Special emphasis is being placed on lengthening the maturities of time deposits with institutional clients and increasing in general our deposits from retail customers. We also intend to continue to broaden our customer deposit base and to emphasize core deposit funding. We believe that broadening our deposit base by increasing the number of account holders has created a more stable funding source.

**Composition of Deposits and Other Commitments**

The following table sets forth the composition of our deposits and similar commitments at December 31, 2004, 2005 and 2006.

| | At December 31, | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | (in millions of constant Ch$ as of December 31, 2006) | | |
| Checking accounts | 1,363,417 | 1,486,790 | 1,663,414 |
| Other demand liabilities | 1,008,270 | 682,494 | 763,242 |
| Savings accounts | 129,945 | 111,742 | 100,848 |
| Time deposits | 4,597,510 | 5,920,191 | 6,808,487 |
| Other commitments (1) | 40,595 | 45,506 | 56,341 |
| Total | 7,139,737 | 8,246,723 | 9,392,332 |

(1) Includes primarily leasing accounts payable relating to purchases of equipment.

**Maturity of Deposits**

The following table sets forth information regarding the currency and maturity of our deposits at December 31, 2006, expressed in percentages of our total deposits in each currency category. UF-denominated deposits are similar to peso-denominated deposits in all respects, except that the principal is readjusted periodically based on variations in the Chilean consumer price index.

| | Ch$ | UF | Foreign Currencies | Total |
|---|---|---|---|---|
| | | (in percentages) | | |
| Demand deposits | 1.5 | — | — | 0.8 |
| Savings accounts | — | 4.2 | — | 1.4 |
| Time deposits: | | | | |
| Maturing within 3 months | 54.6 | 15.5 | 76.3 | 46.1 |

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| | Ch$ | UF | Foreign Currencies | Total |
|---|---|---|---|---|
| | | (in percentages) | | |
| Maturing after 3 but within 6 months | 14.6 | 16.4 | 20.6 | 15.3 |
| Maturing after 6 but within 12 months | 17.4 | 22.8 | 3.0 | 16.8 |
| Maturing after 12 months | 11.9 | 41.1 | 0.1 | 19.6 |
| Total time deposits | 98.5 | 95.8 | 100.0 | 97.8 |
| Total deposits | 100.0% | 100.0% | 100.0% | 100.0% |

The following table sets forth information regarding the maturity of our outstanding time deposits in excess of U.S.$100,000 at December 31, 2006.

| | Ch$ | UF | Foreign Currencies | Total |
|---|---|---|---|---|
| | (in millions of constant Ch$ as of December 31, 2006) | | | |
| Time deposits: | | | | |
| Maturing within 3 months | 1,817,277 | 347,504 | 484,861 | 2,649,642 |
| Maturing after 3 but within 6 months | 560,218 | 377,321 | 169,663 | 1,107,202 |
| Maturing after 6 but within 12 months | 276,600 | 474,018 | 19,916 | 770,534 |
| Maturing after 12 months | 749,149 | 1,039,752 | 4,140 | 1,793,041 |
| Total time deposits | 3,403,244 | 2,238,595 | 678,580 | 6,320,419 |

**Short-term Borrowings**

The principal categories of our short-term borrowings are amounts borrowed under foreign trade lines of credit, domestic interbank loans, Central Bank borrowings and repurchase agreements. The table below presents the amounts outstanding at each year-end indicated and the weighted-average nominal interest rate for each such year by type of short-term borrowings.

| | As of and for the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2004 | | 2005 | | 2006 | |
| | Balance | Weighted-Average Nominal Interest Rate | Balance | Weighted-Average Nominal Interest Rate | Balance | Weighted-Average Nominal Interest Rate |
| | (in millions of constant Ch$ as of December 31, 2006, except for rate data) | | | | | |
| Balances under repurchase agreements | 457,971 | 1.3% | 50,834 | 1.8% | 19,929 | 4.9% |
| Central Bank borrowings | 348,187 | 0.3% | 176,878 | 2.1% | 134,417 | 5.1% |
| Domestic interbank borrowings | 30,409 | 3.4% | 2,582 | 1.6% | — | — |
| Borrowings under foreign trade credit lines | 256,836 | 4.4% | 1,055,924 | 4.0% | 717,979 | 7.7% |
| Total short-term borrowings | 1,093,403 | 1.8% | 1,286,218 | 2.4% | 872,325 | 6.6% |

The following table shows the average balance and the average nominal rate for each short-term borrowing category for the years indicated:

| | For the year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2004 | | 2005 | | 2006 | |
| | Average Balance | Average Nominal Interest Rate | Average Balance | Average Nominal Interest Rate | Average Balance | Average Nominal Interest Rate |
| | (in millions of constant Ch$ as of December 31, 2006, except for rate data) | | | | | |
| Balances under repurchase agreements | 659,423 | 1.9% | 527,861 | 5.0% | 546,042 | 4.9% |
| Central Bank borrowings | 38,690 | 4.5% | 129,145 | 3.7% | 84,102 | 5.1% |
| Domestic interbank borrowings | 53,784 | 0.8% | 42,560 | 3.6% | 49,294 | 5.1% |
| Borrowings under foreign trade credit lines | 258,561 | 2.3% | 318,809 | 9.6% | 1,145,538 | 5.4% |
| Total short-term borrowings | 1,010,460 | 2.6% | 1,018,375 | 5.0% | 1,517,469 | 6.9% |

The following table presents the maximum month-end balances of our principal sources of short-term borrowings during the years indicated:

| | Maximum 2004 Month-End Balance | Maximum 2005 Month-End Balance | Maximum 2006 Month-End Balance |
|---|---|---|---|
| | (in millions of constant Ch$ as of December 31, 2006) | | |
| Balances under repurchase agreements | 361,856 | 592,809 | 437,131 |
| Central Bank borrowings | 340,213 | 378,684 | 304,563 |
| Domestic interbank borrowings | 140,797 | 43,904 | 3,777 |
| Borrowings under foreign trade credit lines | 460,152 | 503,147 | 1,756,659 |
| Total short-term borrowings | 1,303,018 | 1,518,544 | 2,502,130 |

**Total Borrowings**

Our long-term and short-term borrowings are summarized below. Borrowings are generally classified as short-term when they have original maturities of less than one year or are due on demand. All other borrowings are classified as long-term, including the amounts due within one year on such borrowings. The following table sets forth, at the dates indicated, the components of our borrowings.

| | December 31, 2006 | | |
|---|---|---|---|
| | Long-term | Short-term | Total |
| | (in millions of constant Ch$ as of December 31, 2006) | | |
| Central Bank borrowings | — | 134,417 | 134,417 |
| Credit lines for renegotiations of loans (a) | — | 5,080 | 5,080 |
| Balances under repurchase agreements | — | 19,929 | 19,929 |
| Mortgage finance bonds (b) | 464,713 | 65,493 | 530,206 |
| Other borrowings: bonds (c) | 564,513 | 1,140 | 565,653 |
| Subordinated bonds (d) | 450,122 | 40,294 | 490,416 |
| Borrowings from domestic financial institutions | — | | — |
| Foreign borrowings (e) | 94,288 | 717,979 | 812,267 |
| Other obligations (f) | 11,972 | 52,221 | 64,193 |
| Total borrowings | 1,585,608 | 1,036,553 | 2,622,161 |

| | December 31, 2005 | | |
|---|---|---|---|
| | Long-term | Short-term | Total |
| | (in millions of constant Ch$ as of December 31, 2006) | | |
| Central Bank borrowings | — | 176,878 | 176,878 |
| Credit lines for renegotiations of loans (a) | 6,796 | — | 6,796 |
| Balances under repurchase agreements | — | 50,834 | 50,834 |
| Mortgage finance bonds (b) | 563,470 | 119,673 | 683,143 |
| Other borrowings: bonds (c) | 422,292 | 1,754 | 424,046 |
| Subordinated bonds (d) | 393,929 | — | 393,929 |
| Borrowings from domestic financial institutions | — | 2,582 | 2,582 |
| Foreign borrowings (e) | 65,605 | 1,055,923 | 1,121,528 |
| Other obligations (f) | 12,000 | 30,984 | 42,984 |
| Total borrowings | 1,464,092 | 1,438,628 | 2,902,720 |

*a) Credit lines for renegotiations of loans*

Central Bank borrowings include credit lines for the renegotiations of loans and other Central Bank borrowings. These credit lines were provided by the Central Bank for the renegotiations of loans due to the need to refinance debts as a result of the economic recession and crisis of the banking system in the early 1980's. The lines for the renegotiations, which are considered long-term, are related with mortgage loans linked to the UF index and bore a real annual interest rate of 3.6% and 3.0% as of December 31, 2005 and 2006, respectively. The following table sets forth, at the dates indicated, our credit lines for renegotiations of loans.

| | At December 31, | |
|---|---|---|
| | 2005 | 2006 |
| | (in millions of constant Ch$ as of December 31, 2006) | |
| Total credit lines for renegotiations of loans | 6,796 | 5,080 |

The maturities of the outstanding amounts due under these credit lines, which are considered long-term, are as follows:

| | At December 31, 2006 (in millions of constant Ch$ as of December 31, 2006) |
|---|---|
| Due within 1 year | 5,080 |

*(b) Mortgage finance bonds*

These bonds are used to finance the granting of mortgage loans. The outstanding principal amounts of the bonds are amortized on a quarterly basis. The range of maturities of these bonds is between five and twenty years. The bonds are linked to the UF index and bear a real weighted-average annual interest rate of 5.2%. The following table sets forth the remaining maturities of our mortgage finance bonds at December 31, 2006.

| | At December 31, 2006 (in millions of constant Ch$ |
|---|---|

| | as of December 31, 2006) |
|---|---|
| Due within 1 year | 65,493 |
| Due after 1 year but within 2 years | 54,556 |
| Due after 2 years but within 3 years | 51,190 |
| Due after 3 years but within 4 years | 48,896 |
| Due after 4 years but within 5 years | 44,711 |
| Due after 5 years | 265,360 |
| Total mortgage finance bonds | 530,206 |

*(c) Bonds*

The following table sets forth, at the dates indicated, our issued bonds.

| | At December 31, 2005 | 2006 |
|---|---|---|
| | (in millions of constant Ch$ as of December 31, 2006) | |
| Santiago bonds, Series A,B,C,D and F | 11,350 | 9,179 |
| Santander Bonds denominated in UF | 165,122 | 342,774 |
| Santander Bonds denominated in US$ | 247,574 | 213,700 |
| Total | 424,046 | 565,653 |

Santiago bonds include series A, B, C and F issued by the former Santiago S.A. and series B and D issued by the former Banco O'Higgins prior to its merger with the Bank in 1997. These bonds are intended to finance loans that have a maturity of greater than one year, are linked to the UF index and bear a weighted-average annual interest rate of 7.0% with interest and principal payments due semi-annually.

On December 17, 2004, Santiago Leasing S.A., ceded through public deed a total of UF 3,041,102 (Ch$52,663 million at December 31, 2004) in bonds to Banco Santander Chile. These bonds are linked to the UF index and bear an annual interest rate of 5.6%. At December 31, 2005 and 2006, the balance was included in Santander bonds linked to the UF.

Santander bonds include bonds issued by the former Banco Santander-Chile and bonds issued by the Bank since August 2002. These bonds are intended to finance loans that have a maturity of greater than one year, are linked to the UF index and bear a weighted average annual interest rate of 6.5%.

On October 5, 2005, the Bank issued bonds denominated in UF in an aggregate principal amount of UF8,000,000, which bear an average annual interest rate of 3.0%.

On May 25, 2006, the Bank issued bonds denominated in UF in an aggregate principal amount of UF6,000,000, which bear an average annual interest rate of 4.6%.

On August 17, 2006, the Bank issued senior bonds denominated in UF in an aggregate principal amount of UF895,000, which bear an average annual interest rate of 3.7%.

On December 9, 2004, the Bank issued senior bonds denominated in U.S. dollars in an aggregate principal amount of US$400 million. These bonds carry a nominal interest rate of LIBOR plus 0.35% per annum (4.81% and 5.35% at December 31, 2005 and 2006). The interest is payable quarterly and the principal is to be paid after a term of 5 years.

The maturities of these bonds are as follows:

| | As of December 31, 2006 (in millions of constant Ch$ as of |
|---|---|

| | **December 31, 2006)** |
|---|---|
| Due within 1 year | 1,140 |
| Due after 1 year but within 2 years | — |
| Due after 2 years but within 3 years | 213,700 |
| Due after 3 years but within 4 years | 146,290 |
| Due after 4 years but within 5 years | 15,414 |
| Due after 5 years | 189,109 |
| Total bonds | 565,653 |

*d) Subordinated bonds*

The following table sets forth, at the dates indicated, the balances of our subordinated bonds.

| | As of December 31, 2005 | 2006 |
|---|---|---|
| | (in millions of constant Ch$ as of December 31, 2006) | |
| Santiago bonds denominated in US$ (1) | 44,045 | 42,703 |
| Santander bonds denominated in US$ (2) (6) | 265,381 | 272,183 |
| Santiago Bonds linked to the UF (3) | 54,485 | 49,017 |
| Santander Bonds linked to the UF (4) (5) | 30,018 | 126,513 |
| Total subordinated bonds | 393,929 | 490,416 |

(1) On July 17, 1997, the former Banco Santiago issued subordinated bonds denominated in U.S. dollars in an aggregate principal amount of US$300 million. The bonds carry a nominal interest rate of 7.0% per annum, with semi-annual interest payments and one repayment of principal after a term of 10 years.
(2) On January 16, 2003, the Bank completed the voluntary exchange for its new subordinated bonds, which will mature in 2012. A total of US$221,961,000 in principal of the Santiago bonds was offered and redeemed by the Bank. The bonds carry a nominal interest rate of 7.375% per annum, with semi-annual interest payments and one repayment of principal after a term of 10 years.
(3) The Series C and E Bonds outstanding as of December 31, 2005 and 2006 are intended for the financing of loans with a maturity of greater than one year. They are linked to the UF index and carry an annual interest rate of 7.5% and 6.0% respectively, with interest and principal payments due semi-annually.
(4) The Series C, D and E Bonds outstanding as of December 31, 2005 and 2006 are intended for the financing of loans with a maturity of greater than one year. They are linked to the UF index and carry an annual interest rate of 7.0%, with interest and principal payments due semi-annually.
(5) During 2006, the Bank issued subordinated bonds denominated in UF in an aggregate principal amount of UF5,000,000, which bear an average annual rate of 4.4%.
(6) On December 9, 2004, the Bank issued subordinated bonds denominated in U.S. dollars in an aggregate principal amount of US$300 million. These bonds carry a nominal interest rate of 5.375% per annum, with semi-annual interest payments and one repayment of principal after a term of 10 years.

The maturities of these bonds, which are considered long-term, are as follows:

| | As of December 31, 2006 (in millions of constant Ch$ as of December 31, 2006) |
|---|---|
| Due within 1 Year | 40,294 |
| Due after 1 year but within 2 years | — |
| Due after 2 years but within 3 years | — |
| Due after 3 years but within 4 years | — |
| Due after 4 years but within 5 years | 17,378 |
| Due after 5 years | 432,744 |
| Total subordinated bonds | 490,416 |

*e) Foreign borrowings*

These are short-term and long-term borrowings from foreign banks. The maturities of these borrowings are as follows:

| | As of December 31, 2006 (in millions of constant Ch$ as of December 31, 2006) |
|---|---|
| Due within 1 Year | 717,979 |
| Due after 1 year but within 2 years | 91,021 |
| Due after 2 years but within 3 years | — |
| Due after 3 years but within 4 years | 3,267 |
| Due after 4 years but within 5 years | — |
| Due after 5 years | — |
| Total foreign borrowings | 812,267 |

The foreign borrowings are denominated principally in U.S. dollars, and are principally used to fund the Bank's foreign trade loans, and bear an annual average interest rate of 3.7% and 5.3% at December 31, 2005 and 2006, respectively.

*f) Other obligations*

Other obligations are summarized as follows:

| | As of December 31, 2006 (in millions of constant Ch$ as of December 31, 2006) |
|---|---|
| Due within 1 Year | 3,369 |
| Due after 1 year but within 2 years | 3,454 |
| Due after 2 years but within 3 years | 2,153 |
| Due after 3 years but within 4 years | 2,143 |
| Due after 4 years but within 5 years | 1,623 |
| Due after 5 years | 2,599 |
| Total long-term obligations | 15,341 |
| Amounts due to credit card operators | 21,877 |
| Acceptance of letters of credit | 26,975 |
| Total short-term obligations | 48,852 |
| Total other obligations | 64,193 |

***Other Off-Balance Sheet Arrangements and Commitments***

We are party to transactions with off-balance sheet risk in the normal course of our business. These transactions expose us to credit risk in addition to amounts recognized in the consolidated financial statements.

These transactions include commitments to extend credit not otherwise accounted for as contingent loans, such as overdraft protection and credit card lines of credit. Such commitments are agreements to lend to a customer at a future date, subject to the customer compliance with the contractual terms. The aggregate amount of these commitments was Ch$2,957,980 million at December 31, 2006, which will be financed with our deposit base. Since a substantial portion of these commitments is expected to expire without being drawn upon, the total amount of commitments does not necessarily represent our actual future cash requirements. We use the same credit policies in making commitments to extend credit as we do for granting loans. In the opinion of our management, our outstanding commitments do not represent an unusual credit risk.

From time to time, the Bank enters into agreements to securitize certain assets by selling those assets to unconsolidated and unaffiliated entities, which then sell debt securities secured by those assets. These sales are non recourse to the Bank. However, in the past, the Bank has occasionally purchased a subordinated bond issued by the unconsolidated entity. At December 31, 2006, we did not hold any of these subordinated bonds in our investment portfolio.

**Asset and Liability Management**

Please refer to "Item 11: Quantitative and Qualitative Disclosures about Market Risk — Asset and Liability Management" regarding our policies with respect to asset and liability management.

**Capital Expenditures**

The following table reflects capital expenditures in each of the three years ended December 31, 2004, 2005 and 2006:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | (in millions of constant Ch$ as of December 31, 2006) | | |
| Land and Buildings | 3,713 | 5,682 | 10,138 |
| Machinery and Equipment | 9,635 | 10,609 | 7,774 |
| Furniture and Fixtures | 2,764 | 3,813 | 4,105 |
| Vehicles | 445 | 865 | 836 |
| Other | 3,456 | 963 | 2,267 |
| Total | 20,013 | 21,932 | 25,120 |

The increase in capital expenditures in 2006 compared to 2005 was mainly due to the investment in branches and automatic teller machines (ATMs). In 2007, we expect a similar level of investment in expanding our distribution network.

**D. Selected Statistical Information**

The following information is included for analytical purposes and should be read in conjunction with our financial statements as well as the discussion in “Item 5: Operating and Financial Review and Prospects.” Pursuant to Chilean GAAP, the financial data in the following tables for all periods through December 31, 2005 have been restated in constant Chilean pesos as of December 31, 2006. The UF is linked to, and is adjusted daily to, reflect changes in the previous month’s Chilean consumer price index. See Note 1(c) to our Audited Financial Consolidated Statements.

**Average Balance Sheets, Income Earned from Interest-Earning Assets and Interest Paid on Interest-Bearing Liabilities**

The average balances for interest-earning assets and interest-bearing liabilities, including interest and readjustments received and paid, have been calculated on the basis of daily balances for us on an unconsolidated basis. Such average balances are presented in Chilean pesos (Ch$), in *Unidades de Fomento* (UF) and in foreign currencies (principally U.S.$). Figures from our subsidiaries have been calculated on the basis of monthly balances. The average balances of our subsidiaries, except Santander S.A. Agente de Valores , have not been categorized by currency. As such it is not possible to calculate average balances by currency for such subsidiaries on the basis of daily, weekly or monthly balances.

The nominal interest rate has been calculated by dividing the amount of interest and principal readjustment due to changes in the UF index (gain or loss) during the period by the related average balance, both amounts expressed in constant pesos. The nominal rates calculated for each period have been converted into real rates using the following formulas:

Where:
Rp = real average rate for peso-denominated assets and liabilities (in Ch$ and UF) for the period;

Rd = real average rate for foreign currency-denominated assets and liabilities for the period;

Np = nominal average rate for peso-denominated assets and liabilities for the period;

Nd = nominal average rate for foreign currency-denominated assets and liabilities for the period;

D = devaluation rate of the Chilean peso to the U.S. dollar for the period; and

I = inflation rate in Chile for the period (based on the variation of the Chilean Consumer Price Index).

The real interest rate can be negative for a portfolio of peso-denominated loans when the inflation rate for the period is higher than the average nominal rate of the loan portfolio for the same period. A similar effect could occur for a portfolio of foreign currency denominated loans when the inflation rate for the period is higher than the sum of the devaluation rate for the period and the corresponding average nominal rate of the portfolio.

The formula for the average real rate for foreign currency denominated assets and liabilities (Rd) reflects a gain or loss in purchasing power caused by the difference between the devaluation rate of the Chilean peso and the inflation rate in Chile during the period.

The following example illustrates the calculation of the real interest rate for a dollar-denominated asset bearing a nominal annual interest rate of 10.0% (Nd = 0.10), assuming a 5.0% annual devaluation rate (D = 0.05) and a 12.0% annual inflation rate (I = 0.12):

In the example, since the inflation rate was higher than the devaluation rate, the real rate is lower than the nominal rate in dollars. If, for example, the annual devaluation rate were 15.0%, using the same numbers, the real rate in Chilean pesos would be 12.9%, which is higher than the nominal rate in U.S. dollars. Using the same numbers, if the annual inflation rate were greater than 15.5%, the real rate would be negative.

Contingent loans (consisting of guarantees and open and unused letters of credit) have been treated as interest-earning assets. Although the nature of the income derived from such assets is similar to a fee, Chilean banking regulations require that such income be accounted for as interest revenue. As a result of this treatment, the comparatively low rates of interest earned on these assets have a distorting effect on the average interest rate earned on total interest-earning assets.

The real rate for contingent loans has been stated as the nominal rate, since we do not have an effective funding obligation for these loans. The foreign exchange gains or losses on foreign currency-denominated assets and liabilities have not been included in interest revenue or expense. Similarly, interest on financial investments does not include trading gains or losses on these investments. Interest is not recognized during periods in which loans are past due. However, interest received on past due loans includes interest on such loans from the original maturity date.

Non-performing loans that are overdue for 90 days or less have been included in each of the various categories of loans, and therefore affect the various averages. Non-performing loans consist of loans as to which either principal or interest is overdue (i.e., non accrual loans) and restructured loans earning no interest. Non-performing loans that are overdue for 90 days or more are shown as a separate category of loans (Past due loans). Interest and/or indexation readjustments received on all non-performing U.S. dollar-denominated loans during the periods are included as interest revenue. However, all peso-denominated loans that are classified as non-performing do not accrue interest or indexation adjustments as interest revenue.

Included in interbank deposits are checking accounts maintained in the Central Bank and foreign banks. Such assets have a distorting effect on the average interest rate earned on total interest-earning assets because currently balances maintained in Chilean peso amounts do not earn interest, and the only balances held in a foreign currency that earn interest are those maintained in U.S. dollars, but those only earn interest on the amounts that are legally required to be held for liquidity purposes. Additionally, this account includes interest earned by overnight investments. Consequently, the average interest earned on such assets is comparatively low. We maintain these deposits in these accounts to comply with statutory requirements and to facilitate international business, rather than to earn income.

The monetary gain or loss on interest-earning assets and interest-bearing liabilities is not included as a component of interest revenue or interest expense because inflation effects are taken into account in the calculation of real interest rates.

The average balances for 2004 and 2005 have been reclassified for comparative purposes in line with the changes made to the financial statements for those years under the new accounting standards. See Note 2 to the Audited Consolidated Financial Statements and Item 5: Operating and Financial Review and Prospects – A. New Accounting Standards for Financial Investments and Derivatives.

The following tables show, by currency of denomination, average balances and, where applicable, interest amounts and real rates for our assets and liabilities for the years ended December 31, 2004, 2005 and 2006.

**(in millions of constant Ch$ as of December 31, 2006, except for rate data)**

| | Year ended December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2004 | | | | 2005 | | | | 2006 | |
| | Average Balance | Interest Earned | Average Real Rate | Average Nominal Rate | Average Balance | Interest Earned | Average Real Rate | Average Nominal Rate | Average Balance | Interest Earned |
| | (in millions of constant Ch$ as of December 31, 2006, except for rate data) | | | | | | | | | |
| **ASSETS** | | | | | | | | | | |
| **Interest-earning assets** | | | | | | | | | | |
| Interbank deposits | | | | | | | | | | |
| Ch$ | 9,303 | 342 | 1.2% | 3.7% | 38,646 | 1,676 | 0.7% | 4.3% | 22,629 | 1,245 |
| UF | 2,504 | 113 | 2.0% | 4.5% | 10,358 | 746 | 3.5% | 7.2% | 6,574 | 437 |
| Foreign currencies | — | — | 0.0% | 0.0% | — | — | 0.0% | 0.0% | — | — |
| Subtotal | 11,807 | 455 | 1.3% | 3.9% | 49,004 | 2,422 | 1.3% | 4.9% | 29,203 | 1,682 |
| Financial investments | | | | | | | | | | |
| Ch$ | 509,609 | 13,905 | 0.2% | 2.7% | 512,289 | 30,076 | 2.2% | 5.9% | 668,134 | 44,327 |
| UF | 744,471 | 51,536 | 4.3% | 6.9% | 616,717 | 54,221 | 5.0% | 8.8% | 559,115 | 45,977 |
| Foreign currencies | 1,214,052 | 38,520 | (6.0%) | 3.2% | 1,264,023 | 42,141 | (8.4%) | 3.3% | 1,028,177 | 60,043 |
| Subtotal | 2,468,132 | 103,961 | (1.6%) | 4.2% | 2,393,029 | 126,438 | (2.6%) | 5.3% | 2,255,426 | 150,347 |
| Commercial Loans | | | | | | | | | | |
| Ch$ | 2,752,643 | 355,302 | 10.2% | 12.9% | 3,096,302 | 431,868 | 10.0% | 13.9% | 3,706,920 | 573,887 |
| UF | 2,801,996 | 218,037 | 5.2% | 7.8% | 3,880,241 | 336,468 | 4.9% | 8.7% | 4,811,905 | 337,336 |
| Foreign currencies | 605,992 | 17,353 | (6.3%) | 2.9% | 640,455 | 25,568 | (7.8%) | 4.0% | 683,405 | 40,696 |
| Subtotal | 6,160,631 | 590,692 | 6.3% | 9.6% | 7,616,998 | 793,904 | 5.9% | 10.4% | 9,202,230 | 951,919 |
| Mortgage loans | | | | | | | | | | |
| Ch$ | 578 | 36 | 3.7% | 6.2% | 529 | 34 | 2.7% | 6.4% | 462 | 37 |
| UF | 1,321,903 | 131,871 | 7.3% | 10.0% | 757,220 | 82,136 | 7.0% | 10.8% | 549,144 | 48,985 |
| Foreign currencies | — | — | 0.0% | 0.0% | — | — | 0.0% | 0.0% | — | — |
| Subtotal | 1,322,481 | 131,907 | 7.3% | 10.0% | 757,749 | 82,170 | 7.0% | 10.8% | 549,606 | 49,022 |
| Contingent loans | | | | | | | | | | |
| Ch$ | 78,359 | 1,516 | (0.5%) | 1.9% | 152,147 | 1,935 | (2.3%) | 1.3% | 203,043 | 2,770 |
| UF | 194,459 | 1,848 | (1.5%) | 1.0% | 225,195 | 2,189 | (2.6%) | 1.0% | 266,867 | 2,858 |
| Foreign currencies | 757,019 | 959 | (8.8%) | 0.1% | 514,741 | 981 | (11.1%) | 0.2% | 477,629 | 891 |
| Subtotal | 1,029,837 | 4,323 | (6.8%) | 0.4% | 892,083 | 5,105 | (7.4%) | 0.6% | 947,539 | 6,519 |
| Past due loans | | | | | | | | | | |
| Ch$ | 64,883 | 10,250 | 13.0% | 15.8% | 50,953 | 7,791 | 11.3% | 15.3% | 47,164 | 9,362 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| UF | 88,979 | — | (2.4%) | 0.0% | 69,709 | — | (3.5%) | 0.0% | 46,515 | — |
| Foreign currencies | 2,571 | — | (8.9%) | 0.0% | 1,355 | — | (11.3%) | 0.0% | 1,571 | — |
| Subtotal | 156,433 | 10,250 | 3.9% | 6.6% | 122,017 | 7,791 | 2.6% | 6.4% | 95,250 | 9,362 |
| Total interest-earning assets | | | | | | | | | | |
| Ch$ | 3,415,375 | 381,351 | 8.5% | 11.2% | 3,850,866 | 473,380 | 8.4% | 12.3% | 4,648,352 | 631,628 |
| UF | 5,154,312 | 403,405 | 5.2% | 7.8% | 5,559,440 | 475,760 | 4.8% | 8.6% | 6,240,120 | 435,593 |

| | Year ended December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2004 | | | | 2005 | | | | 2006 | |
| | Average Balance | Interest Earned | Average Real Rate | Average Nominal Rate | Average Balance | Interest Earned | Average Real Rate | Average Nominal Rate | Average Balance | Interest Earned |
| | (in millions of constant Ch$ as of December 31, 2006, except for rate data) | | | | | | | | | |
| **ASSETS** | | | | | | | | | | |
| **Interest-earning assets** | | | | | | | | | | |
| Foreign currencies | 2,579,634 | 56,832 | (6.9%) | 2.2% | 2,420,574 | 68,690 | (8.8%) | 2.8% | 2,190,782 | 101,630 |
| Subtotal | 11,149,321 | 841,588 | 3.4% | 7.5% | 11,830,880 | 1,017,830 | 3.2% | 8.6% | 13,079,254 | 1,168,851 |

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| | Year ended December 31, | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2004 | | | | 2005 | | | | 2006 | | |
| | Average Balance | Interest Earned | Average Real Rate | Average Nominal Rate | Average Balance | Interest Earned | Average Real Rate | Average Nominal Rate | Average Balance | Interest Earned | Ave Re Rat |
| | (in millions of constant Ch$ as of December 31, 2006, except for rate data) | | | | | | | | | | |
| **NON-INTEREST-EARNING ASSETS** | | | | | | | | | | | |
| Cash | | | | | | | | | | | |
| Ch$ | 639,826 | — | — | — | 595,819 | — | — | — | 344,228 | — | |
| UF | — | — | — | — | — | — | — | — | — | — | |
| Foreign currencies | 16,294 | — | — | — | 14,579 | — | — | — | 14,203 | — | |
| Subtotal | 656,120 | — | — | — | 610,398 | — | — | — | 358,431 | — | |
| Allowances for loan losses | | | | | — | — | — | — | | | |
| Ch$ | (176,906) | — | — | — | (171,323) | — | — | — | (154,874) | — | |
| UF | — | — | — | — | — | — | — | — | — | — | |
| Foreign currencies | — | — | — | — | — | — | — | — | — | — | |
| Subtotal | (176,906) | — | — | — | (171,323) | — | — | — | (154,874) | — | |
| Fixed assets | | | | | — | — | — | — | | | |
| Ch$ | 221,410 | — | — | — | 200,636 | — | — | — | 227,523 | — | |
| UF | — | — | — | — | — | — | — | — | — | — | |
| Foreign currencies | — | — | — | — | — | — | — | — | — | — | |
| Subtotal | 221,410 | — | — | — | 200,636 | — | — | — | 227,523 | — | |
| Other assets | | | | | — | — | — | — | | | |
| Ch$ | 386,278 | — | — | — | 229,825 | — | — | — | 682,144 | — | |
| UF | 21,711 | — | — | — | 22,111 | — | — | — | 28,638 | — | |
| Foreign currencies | 468,342 | — | — | — | 1,061,525 | — | — | — | 496,713 | — | |
| Subtotal | 876,331 | — | — | — | 1,313,461 | — | — | — | 1,207,495 | — | |
| Total non-interest earning assets | — | — | — | — | — | — | — | — | | | |
| Ch$ | 1,070,608 | — | — | — | 854,957 | — | — | — | 1,099,021 | — | |
| UF | 21,711 | — | — | — | 22,111 | — | — | — | 28,638 | — | |
| Foreign currencies | 484,636 | — | — | — | 1,076,104 | — | — | — | 510,916 | — | |
| Total | 1,576,955 | — | — | — | 1,953,172 | — | — | — | 1,638,575 | — | |
| **TOTAL ASSETS** | | | | | | | | | | | |
| Ch$ | 4,485,983 | 381,351 | — | — | 4,705,823 | 473,380 | — | — | 5,747,373 | 631,628 | |
| UF | 5,176,024 | 403,405 | — | — | 5,581,551 | 475,760 | — | — | 6,268,758 | 435,593 | |
| Foreign currencies | 3,064,270 | 56,832 | — | — | 3,496,678 | 68,690 | — | — | 2,701,698 | 101,630 | |
| Total | 12,726,276 | 841,588 | — | — | 13,784,052 | 1,017,830 | — | — | 14,717,829 | 1,168,851 | |

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| | Year ended December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2004 | | | | 2005 | | | | 20 | |
| | Average Balance | Interest Paid | Average Real Rate | Average Nominal Rate | Average Balance | Interest Paid | Average Real Rate | Average Nominal Rate | Average Balance | Inter Pai |
| | (in millions of constant Ch$ as of December 31, 2006, except for rate data) | | | | | | | | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | | | | | | |
| **Interest-bearing liabilities** | | | | | | | | | | |
| Savings accounts | | | | | | | | | | |
| Ch$ | 162 | 3 | (0.5%) | 2.0% | 430 | 3 | (2.9%) | 0.6% | 595 | |
| UF | 140,427 | 2,739 | (0.5%) | 2.0% | 117,679 | 5,026 | 0.6% | 4.3% | 105,254 | 1, |
| Foreign currencies | - | - | 0.0% | 0.0% | - | - | 0.0% | 0.0% | - | |
| Subtotal | 140,589 | 2,742 | (0.5%) | 2.0% | 118,109 | 5,029 | 0.6% | 4.3% | 105,849 | 1, |
| Time deposits | | | | | | | | | | |
| Ch$ | 1,904,088 | 52,066 | 0.2% | 2.7% | 2,183,034 | 95,941 | 0.7% | 4.4% | 3,367,242 | 207, |
| UF | 1,510,734 | 65,874 | 1.8% | 4.4% | 2,134,671 | 126,739 | 2.2% | 5.9% | 2,098,190 | 98, |
| Foreign currencies | 840,163 | 11,025 | (7.7%) | 1.3% | 874,858 | 21,569 | (9.1%) | 2.5% | 936,392 | 44, |
| Subtotal | 4,254,985 | 128,965 | (0.8%) | 3.0% | 5,192,563 | 244,249 | (0.3%) | 4.7% | 6,401,824 | 349, |
| Central Bank borrowings | | | | | | | | | | |
| Ch$ | 18,103 | 393 | (0.3%) | 2.2% | 115,670 | 3,748 | (0.4%) | 3.2% | 32,879 | 1, |
| UF | 20,587 | 1,342 | 3.9% | 6.5% | 13,475 | 995 | 3.6% | 7.4% | 51,223 | 2, |
| Foreign currencies | - | - | 0.0% | 0.0% | - | - | 0.0% | 0.0% | - | |
| Subtotal | 38,690 | 1,735 | 2.0% | 4.5% | 129,145 | 4,743 | 0.1% | 3.7% | 84,102 | 4, |
| Repurchase agreements | | | | | | | | | | |
| Ch$ | 292,516 | 17,396 | 3.4% | 5.9% | 241,947 | 7,314 | (0.6%) | 3.0% | 383,511 | 18, |
| UF | 9,864 | (805) | (10.4%) | (8.2%) | 193,967 | 10,658 | 1.8% | 5.5% | 11,364 | |
| Foreign currencies | 357,043 | 7,023 | (9.8%) | (1.0%) | 91,947 | 8,695 | (2.9%) | 9.5% | 151,167 | 7, |
| Subtotal | 659,423 | 23,614 | 4.0% | 1.9% | 527,861 | 26,667 | (0.1%) | 5.0% | 546,042 | 26, |
| Mortgage finance bonds | | | | | | | | | | |
| Ch$ | - | - | 0.0% | 0.0% | - | - | 0.0% | 0.0% | - | |
| UF | 1,334,363 | 109,676 | 5.6% | 8.2% | 820,807 | 76,891 | 5.5% | 9.4% | 578,410 | 43, |
| Foreign currencies | - | - | 0.0% | 0.0% | - | - | 0.0% | 0.0% | - | |
| Subtotal | 1,334,363 | 109,676 | 5.6% | 8.2% | 820,807 | 76,891 | 5.5% | 9.4% | 578,410 | 43, |
| Other interest-bearing liabilities | | | | | | | | | | |
| Ch$ | 61,563 | 1,308 | (0.3%) | 2.1% | 39,213 | 1,498 | 0.2% | 3.8% | 48,688 | 2, |
| UF | 288,527 | 33,359 | 8.9% | 11.6% | 206,803 | 32,383 | 11.6% | 15.7% | 426,469 | 32, |
| Foreign currencies | 1,045,820 | 37,680 | (5.6%) | 3.6% | 1,584,045 | 68,104 | (7.5%) | 4.3% | 1,682,794 | 96, |
| Subtotal | 1,395,910 | 72,347 | (2.4%) | 5.2% | 1,830,061 | 101,985 | (5.1%) | 5.6% | 2,157,951 | 131, |
| Total interest-bearing liabilities | | | | | | | | | | |
| Ch$ | 2,276,432 | 71,166 | 0.6% | 3.1% | 2,580,294 | 108,504 | 0.6% | 4.2% | 3,832,915 | 229, |
| UF | 3,304,502 | 212,185 | 3.8% | 6.4% | 3,487,402 | 252,692 | 3.5% | 7.2% | 3,270,910 | 178, |
| Foreign currencies | 2,243,026 | 55,728 | (7.0%) | 2.0% | 2,550,850 | 98,368 | (7.8%) | 3.9% | 2,770,353 | 148, |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total** | 7,823,960 | 339,079 | (0.2%) | 4.2% | 8,618,546 | 459,564 | (0.7%) | 5.3% | 9,874,178 | 556, |

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| | Year ended December 31, | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2004 | | | | 2005 | | | | 2006 | | | |
| | Average Balance | Interest Paid | Average Real Rate | Average Nominal Rate | Average Balance | Interest Paid | Average Real Rate | Average Nominal Rate | Average Balance | Interest Paid | Average Real Rate | Average Nominal Rate |
| | (in millions of constant Ch$ as of December 31, 2006, except for rate data) | | | | | | | | | | | |
| **NON-INTEREST-BEARING LIABILITIES** | | | | | | | | | | | | |
| Non-interest-bearing demand deposits | | | | | | | | | | | | |
| Ch$ | 1,855,619 | - | - | - | 1,945,572 | - | - | - | 1,822,980 | - | - | - |
| UF | - | - | - | - | - | - | - | - | 34 | - | - | - |
| Foreign currencies | - | - | - | - | - | - | - | - | 4 | - | - | - |
| Subtotal | 1,855,619 | - | - | - | 1,945,572 | - | - | - | 1,823,018 | - | - | - |
| Contingent obligations | | | | | | | | | | | | |
| Ch$ | 78,359 | - | - | - | 152,146 | - | - | - | 203,043 | - | - | - |
| UF | 194,460 | - | - | - | 225,195 | - | - | - | 266,867 | - | - | - |
| Foreign currencies | 758,198 | - | - | - | 517,052 | - | - | - | 479,815 | - | - | - |
| Subtotal | 1,031,017 | - | - | - | 894,393 | - | - | - | 949,725 | - | - | - |
| Other non-interest-bearing liabilities | | | | | | | | | | | | |
| Ch$ | 948,627 | - | - | - | 687,565 | - | - | - | 605,472 | - | - | - |
| UF | 391,772 | - | - | - | 422,664 | - | - | - | 163,721 | - | - | - |
| Foreign currencies | (363,689) | - | - | - | 199,926 | - | - | - | 151,559 | - | - | - |
| Subtotal | 976,710 | - | - | - | 1,310,156 | - | - | - | 920,752 | - | - | - |
| Shareholders' equity | | | | | | | | | | | | |
| Ch$ | 1,038,970 | - | - | - | 1,015,385 | - | - | - | 1,150,156 | - | - | - |
| UF | - | - | - | - | - | - | - | - | - | - | - | - |
| Foreign currencies | - | - | - | - | - | - | - | - | - | - | - | - |
| Subtotal | 1,038,970 | - | - | - | 1,015,385 | - | - | - | 1,150,156 | - | - | - |
| Total non-interest-bearing liabilities and shareholders' equity | | | | | | | | | | | | |
| Ch$ | 3,921,575 | - | - | - | 3,800,668 | - | - | - | 3,781,651 | - | - | - |
| UF | 586,232 | - | - | - | 647,860 | - | - | - | 430,622 | - | - | - |
| Foreign currencies | 394,509 | - | - | - | 716,978 | - | - | - | 631,378 | - | - | - |
| **Total** | 4,902,316 | - | - | - | 5,165,506 | - | - | - | 4,843,651 | - | - | - |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | | | | | | | | |
| Ch$ | 6,198,007 | 71,166 | | | 6,380,962 | 108,504 | | | 7,614,566 | 229,837 | | |
| UF | 3,890,734 | 212,185 | | | 4,135,262 | 252,692 | | | 3,701,532 | 178,468 | | |
| Foreign currencies | 2,637,535 | 55,728 | | | 3,267,828 | 98,368 | | | 3,401,731 | 148,292 | | |
| Total | 12,726,276 | 339,079 | | | 13,784,052 | 459,564 | | | 14,717,829 | 556,597 | | |

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***Changes in Net Interest Revenue and Interest Expense: Volume and Rate Analysis***

The following table allocates, by currency of denomination, changes in our interest revenue and interest expense between changes in the average volume of interest-earning assets and interest-bearing liabilities and changes in their respective nominal interest rates for 2006 compared to 2005 and 2005 compared to 2004. Volume and rate variances have been calculated based on movements in average balances over the period and changes in nominal interest rates on average interest-earning assets and average interest-bearing liabilities.

| | Increase (Decrease) from 2004 to 2005 Due to Changes in | | | | Increase (Decrease) from 2005 to 2006 Due to Changes in | | | |
|---|---|---|---|---|---|---|---|---|
| | Volume | Rate | Rate and Volume | Net Change from 2004 to 2005 | Volume | Rate | Rate and Volume | Net Change from 2005 to 2006 |
| | (in millions of constant Ch$ as of December 31, 2006) | | | | | | | |
| **Interest-earning assets** | | | | | | | | |
| Interbank deposits | | | | | | | | |
| Ch$ | 1,078 | 61 | 193 | 1,334 | (689) | 464 | (192) | (431) |
| UF | 356 | 67 | 210 | 633 | (272) | (62) | 23 | (309) |
| Foreign currencies | - | - | - | - | - | - | - | - |
| Subtotal | 1,434 | 128 | 403 | 1,967 | (961) | 402 | (169) | (740) |
| Financial investments | | | | | | | | |
| Ch$ | 75 | 16,002 | 84 | 16,171 | 9,195 | 3,586 | 1,091 | 14,251 |
| UF | (8,844) | 13,922 | (2,389) | 2,685 | (5,069) | (3,700) | 346 | (8,244) |
| Foreign currencies | 1,174 | 1,942 | 80 | 3,621 | (7,783) | 31,601 | (5,896) | 17,901 |
| Subtotal | (7,595) | 31,866 | (2,225) | 22,477 | (3,657) | 31,487 | (4,459) | 23,908 |
| Commercial Loans | | | | | | | | |
| Ch$ | 44,358 | 28,627 | 3,574 | 76,566 | 84,876 | 49,541 | 9,770 | 142,019 |
| UF | 83,904 | 24,938 | 9,596 | 118,431 | 81,055 | (65,964) | (15,838) | 868 |
| Foreign currencies | 834 | 6,848 | 389 | 8,215 | 1,718 | 12,809 | 859 | 15,128 |
| Subtotal | 129,096 | 60,413 | 13,559 | 203,212 | 167,649 | (3,614) | (5,209) | 158,015 |
| Mortgage loans | | | | | | | | |
| Ch$ | (3) | 1 | (0) | (2) | (4) | 8 | (1) | 3 |
| UF | (56,355) | 11,501 | (4,913) | (49,735) | (22,472) | (14,387) | 3,953 | (33,151) |
| Foreign currencies | - | - | - | - | - | - | - | - |
| Subtotal | (56,358) | 11,502 | (4,913) | (49,737) | (22,476) | (14,379) | 3,952 | (33,148) |
| Contingent loans | | | | | | | | |
| Ch$ | 1,427 | (519) | (489) | 419 | 662 | 152 | 51 | 835 |
| UF | 292 | 42 | 7 | 341 | 417 | 225 | 42 | 670 |
| Foreign currencies | (307) | 485 | (155) | 22 | (74) | - | - | (90) |
| Subtotal | 1,412 | 8 | (637) | 782 | 1,005 | 377 | 93 | 1,415 |
| Past due loans | | | | | | | | |
| Ch$ | (2,200) | (328) | 71 | (2,459) | (580) | 2,344 | (174) | 1,571 |
| UF | - | - | - | - | - | - | - | - |
| Foreign currencies | (0) | - | - | (0) | - | - | - | - |
| Total | (2,200) | (328) | 71 | (2,459) | (580) | 2,344 | (174) | 1,571 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Total interest-earning assets** | | | | | | | | |
| Ch$ | 44,735 | 43,844 | 3,433 | 92,029 | 93,460 | 56,095 | 10,545 | 158,248 |
| UF | 19,353 | 50,470 | 2,511 | 72,355 | 53,659 | (83,888) | (11,474) | (40,166) |
| Foreign currencies | 1,701 | 9,275 | 314 | 11,858 | (6,139) | 44,410 | (5,037) | 32,939 |
| Total | 65,789 | 103,589 | 6,258 | 176,242 | 140,980 | 16,617 | (5,966) | 151,021 |

| | Increase (Decrease) from 2004 to 2005 Due to Changes in | | | Net Change from 2004 to 2005 | Increase (Decrease) from 2005 to 2006 Due to Changes in | | | Net Change from 2005 to 2006 |
|---|---|---|---|---|---|---|---|---|
| | **Volume** | **Rate** | **Rate and Volume** | | **Volume** | **Rate** | **Rate and Volume** | |
| | (in millions of constant Ch$ as of December 31, 2006) | | | | | | | |
| **Interest-bearing liabilities** | | | | | | | | |
| Savings accounts | | | | | | | | |
| Ch$ | 5 | (2) | (3) | - | 1 | 4 | 1 | 6 |
| UF | (444) | 3,259 | (528) | 2,287 | (534) | (3,530) | 373 | (3,670) |
| Foreign currencies | - | - | - | - | - | - | - | - |
| Subtotal | (439) | 3,257 | (531) | 2,287 | (533) | (3,526) | 374 | (3,664) |
| Time deposits | | | | | | | | |
| Ch$ | 7,628 | 31,615 | 4,631 | 43,875 | 52,105 | 34,929 | 18,947 | 111,158 |
| UF | 27,206 | 23,821 | 9,838 | 60,865 | (2,152) | (27,751) | 474 | (28,584) |
| Foreign currencies | 455 | 9,690 | 400 | 10,544 | 1,538 | 19,247 | 1,354 | 22,593 |
| Subtotal | 35,289 | 65,126 | 14,869 | 115,284 | 51,491 | 26,425 | 20,775 | 105,167 |
| Central Bank borrowings | | | | | | - | - | |
| Ch$ | 2,117 | 194 | 1,045 | 3,355 | (2,649) | 2,429 | (1,739) | (2,011) |
| UF | (464) | 179 | (62) | (347) | 2,793 | (323) | (906) | 1,551 |
| Foreign currencies | - | - | - | - | - | - | - | - |
| Subtotal | 1,653 | 373 | 983 | 3,008 | 144 | 2,106 | (2,645) | (460) |
| Repurchase agreements | | | | | | | | |
| Ch$ | (3,007) | (8,571) | 1,482 | (10,082) | (6,237) | 193,075 | (165,908) | 11,097 |
| UF | (15,030) | 1,346 | 25,130 | 11,463 | (10,043) | 9,310 | (8,765) | (10,089) |
| Foreign currencies | (1,225) | 37,490 | (27,835) | 1,672 | 5,626 | (4,046) | (2,606) | (1,019) |
| Subtotal | (19,262) | 30,265 | (1,223) | 3,053 | (10,654) | 198,339 | (177,279) | (11) |
| Mortgage finance bonds | | | | | | | | |
| Ch$ | - | - | - | - | - | - | - | - |
| UF | (42,211) | 15,322 | (5,897) | (32,785) | (22,785) | (15,595) | 4,606 | (33,759) |
| Foreign currencies | - | - | - | - | - | - | - | - |
| Subtotal | (42,211) | 15,322 | (5,897) | (32,785) | (22,785) | (15,595) | 4,606 | (33,759) |
| Other interest-bearing liabilities | | | | | | | | |
| Ch$ | (475) | 1,043 | (379) | 190 | 360 | 588 | 142 | 1,084 |
| UF | (9,449) | 11,822 | (3,348) | (976) | 34,488 | (16,544) | (17,573) | 327 |
| Foreign currencies | 19,373 | 7,321 | 3,768 | 30,424 | 4,246 | 22,177 | 1,382 | 28,351 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Subtotal | 9,449 | 20,186 | 41 | 29,638 | 39,094 | 6,221 | (16,049) | 29,762 |
| Total interest-bearing liabilities | | | | | | | | |
| Ch$ | 6,268 | 24,279 | 6,776 | 37,338 | 43,580 | 231,025 | (148,557) | 121,334 |
| UF | (40,392) | 55,749 | 25,133 | 40,507 | 1,767 | (54,433) | (21,791) | (74,224) |
| Foreign currencies | 18,603 | 54,501 | (23,667) | 42,640 | 11,410 | 37,378 | 130 | 49,925 |
| Total | (15,521) | 134,529 | 8,242 | 120,485 | 56,757 | 213,970 | (170,218) | 97,035 |

**Interest-Earning Assets: Net Interest Margin**

The following table analyzes, by currency of denomination, the levels of average interest-earning assets and net interest earned by Santander-Chile, and illustrates the comparative margins obtained, for each of the years indicated in the table.

| | Year ended December 31, | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | ( in millions of constant Ch$ as of December 31, 2006, except percentages) | | |
| **Total average interest-earning assets** | | | |
| Ch$ | 3,415,375 | 3,850,866 | 4,648,352 |
| UF | 5,154,312 | 5,559,440 | 6,240,120 |
| Foreign currencies | 2,579,634 | 2,420,574 | 2,190,782 |
| Total | 11,149,321 | 11,830,880 | 13,079,254 |
| **Net interest earned (1)** | | | |
| Ch$ | 310,185 | 364,876 | 401,791 |
| UF | 191,220 | 223,068 | 257,125 |
| Foreign currencies | 1,104 | (29,678) | (46,662) |
| Total | 502,509 | 558,266 | 612,254 |
| **Net interest margin (2)** | | | |
| Ch$ | 9.1% | 9.5% | 8.6% |
| UF | 3.7% | 4.0% | 4.1% |
| Foreign currencies | 0.0% | -1.2% | -2.1% |
| Total | 4.5% | 4.7% | 4.7% |
| **Net interest margin, excluding contingent loans (2) (3)** | | | |
| Ch$ | 9.3% | 9.9% | 9.0% |
| UF | 3.9% | 4.2% | 4.3% |
| Foreign currencies | 0.1% | -1.6% | -2.7% |
| Total | 5.0% | 5.1% | 5.0% |

(1) Net interest earned is defined as interest revenue earned less interest expense incurred.

(2) Net interest margin is defined as net interest earned divided by average interest-earning assets.

(3) Pursuant to Chilean GAAP, Santander-Chile also includes contingent loans as interest-earning assets. See "—Loan Portfolio—Contingent loans."

***Return on Equity and Assets; Dividend Payout***

The following table presents certain information and selected financial ratios for Santander-Chile for the years indicated:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | (in millions of constant Ch$ as of December 31, 2006, except for percentages) | | |
| Net income | 210,358 | 244,792 | 285,582 |

| | | | |
|---|---|---|---|
| Average total assets | 12,726,276 | 13,784,052 | 14,717,829 |
| Average shareholders’ equity | 1,038,970 | 1,015,385 | 1,150,156 |
| Net income as a percentage of: | | | |
| Average total assets | 1.65% | 1.78% | 1.94% |
| Average shareholders’ equity | 20.25% | 24.11% | 24.83% |

| | Year ended December 31, | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | (in millions of constant Ch$ as of December 31, 2006, except for percentages) | | |
| Average shareholders' equity as a percentage of: | | | |
| Average total assets | 8.16% | 7.37% | 8.98% |
| Declared cash dividend | 210,358 | 159,114 | 185,628 |
| Dividend payout ratio, based on net income | 100.00% | 65.00% | 65.00% |

**Loan Portfolio**

The following table analyzes our loans by product type. Except where otherwise specified, all loan amounts stated below are before deduction for loan loss allowances. Total loans reflect our loan portfolio, including principal amounts of past due loans.

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 |
| | (in millions of constant Ch$ as of December 31, 2006) | | | | |
| Commercial loans: | | | | | |
| General commercial loans | 3,175,410 | 2,724,428 | 3,335,267 | 3,732,589 | 4,048,221 |
| Foreign trade loans | 583,648 | 469,114 | 523,292 | 522,605 | 741,776 |
| Interbank loans | 4,517 | 155,099 | 138,602 | 198,779 | 151,491 |
| Leasing contracts | 462,654 | 468,402 | 531,434 | 677,936 | 764,408 |
| Other outstanding loans | 1,011,731 | 898,520 | 1,414,957 | 2,099,746 | 2,681,461 |
| Subtotal commercial loans | 5,237,960 | 4,715,563 | 5,943,552 | 7,231,655 | 8,387,357 |
| Mortgage loans backed by mortgage bonds | | | | | |
| Residential | 980,207 | 973,911 | 613,041 | 422,848 | 329,178 |
| Commercial | 754,854 | 646,002 | 361,562 | 225,332 | 156,671 |
| Subtotal mortgage loans | 1,735,061 | 1,619,913 | 974,603 | 648,180 | 485,849 |
| Consumer loans | 776,743 | | | | |