BANCO SANTANDER CHILE
Form F-4/A
December 09, 2002

As filed with the Securities and Exchange Commission on December 9, 2002
Registration No. 333-100975

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 1
to
FORM F-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

BANCO SANTANDER-CHILE
(Exact name of Registrant as specified in its charter)

Santander Chile Bank
Translation of Registrant's name into English

Republic of Chile (State or Other Jurisdiction of Incorporation or Organization)	Not Applicable (I.R.S. Employer Identification No.)

Bandera 140
Santiago, Chile
Telephone: 011-562-320-2000
(Address, including zip code, and telephone number including area code, of Registrant's principal executive offices)

Banco Santander Chile Representative Office
420 Lexington Avenue
New York, NY 10170-9998
(212) 983-3085
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Nicholas A. Kronfeld Davis Polk & Wardwell 450 Lexington Avenue New York, New York 10017 (212) 450-4950	Jorge U. Juantorena Cleary, Gottlieb, Steen & Hamilton One Liberty Plaza New York, New York 10006 (212) 225-2000

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement and the satisfaction or waiver of all other conditions to the exchange offer described in the accompanying prospectus.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_]

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_]

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Aggregate Offering Price Per Note	Proposed Maximum Aggregate Offerin Price(1)
% Subordinated Notes due 2012	$300,000,000	100%	$300,000,000

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(f) of the Securities Act of 1933, as amended based on the aggregate principal amount of the 7% subordinated notes due 2007, which is the class of securities that is the subject of this exchange offer.

(2) Previously paid

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, Dated December , 2002
Preliminary Prospectus

[LOGO]

Offer to exchange a combination of our
new subordinated notes due 2012

and a US dollar amount in cash
for any and all of our
7% subordinated notes due 2007

We are offering to exchange for each US$1,000 principal amount of our outstanding 7% subordinated notes due 2007 validly tendered and not withdrawn US$1,000 principal amount of new subordinated notes due 2012 and a US dollar amount in cash. The interest rate on the new notes and the amount of the cash payment will be determined on the third business day prior to the expiration of this offer, pursuant to the fixed-spread pricing formula described under "The Exchange Offer--Terms of the Offer" and will depend on the yields of certain benchmark US treasury notes at 4:00 p.m. on that day. Consequently, we cannot provide you with the specific US dollar amount in cash that you will receive or with the specific interest rate on the new subordinated notes due 2012. We expect to deliver notes on the third business day following the expiration date. The purpose of the exchange offer is to extend the maturity of the old notes and thus allow us to extend the time that the subordinated debt represented by the old notes will qualify under Chilean banking regulations as part of our required regulatory capital.

We issued the old notes under the name Banco Santiago. Upon the merger of Banco Santiago and Banco Santander-Chile, we changed our name to Banco Santander Chile.

THE EXCHANGE OFFER WILL EXPIRE AT NOON, NEW YORK CITY TIME, ON ,2003, UNLESS EXTENDED. WE REFER TO THIS DATE AND TIME IN THIS PROSPECTUS, IF AND AS IT IS EXTENDED, AS THE "EXPIRATION DATE" AND THE "EXPIRATION TIME".

You should read the section entitled "Risk Factors" on page 26 of this prospectus for a discussion of risks that should be considered in evaluating this exchange offer.

Neither the US Securities and Exchange Commission nor any US state securities commission has approved or disapproved of these securities or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense. The notes may not be offered or sold, directly or indirectly, in Chile or to any resident of Chile, except as permitted by applicable Chilean law.

Lead dealer manager
JPMorgan
Co-dealer manager
Santander Central Hispano

December, 2003

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We are furnishing this prospectus solely for the purpose of enabling you to consider the exchange of your old notes and acquisition of the new notes. No person is authorized in connection with the exchange offer to give information other than that contained in this prospectus or in the documents referred to in this prospectus that we make available. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

In deciding whether to tender old notes in the exchange offer you must rely on your own review of our business and related matters and the terms of this exchange offer, including the merits and risks involved. You should not construe the contents of this prospectus as legal, business or tax advice. You should consult your attorney, business advisor or tax advisor as to legal, business or tax advice.

This prospectus incorporates important business and financial information about us that is not included in or delivered with the prospectus. We will provide without charge to each person to whom this prospectus is delivered, upon written or oral request, copies of any or all documents incorporated by reference into this prospectus (other than exhibits to such documents, unless such exhibits are specifically incorporated by reference). Written or telephone requests for such copies should be directed to the information agent at the address and telephone numbers set forth on the back cover of this prospectus. For further information see "Where You Can Find More Information".

The distribution of this prospectus and the transactions contemplated herein may be restricted by law in certain jurisdictions. If the exchange offering materials come into your possession, we require you to inform yourself of and to observe all of these restrictions. The exchange offering materials do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the exchange be made by a licensed broker or dealer and the dealer managers or any of their affiliates are a licensed broker or dealer in that jurisdiction, the exchange offer shall be deemed to be made by the dealer managers or such affiliate on our behalf in that jurisdiction. See "Jurisdictional Restrictions" for more information on jurisdictional restrictions.

CERTAIN TERMS AND CONVENTIONS

The terms below are used as follows throughout this prospectus:

.. "Santiago" means the former Banco Santiago and its consolidated subsidiaries prior to its merger with Old Santander-Chile, unless otherwise indicated or the context otherwise requires.

.. "Old Santander-Chile" means the former Banco Santander-Chile and its consolidated subsidiaries, which ceased to exist upon its merger into Santiago, unless otherwise indicated or the context otherwise requires.

.. "Santander Chile" means Banco Santander Chile and its consolidated subsidiaries, the bank resulting from the merger of Old Santander-Chile into Santiago, unless otherwise indicated or the context otherwise requires.

.. "Banco Santander Central Hispano" means Banco Santander Central Hispano, S.A., our controlling shareholder.

.. "Santiago's Consolidated Financial Statements" means Santiago's audited consolidated financial statements at December 31, 2000 and 2001 and for the three years ended December 31, 2001, the US GAAP reconciliation of which retroactively reflects the combination of Santiago and Old Santander-Chile as if they had been combined throughout the periods during which they were under the common control of Banco Santander Central Hispano, as included in this prospectus. These financial statements are identical to the audited consolidated financial statements of Santiago at December 31, 2000 and 2001 and for the three years ended December 31, 2001 as included in Santiago's Form 20-F, except for Note 25, which contains Santiago's US GAAP restated audited consolidated financial information.

.. "Old Santander-Chile's Consolidated Financial Statements" means Old Santander-Chile's audited consolidated financial statements at December 31, 2000 and 2001 and for the three years ended December 31, 2001, as included in Old Santander-Chile's Form 20-F.

.. "Santiago's Interim Unaudited Consolidated Financial Statements" means Santiago's interim unaudited consolidated financial statements at and for the six months ended June 30, 2001 and 2002, as included in this prospectus.

.. "Old Santander-Chile's Interim Unaudited Consolidated Financial Statements" means Old Santander-Chile's interim unaudited consolidated financial statements at and for the six months ended June 30, 2001 and 2002, as included in this prospectus.

.. "Unaudited Pro Forma Condensed Combined Financial Information" means the pro forma condensed combined financial information included in this prospectus, at and for the six months ended June 30, 2002 and for the year ended December 31, 2001.

.. "Santiago's Form 20-F" means Santiago's annual report on Form 20-F for the year ended December 31, 2001 as filed with the SEC and incorporated by reference into this prospectus.

.. "Old Santander-Chile's Form 20-F" means Old Santander-Chile's annual report on Form 20-F for the year ended December 31, 2001 as filed with the SEC and incorporated by reference into this prospectus.

When we use the first person, personal pronouns in this prospectus, such as "we", "us", or "our", we mean Santander Chile and its consolidated subsidiaries after the consummation of the merger.

References to "$", "US$", "US dollars" and "dollars" are to United States dollars, references to "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 Estadisticas (the Chilean National Institute of Statistics). As of December 31, 2001, UF1.00 was equivalent to US$24.78 and Ch$16,262.66. As of June 30, 2002, UF1.00 was equivalent to US$23.44 and Ch$16,355.20 (based on the observed exchange rate on that date). As of December 4, 2002, UF1.00 was equivalent to US$23.57 and Ch$16,731.01 (based on the observed exchange rate on that date). See Note 1(c) to Santiago's Consolidated Financial

Statements and Note 1 to Santiago's Interim Unaudited Consolidated Financial Statements and Old Santander-Chile's Interim Unaudited Financial Statements.

Presentation of Financial Information

Reporting Currency

Financial information included in this prospectus at and for the years ended December 31, 1997 through 2001 are stated in millions of constant pesos as of December 31, 2001, financial information at and for the six months ended June 30, 2001 and 2002 are stated in millions of constant pesos as of June 30, 2002 and financial information at and for each the three- and nine-month periods ended September 30, 2001 and 2002 are stated in millions of constant pesos as of September 30, 2002.

The financial information at and for the years ended December 31, 1997 through December 31, 2001 has not been restated in constant Chilean pesos as of June 30, 2002 because the change in the CPI during the six months ended June 30, 2002 was 0.61%. Accordingly, the effect of restatement of that financial information to constant Chilean pesos of June 30, 2002 purchasing power would not be significant and since such restatement would be applied to all amounts and disclosures in the financial statements, it would not result in changes in the relations among any of such amounts and disclosures. To facilitate comparison with the financial information as of and for the six months ended June 30, 2002, the amounts for June 30, 2001 have been restated by 2.15%, which represents the variation in the CPI from May 31, 2001 to May 31, 2002. To facilitate comparison with the financial information as of and for the nine months ended September 30, 2002, the amounts for September 30, 2001 have been restated by 2.18%, which represents the variation in the CPI from August 31, 2001 to August 31, 2002.

Economic and Market Data

In this prospectus, unless otherwise indicated, all macro-economic data related to the Chilean economy is based on information published by the Banco Central de Chile (the Chilean Central Bank) (the "Central Bank"), and all market share and other data related to the Chilean financial system is based on information published by the Superintendencia de Bancos e Instituciones Financieras (the Chilean Superintendency of Banks and Financial Institutions) (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. The Superintendency of Banks publishes the unconsolidated risk index for the financial system three times a year in February, June and October.

Accounting Principles

Unless otherwise indicated, the financial information contained in this prospectus has been, or has been derived from financial statements that have been, prepared in accordance with generally accepted accounting principles in Chile and the regulations issued by the Superintendency of Banks, collectively known as Chilean GAAP. See Note 25 to Santiago's Consolidated Financial Statements and Note 17 to Santiago's Interim Unaudited Financial Statements for a discussion of some respects in which Chilean GAAP differs from generally accepted accounting principles in the United States ("US GAAP").

Exchange Rates

This prospectus contains translations of certain Chilean peso amounts into US 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 US dollar amounts, were converted from US dollars at the rate indicated in preparing the audited and interim unaudited consolidated financial statements, could be converted into US dollars at the rate indicated or were converted at all. Unless otherwise indicated, such US dollar amounts, in the case of information concerning Santiago and Old Santander-Chile as of and for the six months ended June 30, 2002, have been translated from Chilean pesos based on the observed exchange rate reported by the Central Bank on September 30, 2002, which was Ch$747.62 per US$1.00. The observed exchange rate reported by the Central Bank on September 30, 2002 is based upon the actual exchange rate of September 30, 2002 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 September 30, 2002. The observed exchange rate on December 4, 2002 was Ch$709.80 per US$1.00, reflecting an accumulated depreciation of 1.75% from June 30, 2002 and an appreciation of 5.06% from September 30, 2002. 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 "Exchange Rates".

Merger

On August 1, 2002, Old Santander-Chile merged into Santiago. Immediately thereafter, Santiago changed its name to "Banco Santander Chile". The merger is being accounted for under Chilean GAAP in a manner commonly referred to as a "pooling of interests" on a prospective basis from January 1, 2002. Under Chilean GAAP, any financial statements we issue as of or for periods ending August 1, 2002 or thereafter will reflect the combined operations of Santiago and Old Santander-Chile from January 1, 2002. Our historical financial statements under Chilean GAAP as of and for periods ended prior to August 1, 2002 have not been and will not be restated to reflect the merger.

The merger is being accounted for under US GAAP as a merger of entities under common control, as Banco Santander Central Hispano controlled both Santiago and Old Santander-Chile beginning May 3, 1999. US GAAP requires that we record the transaction in a manner similar to a pooling of interests based on the carrying values for Santiago and Old Santander-Chile included in the accounting records of the common parent, Banco Santander Central Hispano. However, to the extent that in connection with the merger Santiago issued Santiago shares or paid cash (in the case of fractional shares) for Old Santander-Chile shares held by parties other than Banco Santander Central Hispano and its affiliates, the transaction has been accounted for using the purchase method based on fair values. As a consequence of the merger, Santiago is required to restate its US GAAP historical financial statements previously issued for all periods during which common control existed. See "Notes to the Unaudited Pro Forma Condensed Financial Information".

Pro Forma Financial and Statistical Information

Unless otherwise indicated, and except for the summary selected unaudited pro forma condensed combined financial data appearing on pages 22 to 25 and the unaudited pro forma condensed combined financial statements appearing on pages 81 to 84 financial and statistical data included in this prospectus and identified as "pro forma", reflect the aggregation of Santiago's and Old Santander-Chile's financial condition and results of operation as separately reported under the Chilean GAAP as of the dates and for the periods indicated, without elimination of inter-company balances or transactions and without reflecting merger synergies or expenses. There were no material inter-company balances or transactions between Santiago and Old Santander-Chile as of the dates and for the periods for which pro forma information is provided. For a discussion of expected merger expenses and potential merger synergies see "The New Bank--Merger Update--Merger Expenses and Synergies" and "The New Bank--Strategy--Efficiency".

Loans

Unless otherwise specified, all references in this prospectus and in the documents incorporated by reference into this prospectus (except in Santiago's Consolidated Financial Statements and Old Santander-Chile's Consolidated Financial Statements) to loans are to loans and financial leases before deduction for loan loss allowances, 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 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 90 or more days overdue, and do not include the installments of such loan 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, 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. Under US GAAP, recognition of interest loans is generally discounted when, in the opinion of management, there is an indication that the borrower may be unable to meet payments as they become due. As a general practice this occurs when loans are 90 days or more past due. Any accrued but uncollected interest is reversed against interest income at that time. See "Selected Statistical Information of Santiago--Classification of Loan Portfolio--Classification of Loan Portfolio Based on Borrower's Payment Performance" and "Selected Statistical Information of Old Santander-Chile--Loan Portfolio--Classification of Loan Portfolio Based on the Borrower's Payment Performance".

Prospectus Summary

This summary highlights information contained elsewhere in this prospectus, or incorporated by reference. It is not complete and does not contain all the information that you should consider before tendering old notes in the exchange offer. You should read the entire prospectus carefully, including the consolidated financial statements of Santiago and Old Santander-Chile.

On August 1, 2002, Old Santander-Chile merged into Santiago, with Banco Santiago being the surviving entity. Immediately thereafter, Santiago changed its name to "Banco Santander Chile". Unless otherwise indicated, and except for the summary selected unaudited pro forma condensed combined financial data appearing on pages 22 to 25 and the unaudited pro forma condensed combined financial statements appearing on pages 81 to 84, financial and statistical data included in this prospectus and identified as "pro forma" reflect the aggregation of Santiago's and Old Santander-Chile's financial condition and results of operation as separately reported under Chilean GAAP as of the dates and for the periods indicated, without elimination of inter-company balances or transactions and without reflecting merger synergies or expenses. There were no material inter-company balances or transactions between Santiago and Old Santander-Chile as of the dates and for the periods for which such unadjusted pro forma information is provided. For a discussion of expected merger expenses and potential merger synergies see "The New Bank--Merger Update--Merger Expenses and Synergies" and "The New Bank--Strategy--Efficiency". For a description of various factors which you should consider before deciding whether to tender old notes, see "Risk Factors".

The Exchange Offer

Terms of the Offer .... We are offering to exchange a combination of our new subordinated notes due 2012, which we refer to as the "new notes" or the "notes", and a US dollar amount in cash for any and all of our outstanding 7% subordinated notes due 2007, which we refer to as the "old notes". The consideration you will receive in exchange for your old notes is based on a formula that includes market information that will not be known until three business days before the expiration of the exchange offer. Consequently, we cannot provide you with the specific US dollar amount in cash that you will receive or with the specific interest rate on the new notes.

If we accept any old notes you tender in the exchange offer, you will receive, in exchange for each US$1,000 principal amount of old notes tendered:

- US$1,000 principal amount of new notes, the interest rate on which will be determined on the third business day before this offer expires, in the manner described under "The Exchange Offer--Terms of the Offer", and will depend on the yield of a specified benchmark US treasury note; plus

. an amount in cash calculated on the same day pursuant to a related formula.

Cash Payment	For each US$1,000 principal amount of old notes tendered, and accepted by us, you will receive an amount in cash (rounded to the nearest US$.01) equal to the Exchange Ratio minus US$1,000, where:

The Exchange Ratio equals:

$$\frac{\text{US\$1,000 x Old Note Price}}{\text{New Note Price}}$$

Because the Exchange Ratio, the Old Note Price and the New Note Price are based on formulas linked to the yields on specified benchmark treasury notes, the amount of cash that you will receive if the exchange offer is consummated will be affected by changes in those yields during the term of the exchange offer.

New Note Price	The New Note Price will be an amount in US dollars per US$1,000 principal amount of new notes determined pursuant to the new note price formula set forth in Schedule A, on the basis of the New Note Reference Yield to maturity, which is equal to the sum of (i) the yield on the % US Treasury Note due , 2012 as of the pricing time (which we refer to as the New Note Benchmark Treasury Yield), plus (ii) %.
Old Note Price	The Old Note Price will be an amount in US dollars per US$1,000 principal amount of old notes determined pursuant to the old note price formula set forth in Schedule A, on the basis of the Old Note Reference Yield to maturity, which is equal to the sum of (i) the yield on the % US Treasury Note due , 2007 as of the pricing time (which we refer to as the Old Note Benchmark Treasury Yield), plus (ii) %.
New Note Interest Rate	The annual interest rate on the new notes will equal the New Note Reference Yield (rounded

down to the nearest one-eighth of a percentage point). We refer to the yields on the US Treasury Notes used to calculate the Old Note Price, the New Note Price, the Exchange Ratio and the interest rate on the new notes as Benchmark Treasury Yields. Because the interest rate on the new notes is linked to the New Note Bench Treasury Yield, the actual interest rate on the new notes will be affected by changes in that Benchmark Treasury Yield during the term of the exchange offer. See "The Exchange Offer-General".

Pricing Time .... The Old Note Price, the New Note Price, the Exchange Ratio and the interest rate on the new notes will be determined based on the relevant Benchmark Treasury Yields as of 4:00 p.m., New York City time, on the third business day prior to the expiration time, which we refer to as the pricing time.

Total Consideration .... We refer to the principal amount of new notes and the US dollar cash amount you will receive in exchange for each US$1,000 principal amount of old notes as the "Total Consideration". See "The Exchange Offer--Illustrative Hypothetical Examples" for hypothetical calculations of the Total Consideration.

Hypothetical Calculation of Total Consideration Based on Recent Market Data .... If the pricing information in effect at the pricing time were the same as that which was available on December , 2002, you would have received, in exchange for each US$1,000 principal amount of old notes tendered, US$1,000 principal amount of new notes plus US$ in cash. The interest rate on the new notes would have been %. The preceding cash amount and interest rate are for illustrative purposes only and no representation is intended with respect to the actual consideration that may be paid pursuant to the exchange offer. The amount of cash paid and the interest rate on the new notes may be greater or less than that of the preceding example depending on actual Benchmark Treasury Yields as of the pricing time.

Purpose of the Offer .... The purpose of the exchange offer is to extend the maturity of the old notes from 2007 to 2012 and thus allow us to extend the time that the subordinated debt represented by the old notes will qualify under Chilean banking regulations as part of our required regulatory capital.

The Old Notes	US$300 million in aggregate principal amount of our 7% subordinated notes due July 18, 2007. The old notes bear interest at 7% per annum payable semiannually on January 18 and July 18 of each year. The CUSIP number of the old notes is O5965LAA3 and the ISIN number of the old notes is US05965LAA35
The New Notes	The new notes which we sometimes refer to as the "notes", are identical in all material respects to the old notes, other than the maturity date and interest rate, and will be issued under the same indenture as the old notes, as supplemented by a supplemental indenture. The new notes will mature on July 18, 2012 instead of July 18, 2007 and will bear interest based on the fixed-spread formula described under "The Exchange Offer--Terms of the Offer". Like the old notes, interest on the new notes will be paid semiannually on January 18 and July 18 of each year. The first interest payment on the new notes will be on July 18, 2003.

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Conditions to the Exchange Offer ..	The exchange offer is not conditioned upon a minimum number of old notes being tendered. For more information about conditions to the exchange offer, see "The Exchange Offer--Conditions".
Accrued Interest	We will pay accrued and unpaid interest on the old notes that are validly tendered and not withdrawn to, but not including, the settlement date.
Expiration Time and Settlement	The exchange offer will expire at noon, New York City time, on , 2003, unless we extend it in accordance with the procedures described in "The Exchange Offer--General--Expiration Time." If the conditions to the exchange offer are satisfied or waived, we will settle the exchange offer with respect of those old notes validly tendered and not withdrawn on the exchange date, which will be the third business day following the date on which the expiration time occurs (or as soon thereafter as practicable).

Procedures for Tendering	If you want to tender old notes pursuant to the exchange offer you must follow the procedures described under "The Exchange Offer--Procedure for Tendering Old Notes". Old notes may be tendered only by book-entry transfer to a DTC account established for this purpose through DTC's Automated Tender Offer Program, or ATOP. In order for a book-entry transfer to constitute a valid tender of your existing notes in the exchange offer, the exchange agent must receive an agent's message confirming your acceptance of the terms of the exchange offer and the book-entry transfer of your old notes into the exchange agent's account at DTC prior to the expiration date. HOLDERS SHOULD NOT DELIVER A COMPLETED LETTER OF TRANSMITTAL TO THE EXCHANGE AGENT. If you are a beneficial owner of old notes, you must contact the broker, dealer, commercial bank, trust company or other custodian through which you hold your notes to tender your old notes on your behalf. If your old notes are held through Euroclear or Clearstream, Luxembourg, you must comply with the procedures established by Euroclear or Clearstream, Luxembourg for tendering through Euroclear or Clearstream, Luxembourg.
	You may tender old notes only in principal amounts of at least US$5,000 and only in integral multiples of US$1,000.
	If you have any questions about how to tender, please contact the information agent at their address or telephone numbers listed on the back cover of this prospectus.
Withdrawal Rights	If you tender old notes, you may withdraw that tender at any time prior to the expiration time. For information on the procedures to follow in withdrawing old notes, see "The Exchange Offer--Withdrawals of Tenders".
Jurisdictional Restrictions	The distribution of this prospectus and related offering materials and the transactions contemplated thereby may be restricted in certain jurisdictions. See "Jurisdictional Restrictions" for more information.
Taxation	The exchange should qualify as a recapitalization for US federal income tax purposes. Provided that the exchange so qualifies, a US holder of old notes would not recognize any loss on the

exchange, but would be required to recognize gain realized to the extent of the amount of cash received in consideration for the old notes.

The new notes will be treated as issued with original issue discount if the stated redemption price at maturity of the new notes exceeds their issue price, which should be equal to their fair market value at the time of the exchange.

Persons considering the exchange offer are urged to consult their tax advisers concerning the US federal income tax consequences of the exchange offer in light of their particular circumstances, as well as any consequences arising under the laws of any state, local or foreign taxing jurisdiction.

Under current Chilean laws and regulations, payments of interest to holders that are not residents of Chile for purposes of Chilean taxation will generally be subject to Chilean withholding tax at a rate of 4.0%. Subject to certain exceptions, we will pay additional amounts so that the amount received by the holder after Chilean withholding tax will equal the amount that would have been received if no such taxes had been applicable. For a discussion of Chilean withholding tax, including a discussion of the applicable withholding tax rates, and the tax consequences of, and limitations on, the payment of such additional amounts, see "Taxation--Chilean Taxation".

For a description of the tax consequences of participating in the exchange, see "Taxation".

Dealer Managers .... J.P. Morgan Securities Inc. is the lead dealer manager and Santander Central Hispano Investment Securities Inc. is the co-dealer manager for the exchange offer. The addresses and telephone numbers of the dealer managers are set forth on the back cover of the prospectus.

Exchange Agent .... JPMorgan Chase Bank is serving as the exchange agent for the exchange offer. You can find the address and telephone number for JPMorgan Chase Bank on the back cover page of this prospectus.

Information Agent .... D.F. King & Co., Inc. is serving as the information agent for the exchange offer. You can find the address and telephone number for D.F. King & Co., Inc. on the back cover page of this prospectus.

Governing Law .... The new notes will be governed by the laws of the State of New York.

Risk Factors

Investing in the notes involves substantial risks. You should carefully consider all the information in this prospectus prior to investing in the notes. In particular, we urge you to consider carefully the factors set forth under "Risk Factors" beginning on page 25 of this prospectus.

QUESTIONS AND ANSWERS RELATING TO THE EXCHANGE OFFER

We set forth below some questions that you, as holder of the old notes, may have and answers to those questions.

Q: What is the purpose of the exchange offer?

A: The purpose of the exchange offer is to extend the maturity of the old notes and thus allow us to extend the time that the subordinated debt represented by the old notes will qualify under Chilean banking regulations as part of our required regulatory capital. The old notes mature on July 18, 2007, while the new notes will mature on July 18, 2012. See "The Exchange Offer--General".

Q: What is Santander Chile offering in exchange for my old notes?

A: If you exchange any old notes for new notes in the exchange offer you will receive, in exchange for each US$1,000 principal amount of old notes validly tendered and not withdrawn:

- new notes having a principal amount of US$1,000 the interest rate on which will be determined on the third business day before this offer expires, in the manner described under "The Exchange Offer--General", and will depend on the yield of a specified benchmark US treasury note; plus
  - an amount in cash calculated on the same day pursuant to a related formula.

Q: What are the new notes?

A: The new notes are subordinated securities that will mature on July 18, 2012, which is five years after the maturity of the old notes. The interest rate on the new notes will equal the New Note Reference Yield rounded down to the nearest one-eighth of a percentage point. Other than as described above, the new notes will not differ in any material respects from the old notes.

Q: How can I obtain current information about the terms of the exchange offer?

A: During the term of the exchange offer, you can obtain current information (calculated as if the pricing time had occurred the previous business day) regarding the Benchmark Treasury Yields, the reference yields, the Old Note Price, the Exchange Ratio, the Total Consideration payable to a holder of old notes, the interest rates on the new notes, the New Note Price and other information regarding the terms of the exchange offer from the lead dealer manager at (866) 846-2874 (toll free) or (212) 834-7279.

Q: Will the new notes be freely tradable?

A: Yes. The new notes have been registered with the Securities and Exchange Commission and are therefore freely tradable by holders other than our "affiliates". However, as in the case of the old notes, the new notes will not be listed on any stock exchange or quoted on any automated quotation system.

Q: When will the exchange offer expire?

A: The exchange offer will expire at noon, New York City time, on , 2003, unless we extend it in our sole discretion.

Q: How will I be notified if the exchange offer is extended?

A: If we decide to extend the exchange offer we will issue a press release at any time prior to 9:00 a.m., New York City time, on the business day following the date on which the expiration time would otherwise have occurred.

Q: How do I tender my old notes?

A: If you want to tender old notes pursuant to the exchange offer you must follow the procedures described under "The Exchange Offer--Procedure for Tendering Old Notes". Old notes may be tendered only by book-entry transfer to a DTC account established for this purpose through DTC's Automated Tender Offer Program, or ATOP. In order for a book-entry transfer to constitute a valid tender of your existing notes in the exchange offer, the exchange agent must receive an agent's message confirming your acceptance of the terms of the exchange offer and the book-entry transfer of your old notes into the exchange agent's account at DTC prior to the expiration date. HOLDERS SHOULD NOT DELIVER A COMPLETED LETTER OF TRANSMITTAL TO THE EXCHANGE AGENT.

If you are a beneficial owner of old notes, you must contact the broker, dealer, commercial bank, trust company or other custodian through which you hold your notes and ask that your old notes be tendered on your behalf. If your old notes are held through Euroclear or Clearstream, Luxembourg, you must comply with the procedures established by Euroclear or Clearstream, Luxembourg for tendering through Euroclear or Clearstream, Luxembourg.

You may tender old notes only in principal amounts of at least US$5,000 and only in integral multiples of US$1,000.

Q: If I tender my old notes, will I receive accrued but unpaid interest?

A: We will pay you accrued but unpaid interest on the old notes you exchange to but not including the exchange date.

Q: Until what time can I withdraw previously tendered old notes and what is the process?

A: If you tender old notes, you may withdraw that tender at any time prior to the expiration time at noon, New York City time, on , 2002, unless we extend such deadline in our sole discretion. To withdraw previously tendered old notes you must provide the exchange agent with a notice of withdrawal containing the information described in "The Exchange Offer--Withdrawal of Tenders". Such notice must be timely received by the exchange agent at one of its addresses set forth on the back cover page of this prospectus.

Q: How will I be notified of the terms of the exchange offer?

A: As soon as practicable after the pricing time, but in any event before 9:00 a.m., New York City time, on the following business day, we will publicly announce by press release to the Dow Jones News Service: (i) for the old notes: the Old Note Benchmark Treasury Yield, the Old Note Reference Yield, the Old Note Price, the Exchange Ratio and the Total Consideration to be received by tendering holders if the exchange offer is consummated and (ii) for the new notes: the New Note Benchmark Treasury Yield, the New Note Price, the New Note Reference Yield and the annual interest rate. The press release will be filed with the Securities and Exchange Commission on Form 6-K and is incorporated by reference into this prospectus.

Q: Can the terms of the exchange offer be changed?

A: We reserve the right, subject to applicable law, to terminate or amend the terms of the exchange offer or to not accept for exchange any old notes at any time prior to the expiration time. See "The Exchange Offer--General." We will publicly announce any amendment to the terms of the exchange offer through a press release or such other means of announcement as we deem appropriate.

Q: If I tender my old notes, how will I be notified that Santander Chile has accepted my old notes for exchange?

A: Subject to the terms and conditions of the exchange offer, we will, within one business day following the date on which the expiration time occurs, accept for exchange (by delivery of a notice of acceptance from us to the exchange agent) all old notes properly tendered and not withdrawn. We will publicly announce our acceptance of old notes for exchange by issuing a press release or such other means of announcement as we deem appropriate.

Q: Will my old notes be affected if I decide not to tender them or to tender just a portion of them?

A: If you decide to tender only some of your old notes or decide not to tender any old notes at all, the terms and conditions of the old notes will not be affected in any way. Due to the exchange offer, however, you may experience a reduction in the liquidity of the old notes, as a significant portion of the investors currently holding old notes may opt to exchange them for new notes pursuant to the exchange offer. As a result of this reduced liquidity, the old notes may trade at a discount to the price at which they would have traded if the exchange offer had not been consummated. See "Risk Factors--Risks Associated with the Exchange Offer--The Liquidity of the Old Notes Will Be Reduced".

Q: What are the tax implications of the exchange offer?

A: The exchange offer should qualify as a recapitalization for US federal income tax purposes. Provided that the exchange so qualifies, a US holder of old notes would not recognize any loss on the exchange, but would be required to recognize gain realized to the extent of the amount of cash received in consideration for the old notes. The new notes will be treated as issued with original issue discount if the stated redemption price at maturity of the new notes exceeds their issue price, which should be equal to their fair market value at the time of the exchange.

Persons considering the exchange offer are urged to consult their tax advisers concerning the US federal income tax consequences of the exchange offer in light of their particular circumstances, as well as any consequences arising under the laws of any state, local or foreign taxing jurisdiction.

The exchange of the notes is not subject to tax in Chile. However, the issue of the new notes may be subject to Chilean stamp tax. We will pay on your behalf any stamp tax that may be generated by the issue of the new notes.

For a description of the tax consequences of participating in the exchange, see "Taxation".

Q: Whom do I contact if I have questions about the exchange offer?

A: If you have questions about the exchange offer you should contact the information agent, D.F. King & Co., Inc., at the address and telephone numbers set forth on the back cover of this prospectus.

Q: When will the exchange and any payments to be made under the exchange offer take place?

A: The exchange of the old notes for the new notes and the payments to be made under the exchange offer will be made on the exchange date, which will be the third business day following the date on which the expiration time occurs (or as soon thereafter as practicable), provided the conditions to the exchange offer are satisfied or waived.

The New Bank

Overview

We were formed on August 1, 2002 by the merger of two leading Chilean banks, 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. As of September 30, 2002, we had total assets of Ch$12,340,924 million (US$16,507 million), loans outstanding net of allowances of Ch$8,196,340 million (US$10,963 million), deposits of Ch$6,552,149 million (US$8,764 million) and shareholders' equity of Ch$960,169 million (US$1,284 million). Our current long-term subordinated debt ratings are BBB+ by Standard & Poor's and A3 by Moody's. Among the five largest Chilean banks in terms of shareholders' equity, which we consider our peer group, we are the most profitable and efficient based on September 30, 2002, data. Our net income was Ch$157,292 million (US$210 million) for the nine months ended September 30, 2002, representing a return on average shareholders' equity of 21.8%, based on annualized net income for that period. We believe that our profitability reflects in part our market-leading efficiency and credit-risk profile. Our efficiency ratio (the ratio of our operating expenses to our operating revenue) was 47.0% for the nine months ended September 30, 2002, the best in Chile in our peer group.

Prior to the merger, Santiago was the most profitable bank in Chile in our peer group in terms of return on equity, while Old Santander-Chile had the best efficiency ratio within the same peer group. Santiago had the largest market share in terms of loans in the middle segment (middle to upper-income retail) while Old Santander-Chile had the largest such market share in the corporate and low- to middle-income segments. We believe the complementary strengths of the two banks give us the ability to compete effectively across all segments.

As shown in the tables set forth below, as a result of the merger we are the market leader in the following key financial indicators in Chile:

	As of September 30, 2002				
	Rank	Amount(1)	Amount(1)	Market Share(2)	Market of Clo Competi
		(in millions of constant Ch$ as of September 30, 2002)	(in thousands of US$)		
Total loans(3)	1	Ch$8,193,974	US$10,960,079	25.7%	18.6%
Deposits(3)	1	6,311,735	8,442,437	22.9	17.1
Shareholders' Equity(3) ..	1	960,169	1,284,301	25.0	15.5
Net Income(3)	1	157,292	210,390	36.9	10.3

Source: Superintendency of Banks (unconsolidated data)

(1) Amounts stated in US dollars have been translated from Chilean pesos at the observed exchange rate on September 30, 2002, of Ch$747.62 per US$1.00.

(2) Expressed as a percentage of the aggregate amount of each line item for all banks and financial institutions that provide information to the Superintendency of Banks.

(3) Because the method of classification of assets used by the Superintendency of Banks for its public information differs in minor respects from that used for accounting purposes, the amounts in this table may differ from the figures included in our financial statements and those of our predecessor banks.

	Rank	Ratio	Average Ratio for Chilean Financial System
	(as of September 30, 2002, except risk index)		
Efficiency Ratio	1	47.3%	55.0%
Fee Income to Operating Expenses	2	28.3%	22.4%
Return on Capital(1)	1	26.1%	16.6%
Past Due Loan to Total Loans	3	1.8	1.9
Risk Index(2)	3	1.6	2.0

Source: Superintendency of Banks (unconsolidated data)

(1) Annualized earnings divided by capital and reserves.

(2) Santander Chile's risk index as of September 30, 2002. The average risk index for all banks and financial institutions that provide information to the Superintendency of Banks has been calculated using data as of June 30, 2002, the latest date for which data is available. The risk index represents the percentage of the loan portfolio a bank expects will not be repaid, as calculated using the Superintendency of Banks' rating system. The section "Loan Loss Allowances--Global Loan Loss Allowances" in each of "Selected Statistical Information of Santiago" and "Selected Statistical Information of Old Santander-Chile" explains how this index is calculated.

Competitive Strengths

Operating in a stable economic environment in Latin America

We conduct substantially all of our business in Chile. The Chilean economy is generally recognized as currently being among the most stable in Latin America, as evidenced by it's A- rating by Standard & Poor's and Baa1 rating by Moody's, the highest ratings in the region. Chile has consistently received investment-grade credit ratings since each rating agency started coverage in 1992 and 1994, respectively.

Leading market position

We are a market leader in Chile, ranking number one in most financial indicators, including total assets, efficiency and net income. We are also the most profitable Chilean financial institution in our peer group as measured by our pro forma return on capital for the first half of 2002. We believe this market leadership provides us with an exceptional competitive position going forward. However, the recognition of expenses in connection with the merger is likely to adversely affect certain of our ratios and ranking in the Chilean financial system.

Opportunity for growth from current and new businesses

We believe there is substantial opportunity for growth based on the relatively low penetration of retail banking services in Chile and fee-based financial products in the Chilean corporate sector. We believe we are well positioned to grow in these areas, based on our extensive distribution network and our size, which afford us greater marketing resources.

Experienced management team

Our management has successfully completed two full-service bank mergers in Chile, the merger of Santiago and Banco O'Higgins and the merger of Old Santander-Chile and Banco Osorno y la Union. We believe the expertise our management gained through these mergers will help us to effectively consolidate the operations of Santiago and Old Santander-Chile and reduce our operating costs.

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, and one of the leading financial institutions in Europe. Our relationship with Banco Santander Central Hispano provides us with access to the group's client base, while its multinational business 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. 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. Finally, we believe that our management team benefits from access to Banco Santander Central Hispano's experienced managerial personnel.

Strategy

Our goal is to create shareholder value through continued focus on and enhancement of our client segmentation model. This model consists of categorizing clients with similar financial needs and behavior into discrete groups and developing products that we believe can be successfully marketed to each client segment by leveraging existing client relationships through our distribution channels. We have three principal strategies which we intend to pursue in each client segment:

- Optimize our asset mix - we intend to promote growth in high-yielding loan segments consistent with our credit risk policies.

- Grow our ongoing fee-based business - we seek to cross-sell products to our clients in order to expand fee-based services.

- Improve our efficiency - we aim to take advantage of the cost synergies that we believe will result from the merger and to control our costs by managing our headcount, centralizing our back-office processes and promoting use of higher-margin alternative distribution channels, such as ATMs and telephone banking.

Optimizing Asset Mix

Retail Banking. We believe the Chilean retail banking segment offers attractive medium- to long-term opportunities. We seek to capitalize on these opportunities through the use of our sophisticated credit analysis procedures and our extensive distribution network. We believe that our position as the largest bank in Chile and the centralization of the back office activities expected to result from the merger, will give us important economies of scale and scope and afford us a competitive advantage to grow in this area.

- Middle to upper-income segment and small businesses - we will seek to achieve growth in loans to middle- to upper-income individuals and small businesses, which are higher-yielding than corporate loans, and which we believe have moderate risk levels relative to lower-income segments.

- Middle to lower-income segment - we anticipate that asset growth in this segment will be moderate until economic conditions improve. We believe, however, that our expertise, experience, client service standards and infrastructure will help us to develop and market innovative and user-friendly products that introduce consumers in this segment to the banking system and grow assets, while adequately controlling credit risk. We aim to increase our profitability in this area by cross-selling among our clients and offering standardized, fixed-price product packages.

Wholesale Banking. We believe loan growth alone is not an effective means to sustain high levels of profitability in this segment, especially among large corporations. Our goal, therefore, is to increase revenues by expanding the range of products we offer (cross-selling) and focusing on sophisticated services and fee-based products such as cash management, payment and collection services, treasury and other tailored services.

Fee-based Business

Historically, there has been low penetration of fee-based services in the Chilean financial market, with financial institutions focusing primarily on asset growth. We seek to become a leader in fee-based businesses by promoting fee-generating products in areas of low penetration, such as asset management, payment systems and insurance brokerage, and by taking advantage of cross-selling opportunities among our client base. We believe this strategy will help us generate greater revenues from our client relationships and increase our profitability.

Efficiency

Our third strategy is to continue the improvement of our efficiency ratios. This encompasses:

- Realizing the cost savings that we expect to achieve from the merger. We estimate that in the medium- to long-term we will achieve cost savings of at least 10% of the pre-merger aggregated banks' costs. We estimate that half of the synergies will come from headcount reductions, while the other half will come from economies of scale resulting from the integration of our back office, marketing and administrative functions and outsourcing of information technology functions.

- Managing the post-merger headcount and increasing the relative number of employees in commercial activities as opposed to the back office.

- Centralizing back office processes out of the branch offices.

- Promoting use of higher-margin, technologically advanced services such as the Internet, ATMs and other electronic banking mechanisms.

Merger Update

We have made substantial progress in the integration process and expect to complete it by the end of the first half of 2003. We believe the affiliation of Santiago and Old Santander-Chile as commonly controlled subsidiaries of Banco Santander Central Hispano has facilitated the integration process. The last major areas to be integrated are information systems (in the Operations and Technology area) and branch networks (in the Retail Banking area), which are the most sensitive to changes and we have deferred these in order to minimize disruption of client services.

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The following table sets forth the principal tasks to be completed for the full integration of the operations of Santiago and Old Santander-Chile and their estimated status as of September 30, 2002:

Area	Status(1)
Senior management	Completed
Legal	Completed
Strategic planning	Completed
Client service	Completed
Human resources department	Completed
Credit risk	Completed
Auditing	Completed
Accounting	Completed
Financial control	Substantially completed
Administration	Substantially completed
Wholesale banking	Substantially completed
Retail banking (branch network)	Partially completed
Operations & technology	Completion expected by June 2003

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(1) "Completed" means that we estimate that 90% or more of the integration has been completed.

"Substantially completed" means that we estimate that between 75% and 90% of the integration has been completed. "Partially completed" means that we estimate that between 50% and 75% of the integration has been completed.

"Completion expected by June 2003" means that we estimate that less than 50% of the integration process has been completed.

* * * * * *

Our executive office address and telephone number are:

Banco Santander Chile
Bandera 140
Santiago, Chile
Telephone: 011-562-320-2000

RECENT RESULTS

The following tables set forth summary unaudited interim historical and pro forma financial data as of and for each of the three- and nine-month periods ended September 30, 2001 and 2002. See also "First Nine Months of 2002 Results of Operations" and the other historical and pro forma financial data included elsewhere in this prospectus. Our results for the nine-month period ended September 30, 2002 is not necessarily indicative of the results we will obtain for the full year 2002 or for any other period.

The following table sets forth the principal components of Santander Chile's net income and financial condition as of and for the nine-month period ended September 30, 2001 and 2002, including pro forma information as of and for the nine-month period ended September 30, 2001.

	As of and for the nine months ended Sept (unaudited)		
	2001	Pro Forma 2001(1)	200
	(in million of constant CH$ as of September 30,		
CONSOLIDATED INCOME STATEMENT DATA			
Chilean GAAP:			
Net interest revenue	Ch$202,048	Ch$394,447	Ch$424
Provision for loan losses	(35,209)	(73,086)	(66
Net interest revenue after provisions for loan losses	166,839	321,361	357
Total fees and income from services, net	35,650	72,182	76
Total other operating income (expenses) net .	7,181	(2,324)	(39
Other income (expenses) net	5,371	12,336	8
Operating expenses	(115,484)	(213,984)	(217
Loss from price-level restatement	(5,585)	(10,202)	(5
Income before income taxes	93,972	179,369	181
Income taxes	558	(12,945)	(23
Net income	94,530	166,424	157
CONSOLIDATED BALANCE SHEET DATA			
Chilean GAAP:			
Cash and due from banks	539,826	1,098,958	1,081
Financial investments	734,958	2,257,888	2,379
Loans, net of allowance for loan losses	5,085,288	8,600,472	8,196
Total assets	6,793,498	12,731,900	12,340
Deposits	3,476,445	6,720,345	6,552
Other interest-bearing liabilities	2,192,073	3,875,975	3,918

Shareholders' equity(3)	522,796	962,042	960

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(1) Reflects the aggregation of Santiago's and Old Santander-Chile's financial condition and results of operations as separately reported under Chilean GAAP for the first nine months of 2001, without elimination of inter-company balances or transactions and without reflecting merger synergies or expenses. There were no material inter-company balances or transactions between Santiago and Old Santander-Chile as of the dates and for the periods for which pro forma information is provided.

(2) Compares 2002 period to pro forma 2001 period.

(3) Shareholders' equity as of period end includes net income for that period.

(4) Amounts stated in US dollars as and for the nine months ended September 30, 2002 have been translated from Chilean pesos at the exchange rate of Ch$747.62=US$1.00 as of September 30, 2002. See "Exchange Rates" for more information on the observed exchange rate.

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The following table sets forth the principal components of Santander Chile's net income and balance sheet information as of and for the three-month period ended September 30, 2001 and 2002, including pro forma information as of and for the three-month period ended September 30, 2001.

	As of and for the three months ended September 30 (unaudited)		
	2001	(Pro Forma) 2001(1)	2002
		(in millions of constant Ch$ as of September 30, 2002)	(
CONSOLIDATED INCOME STATEMENT DATA Chilean GAAP:			
Net interest revenue	Ch$69,507	Ch$146,896	Ch$158,009
Provision for loan losses	(12,622)	(24,101)	(30,961)
Net interest revenue after provisions for loan losses	56,885	122,795	127,048
Total fees and income from services, net	11,945	23,968	31,153
Total other operating income (expenses) net	(764)	(12,860)	(40,940)
Other income net	4,371	6,456	2,671
Operating expenses	(41,038)	(80,050)	(78,340)
Loss from price-level restatement	(1,857)	(3,140)	(2,990)
Income before income taxes	29,542	57,169	38,602

Income taxes	(174)	(4,392)	(5,227)
Net income	29,368	52,777	33,375
CONSOLIDATED BALANCE SHEET DATA			
Chilean GAAP:			
Cash and due from banks	539,826	1,098,958	1,081,419
Financial investments	734,958	2,257,888	2,379,547
Loans, net of allowance for loan losses	5,085,288	8,600,472	8,196,340
Total assets	6,793,498	12,731,900	12,340,924
Deposits	3,476,445	6,720,345	6,552,149
Other interest-bearing liabilities	2,192,073	3,875,975	3,918,931
Shareholders' equity (3)	522,796	962,042	960,169

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(1) Reflects the aggregation of Santiago's and Old Santander-Chile's financial condition and results of operations as separately reported under Chilean GAAP for the first nine months of 2001, without elimination of inter-company balances or transactions and without reflecting merger synergies or expenses. There were no material inter-company balances or transactions between Santiago and Old Santander-Chile as of the dates and for the periods for which pro forma information is provided.

(2) Compares 2002 period to pro forma 2001 period.

(3) Shareholders' equity as of period end includes net income for that period.

(4) Amounts stated in US dollars as and for the nine months ended September 30, 2002 have been translated from Chilean pesos at the exchange rate of Ch$747.62-US$1.00 as of September 30, 2002. See "Exchange Rates" for more information on the observed exchange rate.

Recent Developments

We are in the process of establishing a European Medium Term Note program in an expected aggregate principal amount of up to US$300 million. The securities issued under this program will not be registered under the Securities Act and will not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Any proceeds obtained from time to time from issuances under the program are expected to be used to provide funds for general corporate purposes, including working capital. The proposed terms of the program provide for the issuance of debt securities in a variety of currencies (including US dollars and euros) with differing maturities and rates of interest (which may be fixed or floating). Under the proposed terms of the program we may issue the full amount available at any time. We are currently planning to issue notes under the program but there can be no assurances that we will be able to issue any or all of the total amount of securities available under the program.

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Summary Selected Historical Financial Data

The following information has been derived from the audited financial statements of Santiago and Old Santander-Chile as of and for the years ended December 31, 1997 through 2001 and from the unaudited interim financial statements of Santiago and Old Santander-Chile as of and for the six months ended June 30, 2001 and 2002. The financial statements are prepared in accordance with Chilean GAAP, which differ in certain significant respects from US GAAP. The following information is only a summary and you should read it together with the historical financial statements and related notes contained in this prospectus and the annual reports and other information that Old Santander-Chile, Santiago and Santander Chile have filed with the Securities and Exchange Commission which are incorporated by reference into this prospectus. See "Where You Can Find More Information". The financial statements as of and for the six months ended June 30, 2002, may not be indicative of the results we will obtain for the fiscal year 2002 or any other period.

Under Chilean GAAP, the merger between Santiago and Old Santander-Chile is being accounted for as a "pooling of interests" on a prospective basis. As such, the historical financial statements for periods prior to the merger are not restated under Chilean GAAP. Under US GAAP, the merger of these two banks, which have been under common control since May 3, 1999, is accounted for in a manner similar to a pooling of interests. As a consequence of the merger, Santander Chile is required to restate its US GAAP historical financial statements previously issued for all periods to retroactively reflect the merged bank as if Santiago and Old Santander-Chile had been combined throughout the periods during which common control existed. Under US GAAP, for periods presented prior to May 3, 1999, the reported financial information reflects book values of Old Santander-Chile, which had been under Banco Santander Central Hispano's control since 1978. See Note 25(a) to Santiago's Consolidated Financial Statements.

Unless otherwise indicated, US dollar amounts have been translated from Chilean pesos based on the observed exchange rate of Ch$747.62 per US$1.00 as reported by the Central Bank on September 30, 2002.

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Summary Selected Historical Consolidated Financial Data of Santiago

For important information concerning the preparation and presentation of the financial statements from which these data have been selected, see "Presentation of Financial Information" and Note 1 to both Santiago's Consolidated Financial Statements and Santiago's Interim Unaudited Financial Statements.

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Santiago

As of and for the year ended December 31,

	1997	1998	1999	2000	2001	2001
	(in millions of constant Ch$ as of December 31, 2001)(1)					(in m con as of J
CONSOLIDATED INCOME STATEMENT DATA						
Chilean GAAP:						
Interest expense	Ch$(409,980)	Ch$(459,904)	Ch$(358,528)	Ch$(391,652)	Ch$(327,033)	Ch$(167
Net interest revenue	208,774	214,785	210,320	233,857	252,574	132
Provision for loan losses	(18,921)	(39,758)	(66,981)	(46,220)	(46,567)	(22
Net interest revenue after provisions for loan losses	189,853	175,027	143,339	187,637	206,007	109
Total fees and income from services, net	30,245	33,433	33,215	39,417	42,109	23
Total other operating income, net	881	8,725	21,821	16,561	18,742	7
Loan loss recoveries	9,503	5,952	8,557	9,086	11,336	5
Total other income (expenses), net	4,686	2,999	208	(5,995)	(1,361)	(4
Operating expenses	(150,157)	(138,399)	(151,351)	(143,413)	(153,992)	(74
Loss from price-level restatement	(14,430)	(11,942)	(7,125)	(11,628)	(7,617)	(3
Income before income taxes	70,581	75,795	48,664	91,665	115,224	64
Income taxes	(515)	(435)	5,880	(411)	3,540	
Net income	70,066	75,360	54,544	91,254	118,764	65
US GAAP:						
Net interest income(3)....	161,252	167,151	343,319	421,835	465,521	249
Provision for loan losses	(33,473)	(33,551)	(83,134)	(55,016)	(69,570)	(34
Amortization of goodwill .	13,142	13,301	30,058	38,996	38,996	19
Net income	30,720	21,943	64,053	130,685	154,883	93
CONSOLIDATED BALANCE SHEET DATA						
Chilean GAAP:						
Financial Investments	479,276	526,643	739,664	570,750	944,387	823
Loans, net of allowance for loan losses	4,497,623	4,697,386	4,491,485	4,626,925	4,945,190	4,884
Loan loss allowances	(46,294)	(64,875)	(92,550)	(89,296)	(94,468)	(91
Total assets	5,536,260	6,004,913	5,841,364	6,031,992	6,760,916	6,856
Deposits	2,549,862	3,122,978	3,109,455	3,138,268	3,476,343	3,599
Other interest-bearing liabilities	2,024,070	1,900,172	1,841,596	1,976,343	2,264,913	2,174
Shareholders' equity(4) ..	475,432	490,488	470,291	510,357	538,989	487
US GAAP:						
Total assets	4,203,749	4,364,582	10,645,823	10,209,619	11,648,287	11,502
Shareholders' equity(5) ..	576,676	571,903	1,353,294	1,383,143	1,371,478	1,380
Goodwill	220,875	207,580	581,390	542,394	503,398	524

	Santiago As of and for the year ended December 31,				
	1997	1998	1999	2000	2001
CONSOLIDATED RATIOS					
Chilean GAAP:					
Net interest margin(6)	4.5%	4.1%	3.9%	4.6%	4.5%
Return on average total assets(7)	1.4%	1.3%	0.9%	1.6%	1.9%
Ratio of earnings to fixed charges(10)					
Including interest on deposits	1.17	1.17	1.14	1.23	1.35
Excluding interest on deposits	1.38	1.50	1.38	1.50	1.68
US GAAP:					
Net interest margin(8)	4.3%	4.2%	3.5%	4.3%	4.5%
Return on average total assets(9)	0.7%	0.5%	0.6%	1.3%	1.4%
Ratio of earnings to fixed charges(10)					
Including interest on deposits	1.11	1.07	1.19	1.25	1.36
Excluding interest on deposits	1.27	1.18	1.47	1.56	1.71

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(1) Except percentages and ratios.

(2) Amounts stated in US dollars as of and for the six months ended June 30, 2002 have been translated from Chilean pesos at the observed exchange rate of Ch$747.62 = US$1.00 as of September 30, 2002. See "Exchange Rates" for more information on the observed exchange rate.

(3) Net interest income and total assets on a US GAAP basis have been determined by applying the relevant US GAAP adjustments to net interest income presented in accordance with Article 9 of Regulation S-X but calculated on a Chilean GAAP basis (see Note 25(x) to Santiago's Consolidated Financial Statements and Note 17 to Santiago's Interim Unaudited Consolidated Financial Statements).

(4) Shareholders' equity as of year or period end includes net income for that period.

(5) See note 25(v) to Santiago's Consolidated Financial Statements and Note 17 to Santiago's Interim Unaudited Financial Statements.

(6) Net interest revenue (annualized in the case of information for the six-month periods ended June 30, 2001 and 2002) divided by average interest earning assets (as presented in "Selected Statistical Information" in Santiago's Form 20-F).

(7) Net income (annualized in the case of information for the six-month periods ended June 30, 2001 and 2002) divided by average total assets (as presented in "Item 4: Information on the Company--Selected Statistical Information" included in Santiago's Form 20-F).

(8) Net interest margin on a US GAAP basis has been determined by applying the

relevant US GAAP adjustments to net interest income presented in accordance with Article 9 of Regulation S-X but calculated on a Chilean GAAP basis. See Note 25(x) to Santiago's Consolidated Financial Statements and Note 17 to Santiago's Interim Unaudited Financial Statements.

(9) Net income (annualized in the case of information for the six-month periods ended June 30, 2001 and 2002) divided by average total assets. Average total assets were calculated as an average of the beginning and ending balance for each period, and total assets on a US GAAP basis has been determined by applying the relevant US GAAP adjustments to total assets presented in accordance with Article 9 of Regulation S-X. See Note 25(x) to Santiago's Consolidated Financial Statements and Note 17 to Santiago's Interim Unaudited Financial Statements.

(10) 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 (excluding and including interest on deposits) and the proportion deemed representative of the interest factor of rental expense.

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Summary Selected Historical Consolidated Financial Data of Old Santander-Chile

For important information concerning the preparation and presentation of the financial statements from which these data have been selected, see "Presentation of Financial Information" and Note 1 to both Old Santander-Chile's Consolidated Financial Statements and Old Santander-Chile's Interim Unaudited Financial Statements.

	Old Santander-Chile As of or for the year ended December 31,					As of
	1997	1998	1999	2000	2001	
	(in millions of constant Ch$ as of December 31, 2001)(1)					(in Ch$
CONSOLIDATED INCOME STATEMENT DATA						
Chilean GAAP:						
Interest expense	Ch$(350,586)	Ch$(391,259)	Ch$(317,653)	Ch$(351,025)	Ch$(286,050)	Ch$
Net interest revenue	170,794	162,948	202,588	197,892	215,810	
Provision for loan losses ...	(41,819)	(48,336)	(60,959)	(43,617)	(48,424)	
Net interest revenue after provision for loan losses .	128,975	114,612	141,629	154,275	167,386	
Fees and income from services, net	33,150	39,698	34,372	35,377	44,870	
Total other operating income (expenses), net	8,466	23,618	8,702	21,985	16,551	
Loan loss recoveries	8,356	10,039	11,276	12,428	12,140	
Other income (expenses), net	13,317	14,607	11,512	12,342	9,927	

Operating expenses (3)	(130,674)	(129,618)	(123,281)	(119,399)	(123,436)	
Loss from price-level restatement	(10,723)	(7,396)	(4,351)	(8,354)	(6,155)	
Income before income taxes ..	42,511	52,521	68,583	96,226	109,143	
Income taxes	(5,776)	(5,806)	(9,961)	(14,790)	(17,050)	
Net income	36,735	46,715	58,622	81,436	92,093	
CONSOLIDATED BALANCE SHEET DATA						
Chilean GAAP:						
Financial Investments	779,126	1,022,178	1,375,174	1,405,015	1,566,922	1
Loans, net of allowance for loan losses	3,133,186	3,096,182	3,293,395	3,187,488	3,474,862	3
Loan loss allowances	41,662	49,945	66,468	66,411	65,231	
Total assets	4,408,107	4,835,497	5,275,507	5,258,683	5,842,177	5
Deposits	2,350,213	2,671,042	3,001,132	3,013,556	3,259,850	3
Other interest-bearing liabilities	1,324,709	1,402,174	1,496,867	1,485,924	1,609,196	1
Shareholders' equity	355,316	374,193	366,211	409,176	453,869	

	Old Santander-Chile As of and for the year ended December 31,			
	1997	1998	1999	2000
CONSOLIDATED RATIOS				
Chilean GAAP:				
Net interest margin(4)	4.57%	4.11%	4.55%	4.29%
Return on average total assets(5)	0.83%	1.02%	1.04%	1.52%
Ratio of earnings to fixed charges:(6)				
Including interest on deposits	1.12	1.13	1.22	1.27
Excluding interest on deposits	1.30	1.34	1.50	1.69

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(1) Except percentages and ratios.

(2) Amounts stated in US dollars as of for the six months ended June 30, 2002 have been translated from Chilean pesos at the observed exchange rate of Ch$747.62=US$1.00 as of September 30, 2002. See "Exchange Rates" for more information on the observed exchange rate.

(3) In the year 2001 the Old Santander-Chile reclassified the variable portion of its sales force expense from "Administrative Expenses" to "Other Operating Expenses". In order to make the figures comparable, the same reclassification is reflected in the Consolidated Statement of Income of 1999 and 2000 for an amount of Ch$8,231 million and Ch$7,858 million,

respectively. The efficiency ratio therefore, was also adjusted for this change from 51.80% to 50.08% in 1999 and from 48.37% to 46.73% in 2000.

(4) Net interest revenue (annualized, in the case of information for the six-month periods ended June 30, 2001 and 2002) divided by average interest earning assets.

(5) Net income (annualized, in the case of information for the six-month periods ended June 30, 2001 and 2002) divided by average total assets. Average total assets was calculated on the basis of daily balances of Old Santander-Chile and on the basis of monthly balances for its subsidiaries.

(6) 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 (excluding and including interest on deposits) and the proportion deemed representative of the interest factor of rental expense.

Summary Selected Unaudited Pro Forma Condensed Combined Financial Data

The following selected unaudited pro forma condensed combined financial data have been taken from and should be read with the "Unaudited Pro Forma Condensed Combined Financial Information" and related notes, which contain the methodology and assumptions that have been used in preparing the unaudited pro forma information and include a reconciliation between the unaudited pro forma information in accordance with Chilean GAAP and US GAAP. See "Unaudited Pro Forma Condensed Combined Financial Information--Notes to Unaudited Pro Forma Financial Information--Differences Between Chilean GAAP and US GAAP". The pro forma financial information is provided for informational and comparative purposes only. The pro forma adjustments are not intended to be indicative of Santander Chile's financial position or results of operations had the merger been completed as of the date or for the periods presented or for any other period.

The pro forma financial information is unaudited and has been prepared using Santiago's Consolidated Financial Statements, Old Santander-Chile's Consolidated Financial Statements, Santiago's Interim Unaudited Consolidated Financial Statements and Old Santander-Chile's Interim Unaudited Consolidated Financial Statements, included or incorporated by reference into this prospectus, and is qualified in its entirety by reference to, and should be read in conjunction with, those financial statements.

Unless otherwise indicated, US dollar amounts have been translated from Chilean pesos based on the observed exchange rate, of Ch$747.62 per US$1.00 as reported by the Central Bank on September 30, 2002.

Unaudited Pro Forma Condensed Combined Balance Sheet
As of June 30, 2002

	Pro Forma Combined (in millions of Ch$ as of June 30, 2002)	Pro Forma Combined (in thousands of US$)(1)
CHILEAN GAAP:		
ASSETS		
Cash and due from banks	Ch$1,263,312	US$1,689,778
Financial investments	2,330,275	3,116,924
Loans	8,672,659	11,600,357
Allowance for loan losses	(152,024)	(203,344)
Bank premises and equipment, net	225,472	301,586
Other	610,941	817,182
Total assets	12,950,635	17,322,483
LIABILITIES		
Deposits:		
Current accounts	950,053	1,270,770
Bankers drafts and other deposits	1,019,854	1,364,134
Saving accounts and time deposits	5,125,153	6,855,291
Total deposits	7,095,060	9,490,195
Other interest-bearing liabilities:		
Central Bank borrowings	86,734	116,013
Investment under Agreements to Repurchase	489,600	654,878
Mortgage finance bonds	1,643,126	2,197,809
Foreign borrowings	452,376	605,088
Bonds	840,712	1,124,518
Other	265,461	355,075
Other interest-bearing liabilities	3,778,009	5,053,381
Other liabilities	1,167,066	1,561,042
Total liabilities	12,040,135	16,104,618
Minority interest	671	898
Shareholders' equity	909,829	1,216,967
Total liabilities and shareholders' equity	Ch$12,950,635	US$17,322,483

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(1) Amounts stated in US dollars have been translated from Chilean pesos at the observed exchange rate of Ch$747.62 per US $1.00 as of September 30, 2002.

See "Unaudited Pro Forma Combined Financial Information" and "Notes to the Unaudited Pro Forma Combined Financial Information".

Unaudited Pro Forma Condensed Combined Statement of Income
For the Six Months Ended June 30, 2002

	Pro Forma Combined	Pro Forma Combined
	(in millions of Ch$ as of June 30, 2002)	(in thousands of US$)(1)
CHILEAN GAAP:		
Interest revenue	Ch$509,330	US$681,269
Interest expense	(242,880)	(324,871)
Provision for loan losses	(35,560)	(47,564)
Total fees and income from services, net	45,559	60,939
Total other operating income (expenses), net	1,597	2,136
Personnel, administrative and other operating expenses	(139,245)	(186,251)
Other non-operating income	23,490	31,420
Other non-operating expense	(19,124)	(25,580)
Loss from price level restatement, net	(2,285)	(3,057)
Income before income taxes	140,882	188,441
Income taxes	(18,722)	25,042
Minority interest	(80)	(107)
Net income	Ch$122,080	US$163,292

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(1) Amounts stated in US dollars have been translated from Chilean pesos at the observed exchange rate of Ch$747.62 per US$1.00 as of September 30, 2002.

See "Unaudited Pro Forma Combined Financial Information" and "Notes to the Unaudited Pro Forma Combined Financial Information".

Unaudited Pro Forma Condensed Combined Statement of Income
For the Year Ended December 31, 2001

	Pro Forma Combined	Pro Forma Combined
	(in millions of Ch$ as of December 31, 2001)	(in thousands of US$)(1)
CHILEAN GAAP:		
Interest revenue	Ch$1,081,298	US$1,446,320

Interest expense	(612,914)	(819,820)
Provision for loan losses	(94,991)	(127,058)
Total fees and income from services, net	86,979	116,341
Total other operating income (expenses), net	35,293	47,207
Personnel, administrative and other operating expenses	(277,927)	(371,749)
Other non-operating income	45,837	61,311
Other non-operating expense	(27,187)	(36,365)
Loss from price level restatement, net	(13,772)	(18,421)
Income before income taxes	222,616	297,766
Income taxes	(13,510)	(18,071)
Minority interest	(86)	(115)
Net income	Ch$209,020	US$279,580

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(1) Amounts stated in US dollars have been translated from Chilean pesos at the observed exchange rate of Ch$747.62 per US$1.00 as of September 30, 2002.

See "Unaudited Pro forma Combined Financial Information" and "Notes to Unaudited Pro forma Combined Financial Information".

RISK FACTORS

You should carefully consider the following risk factors and all the information set forth in this prospectus before making a decision whether to participate in the exchange offer. 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. You should also carefully consider the risk factors included in "Item 3. Key Information - Risk Factors" in Santiago's Form 20-F and "Item 3D. Key Information - Risk Factors" in Old Santander-Chile's Form 20-F, both of which are incorporated by reference into this prospectus.

Risks Associated with the Exchange Offer

The Liquidity of the Old Notes Will Be Reduced

Because the exchange offer is for any and all old notes, the trading market for old notes outstanding after the exchange offer is completed could become limited or nonexistent due to the reduction in the amount of old notes outstanding. If a market for unexchanged old notes exists after consummation of the exchange offer, the old notes may trade at a discount to the price at which they would have traded if the exchange offer had not been consummated, depending on prevailing interest rates, the market for similar securities and other factors. We cannot assure you that an active market in the unexchanged old notes will exist or be maintained and cannot assure you as to the prices at which the unexchanged old notes may be traded.

The old notes have not been listed by us on any national or regional securities exchange or quoted on any automated quotation system. Quotations for securities that are not widely traded, such as the old notes, may differ from actual trading prices and should be viewed as approximations. You are urged to contact your broker with respect to current market prices for the old notes.

Risks Associated with the Merger

We may fail to recognize the contemplated benefits of the merger

The value of our securities (including the notes) could be adversely affected to the extent we fail to realize the benefits we hope to achieve from the integration of Santiago and Old Santander-Chile, in particular, cost savings arising from integration of the two banks' operations. We may fail to realize these projected cost savings in the time frame we anticipate or at all due to a variety of factors, including our inability to carry out anticipated headcount reductions, the integration of our back office operations or delays or obstacles in the integration of our systems. It is possible that the merger could result in the loss of key employees, the disruption of each bank's ongoing business and inconsistencies in standards, controls, procedures and policies. Moreover, the success of the merger will at least in part be subject to a number of political, economic and other factors that are beyond our control.

The merger may affect our access to funding from Chilean pension funds (AFPs)

Chilean regulations impose restrictions on the share of assets that an AFP may allocate to a single issuer, which is currently fixed at 7% (including any securities issued by the issuer and any bank deposits with the issuer). As a result of the merger, the deposits and investments of several AFPs, which had separately invested in Old Santander-Chile and Santiago prior to the merger, in the aggregate currently exceed by more than four percentage points (approximately Ch$973,909 million (US$1.3 billion)) the maximum exposure allowed by Chilean regulations. This excess aggregate exposure represents 8.1% of our total pro forma liabilities at July 31, 2002. We expect the AFPs that currently exceed their exposure limit to gradually reduce their excess exposure to us (by reducing the deposits they maintain with us and the level of their investments in our securities) during the next three years. AFPs have until August 2005 to return to the investment limits imposed by Chilean regulations. We cannot assure you that this reduction will not have a material adverse effect on our financial condition and results of operations.

As the AFPs reduce their exposure to us, we will need to seek alternative sources of funding which could be more expensive and, as a consequence, may negatively impact our margins, financial condition and results of operations.

Our expected market share loss may exceed our projections

Based on our prior experience with full service bank mergers in Chile, we expect the integration of operations to cause a loss in our market share of between one and two percentage points of market share, principally due to over-exposure of certain corporate customers, overlapping of clients and disruptions in client services. There can be no assurance that our actual market share loss will not exceed our projections. A market share loss in excess of two percentage points could adversely affect our market positioning, financial results and results of operations.

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 finance companies and with large department stores that make consumer loans 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 the lower-middle to middle income market segments 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 and consumer loans. 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. 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. For example, in January 2002 Banco de Chile and Banco de A. Edwards, the third and fifth largest banks in Chile respectively, merged to become the largest Chilean bank at that time. 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, the recently enacted Law No. 19,769 allows insurance companies to participate and compete with us in the residential mortgage business.

Banco Santander Central Hispano controls a significant percentage of our share capital and exercises significant influence over board decisions

Banco Santander Central Hispano owns approximately 84.137% of our outstanding ordinary shares, which gives it the power to elect a majority of our board of directors and to determine the outcome of most matters submitted to a vote of shareholders, including matters that could affect our duration and existence.

We currently engage in, and expect from time to time in the future to engage in, financial and commercial transactions with subsidiaries and affiliates of Banco Santander Central Hispano. Among other transactions, we may, from time to time, have credit lines and outstandings with Banco Santander Central Hispano and its affiliated financial institutions around the world. As of September 30, 2002, we have no outstanding loan amounts with Santander Central Hispano. In addition, from time to time, in the normal course of business and on prevailing market terms, we enter into certain transactions with Banco Santander Central Hispano and other related parties for the provision of advisory and advertising services and for the rental of real estate. For additional information concerning our transactions with affiliates and other related parties, see Note 10 to Old Santander-Chile's Unaudited Interim Consolidated Financial Statements and Santiago's Unaudited Interim Consolidated Financial Statements. While we believe that such transactions in the past have generally had a beneficial effect on us, no assurances can be given that any such transaction, or combination of transactions, will not have a material adverse effect on us in the future.

Our exposure to individual and small businesses could lead to higher levels of past due loans and subsequent write-offs

A substantial number of our customers consists of individuals

(approximately 32.4% of the value of the total loan portfolio as of September 30, 2002) currently consist of small companies (those with annual sales of less than US$1.1 million) and, to a lesser extent, small companies (approximately 13.9% of the value of the total loan portfolio as of September 30, 2002). 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. Consequently, in the future we may experience higher levels of past due loans, which could result in higher provisions for loan losses. In 1997, the Chilean Superintendency of Banks increased the level of provisions required for consumer loans (including loans to high income individuals) due to concerns regarding the levels of consumer indebtedness and vulnerability of the banking sector in an economic downturn. There can be no assurance that the levels of past due loans and subsequent write-offs will not be materially higher in the future.

Our results of operations are affected by interest rate volatility

Our results of operation depend to a great extent on our net interest revenue. In 2001, net interest revenue represented 85.5% of our net operating income on a pro forma basis. 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. 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 (including the notes). Over the period from September 30, 1998, to August 31, 2002, yields on the Chilean government's eight-year bonds as reported on those dates moved from 8.89% to 3.40%, decreasing every year, with a high of 6.20% and low of 4.93% in the twelve months ended September 30, 2001, and a high of 5.45% and a low of 3.40% in the twelve months ended August 31, 2002.

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

From September 30, 1997 to September 30, 2002, our aggregate loan portfolio (on an unconsolidated pro forma basis) grew by 35.4% in nominal terms to Ch$8,193,974 million, while our consumer loan portfolio grew by 22.5% in nominal terms to Ch$694,576 million, each 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 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 of that previously experienced by Santiago or Old Santander-Chile. Due to the economic slowdown in Chile in recent years and the recession of 1999, loan demand has not been as strong as it was in the mid 1990s. Average loan growth has, however, remained significant in the last five years. According to the Superintendency of Banks, from December 31, 1997 to September 30, 2002, the aggregate amount of loans outstanding in the Chilean banking system (on an unconsolidated basis) grew 42.5% in nominal terms and 21.9% in real terms to Ch$31,835,683 million as of September 30, 2002. A reversal of the rate of growth of the Chilean economy could adversely affect the rate of growth of our loan portfolio and our risk index and, accordingly, increase our required reserves for loan losses.

Risks Relating to Chile

Our growth and profitability depend on the level of economic activity in Chile and other emerging markets

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. The Chilean economy has been influenced, to varying degrees, by economic conditions in other emerging market countries. We cannot assure you that the Chilean economy will continue to grow in the future or that future developments in or affecting the Chilean economy, including further consequences of continuing economic difficulties in Brazil, Argentina and other emerging markets, will not materially and adversely affect our business, financial condition or results of operations.

According to data published by the Central Bank, the Chilean economy contracted at a rate of 1.0% in 1999 and grew at a rate of 4.4% in 2000 and 2.8% in 2001. Additionally, we estimate the economy to grow by a rate of approximately 1.7% in 2002. The adverse economic conditions prevailing in 1999, 2000 and 2001 have adversely affected the overall asset quality of the Chilean banking system and that of our own portfolios. According to information published by the Superintendency of Banks, the unconsolidated risk index of the Chilean financial system as a whole increased from 1.98% as of October 31, 1999, to 2.08% as of October 2000, but decreased to 1.90% as of October 2001 and was 2.00% as of June 30, 2002. Our consolidated risk index as of September 30, 2002, was 1.56%. Our results of operations and financial condition could also 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.

Although economic conditions are different in each country, investors' reactions to developments in one country may affect the securities of issuers in other countries, including Chile. For instance, the devaluation of the Mexican peso in December 1994 set off an economic crisis in Mexico that negatively affected the market value of securities in many countries throughout Latin America. The crisis in the Asian markets, beginning in July 1997, resulted in sharp devaluations of other Asian currencies and negatively affected markets throughout Asia, as well as in many markets in Latin America, including Chile. Similar adverse consequences resulted from the 1998 crisis in Russia and the devaluation of the Brazilian real in 1999. In part due to the Asian and Russian crises, the Chilean stock market declined significantly in 1998 to levels equivalent to 1994.

The economic problems being encountered by Argentina and Brazil may have an adverse effect on the Chilean economy and on our results of operations and the market value of our securities, including the notes

We are directly exposed to risks related to the weakness in the Argentine and Brazilian economies. As of September 30, 2002, approximately 1.6% and 1.5% of our loan portfolio was comprised of loans to Argentine and Brazilian companies, respectively. A continued recession in Argentina and continuing political uncertainty in Brazil may result in higher allowances for loan losses.

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Argentina's insolvency and recent default on its public debt, which deepened the existing financial, economic and political crises in that country, could adversely affect Chile, the market value of our securities (including the notes), or our business. The Argentine government has recently prohibited Argentine debtors from servicing their external debt without Argentine Central Bank approval. If Argentina's economic environment continues to deteriorate or does not improve, the economy in Chile, as both a neighboring country and a trading partner, could also be affected and could experience slower growth than in recent years.

Our business could be affected by political uncertainty in Brazil. A change of local and national ruling parties and changes in the composition of the governing coalition in the cabinet or in the presidency may potentially undermine investor confidence or produce policy changes that may adversely affect the operations of Brazilian companies which have outstanding loans with us, potentially affecting their ability to repay all or part of their loans. 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 (including the notes).

Securities prices of Chilean companies including banks are, to varying degrees, influenced by economic and market considerations in other emerging market countries and by the US economy. We cannot assure you that the Argentine economic crisis and the political uncertainty in Brazil will not have an adverse effect on Chile, the price of our securities (including the notes), or our business.

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

The Chilean government's economic policies and any future changes in the value of the Chilean peso against the US dollar could affect the dollar value of our securities (including the notes). The peso has been subject to large devaluations in the past and could be subject to significant fluctuations in the future. In the period from December 31, 1997 to December 31, 2001, the value of the Chilean peso relative to the US dollar decreased approximately 49.2%, as compared to an 8.8% decrease in value in the period from December 31, 1994 to December 31, 1997. The observed exchange rate on October 29, 2002 was Ch$731.95 = US$1.00, reflecting a depreciation of 5.25% from June 30, 2002. 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 mismatches. In order to avoid material exchange rate mismatches, we enter into forward exchange transactions. As of September 30, 2002, our foreign currency denominated liabilities and Chilean peso-denominated liabilities that contain repayment terms linked to changes in foreign currency exchange rates exceeded our foreign currency denominated assets and Chilean peso-denominated assets that contain repayment terms linked to changes in foreign currency exchange rates by Ch$123,690 million (US$165.4 million) on a pro forma basis.

We may decide to change our policy regarding exchange rate mismatches. Regulations that limit such mismatches may also be amended or eliminated. Greater exchange rate mismatches 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 operation. Notwithstanding the existence of general policies and regulations that limit material exchange rate mismatches, 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.

Inflation could adversely affect our financial condition and results of operations

Although Chilean inflation has moderated 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 results of operations and, indirectly, the value of our securities (including the notes). The following table shows the annual rate of inflation (as measured by changes in the Chilean consumer price index and as reported by the Chilean National Institute of Statistics during the last five years ended December 31 and in the first month of 2002). There can be no assurance that Chilean inflation will not change significantly from the current level.

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Year	Inflation (CPI)
1996	6.6%
1997	6.0
1998	4.7
1999	2.3

2000	4.5
2001	2.6
2002 (through September)	2.5

Source: Chilean National Institute of Statistics

There can be no assurance that our operating results will not be adversely affected by changing levels of inflation, or that Chilean inflation will not change significantly from the current level.

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 interest rates and foreign exchange. 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 Ley General de Bancos, Decreto con Fuerza de Ley No. 3 de 1997, or the General Banking Law, all Chilean banks may, subject to the approval of the Chilean 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's collection and financial services. The General Banking Law also applies to the Chilean banking system 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, on February 28, 2002, the Central Bank amended the applicable regulations in order to allow banks to pay interest on checking accounts beginning on June 1, 2002, at an interest rate that may not exceed 4% per annum until May 31, 2003. Currently, there are no restrictions applicable after May 31, 2003 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.

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

The 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 US company.

There are also important differences between Chilean and US accounting and financial reporting standards. As a result, Chilean financial statements and reported earnings generally differ from those reported based on US 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. This information is made public by the Superintendency of Banks within approximately three months of receipt. The Superintendency of Banks also makes summary financial information available within three weeks of receipt. Such disclosure differs in a number of significant respects from information generally available in the United States with respect to US financial institutions.

The securities laws of Chile, which govern open or publicly listed companies such as us, have as a principal objective promoting disclosure of all material corporate information to the public. Chilean disclosure requirements, however, differ from those in the United States in some important 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 US securities markets.

Risks Relating to our Notes

The new notes rank junior in right of payment with respect to our other indebtedness and may be mandatorily converted into shares

Pursuant to Chilean law, if we become insolvent, we may be forced to negotiate a reorganization plan with our creditors. If the reorganization plan is approved by the majority of our creditors, all or part of the new notes and any remaining old notes will be immediately and proportionally converted into shares, to the extent necessary to ensure that our net assets are equivalent to at least 12% of our risk-weighted assets. The notes which were not converted into shares will continue to represent our subordinated indebtedness.

If the reorganization plan is rejected by our creditors, we will be forced into liquidation and none of the new notes nor any remaining old notes will be converted into shares. In this case, you might not receive funds remaining in our estate after payment in full of all amounts due and owing to all non-subordinated claims against us. You will receive payments from our liquidation only in the case that any saleable assets remain in our estate after all other non-subordinated indebtedness has been paid.

The indenture provides that in the event of our bankruptcy, insolvency, suspension of payments, dissolution, reorganization or winding up, the notes will rank pari passu among themselves and at least equally with all other present and future subordinated indebtedness. We have also been advised, however, that Article 55 of the General Banking Law will, as a matter of Chilean law and by virtue of the conversion feature described above, cause the notes to be effectively junior in right of payment to the claims of all other creditors, including holders of our subordinated indebtedness (other than holders of any subordinated indebtedness issued pursuant to Article 55 of the General Banking Law). Therefore, there can be no assurance that, in the event of our bankruptcy, insolvency, suspension of payments, dissolution, reorganization or winding up, the notes would rank pari passu with any subordinated obligations of Santander Chile issued or entered into other than subordinated obligations issued pursuant to Article 55 of the General Banking Law.

The notes are being issued under Article 55 of the General Banking Law and unless permitted by Article 55 or its successor, the notes cannot be accelerated. You will only have a right to claim past due amounts on the notes, subject to mandatory conversion as described above. Payment of principal on the notes may only be accelerated by operation of law upon our liquidation. See "Description of the Notes--Subordination of the Notes".

The notes are a new issue of securities for which there is currently no public market; you may be unable to sell your notes if a trading market for the notes does not develop

The new notes will constitute a new issue of securities with no established trading market. If a trading market does not develop or is not maintained, holders of the notes may experience difficulty in reselling the notes or may be unable to sell them at all. Accordingly, we cannot assure you that an active trading market for the new notes will develop or, if a market develops, as to the liquidity of the market.

The liquidity of any market for the notes will depend on the number of holders of the new notes, the interest of securities dealers in making a market in the new notes and other factors. Accordingly, we cannot assure you as to the

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development or liquidity of any market for the notes. If an active trading market does not develop, the market price and liquidity of the new notes may be adversely affected. If the new notes are traded, they may trade at a discount from their initial offering price depending upon prevailing interest rates, the market for similar securities, general economic conditions, our performance and business prospects and other factors.

Changes in foreign exchange controls could restrict or prevent payment in US dollars on the notes

Future Central Bank regulations or legislative changes to the current foreign exchange control regime in Chile could restrict or prevent the purchase of US dollars by us to make payments under the notes. See "Exchange Controls".

The new notes may not have the same guaranteed access to US dollars for repayment as the old notes

We registered the old notes with the Central Bank under Chapter XIV of the compendium of Foreign Exchange Regulations. Registration with the Central Bank guaranteed us access to the Formal Exchange Market and, therefore, to US dollars to pay interest and principal on the old notes. Pursuant to regulations enacted after April 19, 2001, international bond issuances are no longer required to be registered with the Central Bank and, therefore, may no longer be guaranteed access to the Formal Exchange Market. See "Exchange Controls".

Because the purpose of the exchange offer is to extend the maturity of the old notes, we will seek to register the new notes with the Central Bank in order guarantee access to US dollars in the Formal Exchange Market. However, the Central Bank will only accept the new notes for registration if it considers the exchange offer to be an amendment to the original terms and conditions of the old notes.

There is a risk that the Central Bank may refuse to register the new notes and extend to them the benefits of guaranteed access to the Formal Exchange Market afforded to the old notes. If the Central Bank refuses to register the new notes, the new notes will not have guaranteed access to the Formal Exchange

Market, and our payment of interest and capital on the notes will be made from any US dollars reserves we may have.

Even if the Central Bank guarantees the new notes access to the Formal Exchange Market, no assurances can be given that the authorization to access the Formal Exchange Market will not be rescinded. Although other authorizations of the Central Bank historically have not been rescinded, in connection with the renegotiation of Chile's external debt in the 1980's, the Central Bank requested that lenders renegotiate the terms of their loans.

Changes in Chilean tax laws could lead to our redeeming the notes

Under current Chilean law and regulations, payment of interest to holders of the notes that are not Chilean residents for purposes of Chilean taxation generally will be subject to Chilean withholding tax at a rate of 4.0%. Subject to certain exemptions, we will pay additional amounts so that the amount received by the holder after Chilean withholding tax will equal the amount that would have been received if no such taxes had been applicable. Subject to Chilean Law, the notes are redeemable at our option in whole (but not in part), at any time at the principal amount thereof plus accrued and unpaid interest and any additional amounts due thereon if, as a result of changes in the laws or regulations affecting Chilean taxation, we become obligated to pay additional amounts on the notes at a rate of withholding or deduction in excess of 4.0%. We are unable to determine whether such increase in withholding tax rate will ultimately be presented to or enacted by the Chilean Congress, however, if such increase is enacted, the notes would be redeemable at our option, subject to Chilean law.

Risks Relating to Developments in Other Countries

The ongoing military action in response to the September 11, 2001 attacks on the United States may have unpredictable effects on the US and global financial markets and economies and possible repercussions on our results of operations and the market price of our securities, including the notes

The ongoing military action in response to the September 11, 2001 terrorist attacks on the United States have caused some uncertainty that has negatively impacted the US and international financial markets. It is impossible to predict the future effects that the military action or the possible escalation of hostilities (particularly in the Middle East) may have on international crude oil prices, the US or Chilean economies or financial markets. It is also

impossible to predict what future effects these events may have on investors' perceptions of risk regarding investment in emerging market securities such as the notes.

Cautionary Statement Concerning
Forward-Looking Statements

We have made forward-looking statements in this document and in the documents incorporated by reference into this document that are subject to risks and uncertainties. Forward-looking statements include information 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
- expected synergies from the merger
- projected costs savings from the merger
- merger expenses
- integration of our computer system

The sections of this prospectus which contain forward-looking statements include, without limitation, "Prospectus Summary", "The Exchange Offer", "Risk Factors", "The New Bank", "Market Risk Disclosure of the New Bank", The Exchange Offer "Unaudited Pro Forma Condensed Combined Financial Information", "Notes to the Unaudited Pro Forma Condensed Combined Financial Information", "Operating and Financial Review of Santiago", "Market Risk Disclosure of Santiago as of June 30, 2002", "Selected Statistical Information of Santiago", "Operating and Financial Review of Old Santander-Chile", "Market Risk Disclosure of Old Santander-Chile as of June 30, 2002", "Selected Statistical Information of Old Santander-Chile", "Regulation and Supervision", "Management," "Exchange Controls" and "Legal Proceedings". The sections of documents incorporated by reference which contain forward looking statements include "Item 3: Key Information--Risk Factors," "Item 4: Information on the Company--Strategy," "Item 4: Information on the Company--Description of Business," and "Item 5: Operating and Financial Review and Prospects--" in Santiago's Form 20-F; and "Item 3: Key Information--Risk Factors," "Item 4: Information on the Company--History and Development of the Company," "Item 4: Information on the Company--Business Overview," "Item 5: Operating and Financial Review and Prospects--," "Item 8: Financial Information--Legal Proceedings," "Item 10: Additional Information--Memorandum and Articles of Association--Merger of Santander Chile and Santiago" and "Item 11: Quantitative and Qualitative Disclosures About Market Risk--" in Old Santander-Chile's Form 20-F. Our forward-looking statements also may be identified by words such as "believes," "expects," "anticipates," "projects," "intends," "should," "could," "may," "seeks," "aim," "pro forma," "estimates," "probability," "risk," "VaR," "target," "goal," "objective," "future" or similar expressions.

You should understand that the following important factors, in addition to those discussed elsewhere in this prospectus 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
- the monetary and interest rate policies of the Central Bank
- inflation
- deflation
- unemployment
- unanticipated turbulence in interest rates
- changes in Chilean and foreign laws a regulations
- changes in taxes
- competition, changes in competition a pricing environments
- natural disasters
- our inability to hedge certain risks economically
- the adequacy of loss allowances

- movements in foreign exchange rates
- movements in equity prices or other rates or prices
- technological changes
- changes in consumer spending and savi
- 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 integrate the businesses of Santiago and Old Santander-Chile successfully after the merger
- our ability to integrate back-office operations
- obstacles in the integration of our systems
- the challenges inherent in diverting management's focus and resources from other strategic opportunities and from operational matters during the integration process
- conditions imposed in connection with the merger
- our ability to successfully marke additional services to our existin
- disruptions in client service
- the success of our post-merger br
- successful implementation of new t
- loss of market share
- successful integration of both ban
- an inaccurate or ineffective clien
- our ability to carry our anticipa headcount reductions
- the factors discussed under "Risk in this prospectus and in each of Form 20-F and Old Santander-Chile' Form 20-F incorporated by referenc into this prospectus

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to fixed charges for each year in the five-year period ended December 31, 2001 and for the six months ended June 30, 2001 and 2002. For the purpose of computing the ratios of earnings to fixed charges, earnings consist of earnings before income tax and fixed charges. Fixed charges consists of gross interest expense (excluding and including interest on deposits) and the proportion deemed representative of the interest factor of rental expense.

	Year ended December 31,					S end
	1997	1998	1999	2000	2001	2001
Chilean GAAP:						
Calculation including interest on deposits	1.17	1.17	1.14	1.23	1.35	1.
Calculation excluding interest on deposits	1.38	1.50	1.38	1.50	1.68	1.
US GAAP(1):						
Calculation including interest on deposits	1.11	1.07	1.19	1.25	1.36	1.
Calculation excluding interest on deposits	1.27	1.18	1.47	1.56	1.71	1.

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(1) Ratios for 1999, 2000, 2001 and 2002 reflect the merger. See note 25 to Santiago's Consolidated Financial Statements and note 17 to Santiago's Interim Unaudited Consolidated Financial Statements.

CAPITALIZATION AND INDEBTEDNESS

There will be no change in our capitalization as a result of the exchange offer. The following table sets forth our capitalization on September 30, 2002. This information should be read in conjunction with our financial information contained or incorporated by reference in this prospectus. Information in the following table is presented in constant pesos as of September 30, 2002.

	As of September 30, 2002 (in millions of constant Ch$ of September 30, 2002)
Indebtedness	
Non-interest-bearing deposits	Ch$1,993,514
Interest-bearing deposits	4,558,635
Other interest-bearing liabilities	3,918,931
Less	
Cash clearing account	(788,331)
Investment in our mortgage bonds(1)	(109,724)
	9,573,025
Shareholders' equity and other funds	
Paid-in share capital	675,908
Reserves	126,969
Income for the period	157,292
Voluntary allowances	13,870
Minority interest	914
	974,953
Total capitalization -- Chilean GAAP	10,547,978

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(1) Mortgage bonds issued and held by us as part of our investment portfolio.

FIRST NINE MONTHS OF 2002 RESULTS OF OPERATIONS

The following tables set forth our financial condition and results of operations as of and for each of the nine-month periods ended September 30, 2001 and 2002 and our pro forma financial condition and results of operations as of and for each of the periods ended September 30, 2001 and 2002. The historical and pro forma data are not necessarily indicative of the results we will obtain for the fiscal year 2002 or for any other period.

	For the nine-month period ended Septe (unaudited)		
	2001	Pro Forma 2001(1)	2002
	(in millions of constant Ch$ as of September 30, 2002)		
CONSOLIDATED INCOME STATEMENT DATA			
Chilean GAAP:			
Interest income and expense			
Interest revenue	450,062	861,447	794,780
Interest expense	(248,014)	(467,000)	(370,321)
Net interest revenue	202,048	394,447	424,459
Provision for loan losses	(35,209)	(73,086)	(66,521)
Fees and income from services			
Fees and other services income	49,952	85,539	91,214
Other services expense	(14,302)	(13,357)	(14,502)
Total fees and income from services, net ..	35,650	72,182	76,712
Other operating income, net			
Net gain (loss) from trading and brokerage	18,169	24,601	32,035
Foreign exchange transactions, net	(8,897)	(23,141)	(58,260)
Others, net	(2,091)	(3,784)	(13,118)
Total other operating income, net	7,181	(2,324)	(39,343)
Other income and expenses			
Loan loss recoveries	8,143	16,881	19,714
Non-operating income, net	(2,867)	(4,904)	(11,983)
Income attributable to investments in other companies	113	444	721
Losses attributable to minority interest	(18)	(85)	(157)
Total other income and expenses	5,371	12,336	8,295
Operating expenses			
Personnel salaries and expenses	(61,046)	(110,330)	(114,126)
Administrative and other expenses	(42,456)	(81,502)	(74,818)
Depreciation and amortization	(11,982)	(22,152)	(28,142)
Total operating expenses	(115,484)	(213,984)	(217,086)
Gain (loss) from price-level restatement	(5,585)	(10,202)	(5,275)
Income before income taxes	93,972	179,369	181,241
Income taxes	558	(12,945)	(23,949)
Net income	94,530	166,424	157,292

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(1) Reflects the aggregation of Santiago's and Old Santander-Chile's financial condition and results of operations as separately reported under Chilean GAAP for the first nine months of 2001, without elimination of inter-company balances or transactions and without reflecting merger synergies or expenses. There were no material inter-company balances or transactions between Santiago and Old Santander-Chile as of the dates and for the periods for which pro forma information is provided.

(2) Compares 2002 period to pro forma 2001 period.

(3) Amounts stated in US dollars as and for the nine months ended September 30, 2002 have been translated from Chilean pesos at the exchange rate of Ch$747.62= US$1.00 as of September 30, 2002. See "Exchange Rates" for more information on the observed exchange rate.

	As of September 30, (unaudited)			
	2001	(Pro Forma) 2001(1)	2002	
	(in millions of constant Ch$ as of September 30, 2002)			(in of
CONSOLIDATED BALANCE SHEET Chilean GAAP:				
Cash and due from banks	539,826	1,098,958	1,081,419	
Financial investments	734,958	2,257,888	2,379,547	
Loans, net				
Commercial loans	2,066,854	3,374,900	3,045,831	
Consumer loans	306,261	647,718	694,576	
Mortgage loans (residential and general purpose)	1,039,122	1,596,566	1,583,293	
Foreign trade loans	417,706	826,492	845,739	
Interbank loans	55,249	110,458	41,082	
Leasing	257,233	383,759	420,409	
Other outstanding loans	622,581	979,242	951,916	
Past due loans	68,024	117,081	144,941	
Contingent loans	346,559	733,997	625,905	
Reserve for loan losses	(94,301)	(169,741)	(157,351)	
Loans, net of loan loss allowances	5,085,288	8,600,472	8,196,340	
Other assets				
Bank premises and equipment	116,867	230,751	226,024	
Other	316,559	543,831	457,594	
Total other assets	433,426	774,582	683,618	
Total assets	6,793,498	12,731,900	12,340,924	

Deposits				
Current accounts	451,883	870,089	1,068,976	
Bankers' drafts and other deposits	477,080	973,532	924,538	
Demand deposits	928,963	1,843,621	1,993,514	
Savings accounts and time deposits	2,547,482	4,876,724	4,558,635	
Total deposits	3,476,445	6,720,345	6,552,149	
Other interest-bearing liabilities				
Total Central Bank borrowings	22,338	49,865	30,920	
Investments sold under agreements to repurchase	167,931	557,675	591,369	
Mortgage finance bonds	1,088,550	1,674,115	1,686,385	
Other borrowings				
Total other borrowings	913,254	1,594,320	1,610,257	
Total other interest-bearing liabilities	2,192,073	3,875,975	3,918,931	
Other liabilities	602,184	1,173,538	909,675	
Shareholders' equity				
Capital and reserves	428,266	795,618	802,877	
Income for the year	94,530	166,424	157,292	
Total shareholders' equity	522,796	962,042	960,169	
Total liabilities and shareholders' equity	6,793,498	12,731,900	12,340,924	

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(1) Reflects the aggregation of Santiago's and Old Santander-Chile's financial condition and results of operations as separately reported under Chilean GAAP for the first nine months of 2001, without elimination of inter-company balances or transactions and without reflecting merger synergies or expenses. There were no material inter-company balances or transactions between Santiago and Old Santander-Chile as of the dates and for the periods for which pro forma information is provided.

(2) Compares 2002 period to pro forma 2001 period.

(3) Amounts stated in US dollars as and for the nine months ended September 30, 2002 have been translated from Chilean pesos at the exchange rate of Ch$747.62 = US$1.00 as of September 30, 2002. See "Exchange Rates" for more information on the observed exchange rate.

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As of and for the three months ended S
unaudited)

	2001	(Pro Forma) 2001(1)	2002
	(in millions of constant Ch$ as of September 30, 2002)		
CONSOLIDATED INCOME STATEMENT DATA			
Chilean GAAP:			
Interest income and expense			
Interest revenue	149,816	298,175	285,449
Interest expense	(80,309)	(151,279)	(127,440)
Net interest revenue	69,507	146,896	158,009
Provision for loan losses	(12,622)	(24,101)	(30,961)
Fees and income from services			
Fees and other services income	17,385	29,113	29,438
Other services expense	(5,440)	(5,145)	1,715
Total fees and income from services, net	11,945	23,968	31,153
Other operating income, net			
Net gain (loss) from trading and brokerage	5,750	5,059	4,787
Foreign exchange transactions, net	(3,318)	(22,168)	(37,581)
Others, net	(3,196)	4,249	(8,146)
Total other operating income, net	(764)	(12,860)	(40,940)
Other income and expenses			
Loan loss recoveries	2,442	5,378	6,641
Nonoperating income, net	2,001	1,007	(4,437)
Income attributable to investments in other companies	(66)	95	544
Losses attributable to minority interest	(6)	(24)	(77)
Total other income and expenses	4,371	6,456	2,671
Operating expenses			
Personnel salaries and expenses	(22,391)	(39,015)	(41,350)
Administrative and other expenses	(14,309)	(32,977)	(25,844)
Depreciation and amortization	(4,338)	(8,058)	(11,146)
Total operating expenses	(41,038)	(80,050)	(78,340)
Gain (loss) from price-level restatement	(1,857)	(3,140)	(2,990)
Income before income taxes	29,542	57,169	38,602
Income taxes	(174)	(4,392)	(5,227)
Net income	29,368	52,777	33,375

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(1) Reflects the aggregation of Santiago's and Old Santander-Chile's financial

condition and results of operations as separately reported under Chilean GAAP for the first nine months of 2001, without elimination of inter-company balances or transactions and without reflecting merger synergies or expenses. There were no material inter-company balances or transactions between Santiago and Old Santander-Chile as of the dates and for the periods for which pro forma information is provided.

(2) Compares 2002 period to pro forma 2001 period.

(3) Amounts stated in US dollars as and for the nine months ended September 30, 2002 have been translated from Chilean pesos at the exchange rate of Ch$747.62 = US$1.00 as of September 30, 2002. See "Exchange Rates" for more information on the observed exchange rate.

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The following table sets forth (i) our reported results of operation for the nine months ended September 30, 2002, (ii) the expenses we accrued during that period in connection with the merger and integration of our predecessor banks, and (iii) our results of operations excluding merger integration expenses for that period. The merger expenses and charges accrued during the three-month period ended September 30, 2002 are not intended to be indicative of merger expenses for any other period. Our future merger expenses could differ materially from those presented herein. For an explanation of our merger related expenses, see "--Results of Operations for the Nine-Month Period Ended September 30, 2001 and 2002."

	As of and for the nine-month period ended Septemb		
	2002, as reported (including merger expenses)	Merger expenses	2002, as adj (excluding m expenses
	(in millions of constant Ch$ as of September 30, 2002)		
CONSOLIDATED INCOME STATEMENT DATA Chilean GAAP:			
Net interest revenue	424,459	-	424,45
Provision for loan losses	(66,521)	8,100(1)	(58,42
Total fees and income from services, net ..	76,712	-	76,71
Total other operating income, net	(39,343)	-	(39,34
Other income (expenses), net	8,295	6,457(2)	14,75
Operating expenses	217,086)	4,000(3)	(213,08
Loss from price-level restatement	(5,275)	-	(5,27
Income before income taxes	181,241	18,557	199,79
Income taxes	(23,949)	(2,969)	(26,91
Net income	157,292	15,588	172,88

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(1) Leveling of credit risk classifications and charge-offs.

(2) Accrued severance payments and administrative expenses incurred in connection with the merger.

(3) Harmonization of accounting for collective bargaining agreements costs.

Results of Operations for the Nine-Month Periods Ended September 30, 2001 and 2002

Net income for the nine-month period ended September 30, 2002 decreased 5.5% to Ch$157,292 million compared to pro forma net income of Ch$166,424 million for the same period in 2001. The decrease primarily reflected a Ch$18,557 million charge for merger integration expenses accrued during the third quarter of 2002. Net income was also adversely affected by a higher effective tax rate for the nine-month period ended September 30, 2002 compared to the pro forma effective tax rate for the same period in 2001. The increase in the effective tax rate reflected the depletion of Santiago's tax loss carry-forwards, which had resulted in tax benefits for Santiago during the previous period. Excluding the effect of merger-related charges, pre-tax income would have increased by 11.4% to Ch$199,798 million for the nine-month period ended September 30, 2001 compared to pro-forma pre-tax net income of Ch$179,369 million for the same period in 2001, primarily reflecting higher gains on financial investments and trading and lower administrative expenses, all of which offset a 4.26% decline in pro forma net interest revenue after hedging. Our efficiency ratio was 47.0% (46.1% excluding merger-related charges), the lowest among our peer group competitors.

Net interest revenue

Net interest revenue for the nine-month period ended September 30, 2002 increased 7.6% to Ch$424,459 million compared to pro forma net interest revenue of Ch$394,447 million for the same period in 2001. The increase reflected a 2.5% increase in average earning assets and an increase in net interest margin to 5.2% compared to pro forma net interest margin of 5.0% for the same period in 2001. Including the results of hedging operations, our net interest margin declined from 4.9% on a pro forma basis for the nine-month period ended September 30, 2001 to 4.6% for the 2002 period and net interest revenue declined from Ch$371,305 million on a pro forma basis for the nine-month period ended September 30, 2001 to Ch$366,199 million for the 2002 period.

The decline in our net interest margin adjusted for the results of hedging transactions mainly reflected the impact of low interest rates and the low-inflation environment during the 2002 period, which was partially offset by limited improvements in our asset and funding mix. Our hedging-adjusted net interest margin has declined for the

last twelve months. Currently, we do not anticipate that this trend will improve in the remainder of 2002. The 90-day Central Bank rate, a benchmark rate for deposits and short-term loans, decreased from 7.18% as of September 30, 2001 to 2.99% as of September 30, 2002. In the same period, the yield on 8-year Central Bank bonds, a benchmark rate for our investment portfolio and mortgage loans, decreased 180 basis points in real terms as compared to September 30, 2001. Although our margins initially benefit from a decrease in interest rates, because liabilities re-price faster than our interest earning assets, over time interest earning assets will eventually reflect the decrease in interest rates. We expect that the effect of declining interest rates will be further exacerbated by expected lower inflation rates, which we expect will cause the contraction of the spreads earned over non interest-bearing liabilities, e.g. checking accounts, and amounts earned on UF-denominated interest-earning assets.

The improvement of our asset mix through the growth of higher-yielding retail loans offset in part the recent contraction of our hedging-adjusted net interest margin. Compared to pro-forma September 30, 2001 figures, total loans at September 30, 2002 decreased 4.7%, while consumer loans at that date increased 7.2%. Consumer loan growth was mainly concentrated in the middle- to upper-income retail segments, which offer a high spread relative to wholesale lending and have been less affected by Chile's high unemployment levels. Demand for consumer financing loans also increased as a result of prevailing lower interest rates. Commercial loans decreased 9.8% as a result of our strategy of reducing our participation in both the low-yielding short-term large corporate lending market, as well as the implementation of our policy of reducing our exposure to the commercial real estate sector for credit risk reasons. In addition, low-yielding interbank loans decreased 62.8% and contingent loans decreased 14.7%, compared to 2001 pro forma figures.

The improvement of our funding mix also offset in part the decline of our hedging-adjusted net interest margin. Our ratio of non-interest-bearing liabilities to total liabilities increased to 17.5% as of September 30, 2002, compared to a pro forma ratio of 15.6% as of September 30, 2001. Total non-interest-bearing liabilities increased 8.1%, mainly reflecting individual consumers' preference for readily available funds deposited into checking accounts instead of low-yielding time deposits. Growth in non-interest liabilities was partially offset by a decrease in our market share in checking accounts from large corporations, mainly as a result of client overlapping. Savings and time deposits decreased 6.5% as a result of various factors including a reduction in low-yielding assets which are mainly funded through our deposit base and a decrease in deposits from pension funds. See "Risk Factors--Risks Associated with the Merger--The merger may affect our access to funding from Chilean pension funds (AFPs)" and "Market Risk Disclosure of the New Bank--Chilean Pension Funds". Finally, low inflation rates and lower interest rates have made other investment alternatives more attractive. We have also been proactively encouraging clients to invest in mutual funds instead of short-term deposits as we have excess liquidity given the constrained outlook for loan growth.

Provision for loan losses

Provisions for loan losses for the nine-month period ended September 30, 2002 decreased 9.0% to Ch$66,521 million compared to pro forma provisions for loan losses of Ch$73,086 million for the same period in 2001, mainly reflecting the reclassification during the second quarter of 2002 of Ch$6,940 million in voluntary provisions from provisions for loan losses to other non-operating income, net, which is part of other income and expenses. The reclassification was in response to new guidelines issued by the Superintendency of Banks which required that these voluntary loan provisions be reclassified because they were not linked to any specific credit risk.

Excluding the reclassification of voluntary provisions, provisions for loan losses would have been Ch$73,461 million, a 0.5% increase compared to pro forma provisions for loan losses of Ch$73,086 million for the nine-month period ended September 30, 2001. The increase in our provisions for loan losses, mainly reflected a provision charge of Ch$8,100 million, accrued in the third quarter of 2002, as a result of the leveling of credit risk classifications in the former Old Santander-Chile and Santiago loan portfolios and merger-related charge-offs. In cases in which a client common to both banks had been assigned a dissimilar risk classification, we have adopted the policy of classifying such client at the lower classification level. See "The New Bank-Credit Risk". Also, as part of the merger-related review of our loan portfolio, we have decided to charge-off certain loans. As a result of the leveling, our risk index increased to 1.56%, which was higher than the risk index of each of Old Santander-Chile and Santiago prior to the merger.

Past due loans at September 30, 2002 increased 23.8% to Ch$144,941 million compared to pro forma past due loans of Ch$117,081 million at September 30, 2001. The increase was mainly related to temporary operational

disruptions in loan portfolio management caused by the merger integration process. The coverage ratio decreased to 108.6%, principally as a result of the increase is past due loans. See "The New Bank--Merger Update--Credit Risk".

The weaker economic environment also contributed to the increase in both our risk index and past due loans by negatively impacting asset quality throughout the financial system.

Fee income

Fee income for the nine-month period ended September 30, 2002 increased 6.3% as compared to pro forma fee income for the same period in 2001. The increase in fee income reflected higher use of our fee-producing products. Checking account fees rose 6.8% and ATM related fees increased 12.2% compared to pro forma data for the 2001 period. Fees generated by our main subsidiaries also increased during the same period. Fees from asset management increased 7.5% to Ch$10,239 million compared to Ch$9,522 million pro forma asset management fees for same period of 2001, while insurance brokerage fees increased 28.4% to Ch$2,988 million compared to Ch$2,327 million pro forma insurance brokerage fees for the same period. Fees originated from financial advisory services were Ch$3,003 million for the nine-month period ended September 30, 2002, a 21.8% increase compared to Ch$2,465 million pro forma advisory services fees for the same period in 2001.

Other operating income (expenses), net

Other operating expenses, net for the nine-month period ended September 30, 2002 increased almost sixteen-fold to Ch$39,343 million, compared to pro forma other operating expenses of Ch$2,324 million for the same period in 2001, mainly reflecting a 151.8% increase in losses from foreign exchange transactions, net. These losses consisted mainly of the accrual cost of foreign currency forward contracts to hedge net interest revenue and reflected the depreciation of the Chilean peso against the US dollar for the period. Under applicable Superintendency of Banks guidelines these gains or losses cannot be considered interest revenue, but must be considered as gains or losses from foreign exchange transactions and, accordingly, registered in a different line item of the income statement. This accounting asymmetry distorts net interest income and foreign exchange transaction gains, especially in periods of high exchange rate volatility.

The increase in the loss in other operating expenses, was primarily the result of differences in the type of expenses recorded in this line item by each predecessor bank for the nine-month period ended September 30, 2002 as compared to our current accounting for these expenses for the 2002 period. For the nine-month period ended September 30, 2001, on a pro forma basis, this line item included both the fixed and the variable portions of sales force expenses associated with Santiago products and no such sales force expenses for Old Santander-Chile. However, for the nine-month period ended September 30, 2002, this line item included the total sales force expenses associated with Santiago products and the variable portion of sales force expenses associated with Old Santander-Chile products. The fixed portion of sales force expenses associated with Old Santander-Chile products is recorded in administrative expenses as part of operating expenses. Adjusted to reflect the current accounting treatment for these sales force expenses on a consistent basis, other operating expenses, net increased 24.7% to Ch$13,118 million compared to Ch$10,520 million. The increase mainly reflected higher customer service expenses. Total sales force expenses for the nine-month period ended September 30, 2002 were Ch$11,115 million compared to pro forma sales force expenses of Ch$10,647 million for the nine-month period ended September 30, 2001. The reduction in sales force expenses mainly reflected a rise in retail banking activity in middle- to upper-income individuals offset by a reduced sale efforts related to Banefe. Finally unrealized gains on financial investments and realized gains from trading increased 30.2%, reflecting a strong decline in interest rates that resulted in larger unrealized gains from the mark-to-market of our trading portfolio as well as higher realized gains from the sale of financial investments.

Other income and expenses, net

Other income and expenses, net for the nine-month period ended September, 30, 2002 decreased 32.8% to Ch$8,295 million compared to pro forma other income and expenses, net of Ch$12,336 million for the 2001 period. Other expense included a charge of Ch$6,457 million accrued in the third quarter of 2002 in connection with the merger, included in nonoperating income, net. This charge included Ch$3,846 million in severance payments related to the voluntary retirement program and Ch$2,611 million of administrative expenses directly incurred in connection with the merger such as system-related charges, marketing expenses, legal costs and moving expenses. For information regarding the voluntary retirement program see "The New Bank--Merger Update--Personnel". The

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decrease in other income, net was also due to the reclassification of Ch$6,940 million from voluntary loan loss allowances to other liabilities in the balance sheet and from voluntary provisions to nonoperating income, net in the income statement. The reclassification was in response to new guidelines issued by the Superintendency of Banks, which required that these voluntary loan provisions be reclassified because they were not linked to any specific credit risk.

The decrease in other income, net was partially offset by higher gains from the sale of foreclosed assets.

Operating expenses

Operating expenses for the nine-month period ended September 30, 2002 increased 1.4% to Ch$217,086 million compared to pro forma operating expenses of Ch$213,984 million for the same period in 2001. The efficiency ratio was 47.0% for the nine-month period ended September 30, 2002. Excluding merger-related charges, our efficiency ratio for the 2002 period would have been 46.1%, the lowest among our peer group competitors. The rise in operating expenses reflected in part the inclusion of Ch$4,000 million in merger-related expenses recorded in personnel expenses, related to harmonization of accounting for collective bargaining agreement costs, which each predecessor bank accrued under different methods. Excluding merger-related expenses and excluding sales force expenses from both nine-months periods, total operating expenses would have increased 2.1% as compared to pro forma figures for the same period in 2001, and the adjusted efficiency ratio would have been 46.0%.

Administrative expenses for the 2002 period include the fixed portion of the sales force expenses associated with Old Santander-Chile products only, while their variable portion, along with all variable and fixed sales force expenses associated with Santiago products, is recognized under other operating expenses, net. Compared to pro forma 2001 results for the 2002 period excluding sales force expenses, administrative expenses would have decreased 2.0%. Personnel expenses, excluding merger-related expenses, decreased 0.2% due to headcount reductions from the nine-month period of 2001 to the nine-month period of 2002 despite salary adjustments for inflation on a quarterly base. Administrative expenses, excluding fixed sales force expenses, decreased 1.8%. Lower administrative expenses reflect a decrease in costs associated with implementation of the (Altair) platform, which has now been completed. See Item 5. "Operating and Financial Review and Prospects--Liquidity and Capital Resources--Capital Expenditures" in Santiago's Form 20-F and Item 4D. "Information on the Company--Property Plant and Equipment" in Old Santander-Chile's Form 20-F.

These reductions in costs were offset by the 27.0% increase in amortization and depreciation, which reflect the high level of recent investments in technology in both Old Santander-Chile and Santiago.

Loss from price level restatement

Loss from price level restatement for the nine-month period ended September 30, 2002, decreased 48.3% to Ch$5,275 million compared to pro forma loss from price level restatement of Ch$10,202 million for the same 2001 period. The lower loss from price level restatement reflects the lower inflation rate in the nine month period ended September 30, 2002 (2.5%) compared to the same period of 2001 (2.8%). 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 variation of inflation.

Income tax

In 2001 Santiago did not incur income taxes as it still was benefiting from tax loss carry-forwards related to the subordinated debt issue with the Central Bank of Chile. See "Item 5. "Operating and Financial Review and Prospects--results of Operations--Loan Loss Recoveries" in Santiago's Form 20-F for an explanation of the subordinated debt. These tax loss carry-forwards expired in 2002. We expect that in the future we will be paying an effective tax rate similar to the corporate tax rate in Chile, which this year is 16%. As a result, total income tax as of September 30, 2002 increased 85.0% to Ch$23,949 million compared to the same period of 2001. The statutory corporate tax rate in Chile will increase to 16.5% in 2003 and 17.0% in 2004 and thereafter. The effective tax rate for the nine-month period ended September 30, 2002 reached 13.2% compared to 7.2% for the same period in 2001.

The New Bank

Unless otherwise indicated, financial and statistical data included in this prospectus and identified as "pro forma", reflect the aggregation of Santiago's and Old Santander-Chile's financial condition and results of operation as separately reported under the Chilean GAAP as of the dates and for the periods indicated, without elimination of inter-company balances or transactions and without reflecting merger synergies or expenses. There were no material inter-company balances or transactions between Santiago and Old Santander-Chile as of the dates and for the periods for which pro forma information is provided. For a discussion of expected merger expenses and potential merger synergies. See "--Merger Update--Merger Expenses and Synergies" and "--Strategy--Efficiency".

Overview

We were formed on August 1, 2002 by the merger of two leading Chilean banks, 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 shareholder's equity. As of September 30, 2002, we had total assets of Ch$12,340,924 million (US$16,507 million), loans net of allowances outstanding of Ch$8,196,340 million (US$10,963 million) deposits of Ch$6,552,149 million (US$8,764 million) and shareholders' equity of Ch$960,169 million (US$1,284 million).

Our current long-term subordinated debt ratings of BBB+ by Standard & Poor's and A3 by Moody's.

As of October 31, 2002, we employed more than 8,605 people and had the largest branch network in Chile with 349 branches. Our headquarters are located in Santiago and we operate in every major regional sector in Chile.

Among the five largest Chilean banks in terms of shareholders' equity, which we consider our peer group, we are the most profitable and efficient based on September 30, 2002, data. Our net income was Ch$157,292 million (US$210 million) for the nine months ended September 30, 2002, representing a return on pro forma average shareholders' equity of 21.8% based on annualized net income for that period. We believe that our profitability reflects in part our market-leading efficiency and credit-risk profile. Our efficiency ratio (the ratio of operating expenses to operating revenue) was 47.0% for the nine months ended September 30, 2002, the best in Chile in our peer group.

We provide a broad range of commercial and retail banking services to our customers. Among the products we offer are 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.

Prior to the merger, Santiago was the most profitable bank in Chile in our peer group in terms of return on equity, while Old Santander-Chile had the best efficiency ratio within the same peer group. Santiago had the largest market share in terms of loans in the middle segment (middle to upper-income retail) while Old Santander-Chile had the largest such market share in the corporate and low- to middle-income segments. We believe the complementary strengths of the two banks give us the ability to compete effectively across all segments.

History and Development

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 Espanol-Chile, a domestic bank that had become insolvent. In July 1996, Old Santander-Chile was merged into Banco Osorno y la Union becoming "Banco Santander-Chile", the third largest private bank in terms of outstanding loans at that date. The combined efficiency ratio of the merged bank decreased from 63.1% on a pro forma basis as of year-end 1995 to 44.5% as of year-end 2001.

Santiago was founded in 1977 and by 1982 had become the second largest private sector Chilean bank in terms of outstanding loans. 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. Following the merger with Banco O'Higgins, the combined efficiency ratio of the merged bank decreased to 49.1% as of year-end 2001 from 56.9% on a pro forma basis as of year-end 1996.

We believe that the expertise gained in the above mergers will help us to effectively consolidate the operations of Santiago and Old Santander-Chile and reduce the operational costs of the merged bank.

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, and a leading financial institution in Europe. Banco Santander Central Hispano's principal operations are in Spain, Portugal, Germany, Italy, Belgium and Latin America. Banco Santander Central Hispano also has significant operations in New York, Puerto Rico and London, as well as strategic investments in The Royal Bank of Scotland Group, and financial investments in Commerzbank, San Paolo-IMI and Banque Commerciale du Maroc. In Latin America, Banco Santander Central Hispano has majority shareholdings in banks in Argentina, Bolivia, Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay and Venezuela.

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. Banco Santander Central Hispano has extensive experience in developing innovative financial products, particularly in the areas of residential mortgages, bancassurance and savings products.

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 credit committee and the audit committee of Banco Santander Central Hispano. We believe that this structure leads to greater 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 Credit Risk, Auditing, Accounting and Financial Control. Santander Chile does not pay any management fees to Banco Santander Central Hispano in connection with these or other support services.

The following chart shows Banco Santander Central Hispano's ownership structure of us as of September 30, 2002.

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                               -----------------
                                Banco Santander
                               -----------------
                                Central Hispano
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          ------------------------     |     ----------------------
          |                            |                          |
          |                            |                          |
          |                            |                          |
          |                            |                          |
        99.9%                        98.92%                    100.0%
 -------------------          -------------------         -------------------
  Grupo Empresarial               Santander                  Teatinos
     Santander           ----   Chile Holding                Siglo XXI
 -------------------     |    -------------------         -------------------
          |              |             |                          |
          |              |             |                          |
          |              |             |                          |
          |              |             |                          |
          |              |           99.9%                        |
          |        24.77%|    -------------------                 |
          |              |        Servicios                       |
          |              |    Financeros Bandera                  |
          |              |    -------------------                 |
          |              |             |                          |
          |              |             |                          |
          |              |             |                          |
          |              |             |                          |
          |              |           10.69%                       |
          |              |    -------------------                 |
          |              ----   Banco Santander                   |
          |-------------------       Chile       -----------------|
                  7.23%       -------------------     41.45%
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Lines of Business

Our internal organization is structured on the basis of the client segments we serve. We provide a full range of financial services to corporate and individual customers through two major business units: Retail Banking and Wholesale Banking.

Retail Banking

This segment includes lending carried out through our branch network primarily to individuals, small companies and micro-businesses. Retail Banking offers customers a range of products, including consumer loans, credit cards, auto loans, commercial loans, foreign trade financings and residential mortgage loans. As of September 30, 2002, retail banking represented 46.3% of our total loans outstanding and 99.4% of our total clients. As of the same date, we had 349 total branches, 62 of which operated under the Banefe brand name and 32 under the newly created SantiagoExpress brand name (formerly marketed under the

Bansolucion brand name). For information regarding our Banefe division see "Item 4B. Information on the Company--Business Overview--Retail Banking--Retail Banking: Banefe" in Old Santander-Chile's Form 20-F. For information on Santiago Express see "Item 4. Information on the Company--Description of Business--Principal Business Activities--Retail Banking--Bansolucion". The remaining branches are operated under either the Santiago (138) or Santander (117) brand name.

We divide clients in this segment into the following sub-segments:

- Middle- and upper-income, consisting of individuals with a monthly income of Ch$500,000 (US$669) and above. This segment accounts for 58.0% of our total clients and 28.8% of our loans as of September 30, 2002.
- Lower-middle to middle-income, consisting of individuals with monthly income between Ch$150,000 (US$201) and Ch$500,000 (US$669) which are served through our Banefe division. This segment accounts for 36.6% of our total clients as of September 30, 2002.
- Small businesses, consisting of small companies with annual sales between Ch$96 million (US$128,000) and Ch$800 million (US$1.1 million). As of September 30, 2002, small companies represented approximately 13.9% of our total loans outstanding and 4.8% of our total clients.

Wholesale Banking

Customers in this segment include medium-sized and large domestic and multinational companies. The Wholesale Banking business includes commercial lending, leasing, factoring, infrastructure construction financing, trade financing and financial advisory, payment and cash management services. We also provide a diversified range of treasury and risk management products to these customers. In addition, we finance real estate construction and significant infrastructure projects. Customers of this group have annual sales in excess of Ch$800 million (US$1.1 million) and represented 50.2% of our total loans outstanding and 0.6% of our total clients, as of September 30, 2002.

We divide clients in this segment into the following sub-segments:

- Middle-market companies, consisting of companies with annual sales between Ch$800 million (US$1.1 million) and Ch$3.5 billion (US$4.7 million). As of September 30, 2002, medium-sized companies represented 14.9% of our total loans outstanding and 0.5% of our total clients.
- Large corporations, consisting of companies with annual sales in excess of Ch$3.5 billion (US$4.7 million). As of September 30, 2002, these clients represented 35.3% of our total loans outstanding and 0.1% of our total clients.

The table below sets forth our lines of business and certain statistical information relating to each of them.

Segment	As of September 30, 2002 Total Average Segmented Loans	Net Interest Revenue(1)	Fees & Income from Services	Net Loan Loss Allowances(2)	Net Client Contribution (3)	Net Clie Margin(
	(millions of constant Ch$ as of September 30, 2002, except for percentages)					
Retail Banking(1) ..	Ch$ 3,843,800	Ch$ 220,727	Ch$ 46,081	Ch$ (24,798)	Ch$ 242,010	8.4%
Wholesale Banking	4,409,472	103,411	11,250	(16,971)	97,689	3.0%
Total	8,253,272	324,138	57,331	(41,769)	339,699	5.5%

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(1) Includes hedging foreign exchange results of transactions, unconsolidated.

(2) Includes allowances for loan losses, charge-offs and loan loss recoveries.

(3) Equal to net interest revenue plus fee income minus allowances for loan losses.

(4) Equal to net client contribution annualized divided by total average segmented loans.

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Strategy

Our goal is to create shareholder value through continued focus on and enhancement of our client segmentation model. This model consists of clients with similar financial needs and behavior into discrete groups and developing products that we believe can be successfully marketed to each client segment by leveraging existing client relationships through our distribution channels. We have three principal strategies which we intend to pursue with each client segment.

- Optimize our asset mix - we intend to promote growth in high-yielding loan segments, consistent with our credit risk policies.

- Grow our ongoing fee-based business - we seek to cross-sell products to our clients to expand fee-based services.

- Improve our efficiency - we aim to take advantage of the cost synergies that we believe will result from the merger and to control our costs by managing our headcount, centralizing our back-office processes and promoting use of higher-margin, alternative distribution channels such as ATMs and telephone banking.

Optimizing Asset Mix

Retail Banking

We believe the Chilean retail-banking segment offers attractive medium- to long-term opportunities. We seek to capitalize on these opportunities through the use or our sophisticated credit analysis procedures and our extensive distribution network. We believe that our position as the largest bank in Chile and the centralization of the back office activities expected to result from the merger, will give us important economies of scale and scope and afford us a competitive advantage to grow in the area.

Middle- to upper-income segment and small businesses. We will seek to achieve growth in loans to middle to upper-income individuals and small businesses, which are higher-yielding than corporate loans and we believe have moderate risk levels relative to lower-income segments. We believe that growth in this segment can be achieved through a more efficient use of our marketing resources, which will now be at the service of only one bank and by the integration of the two distribution networks (sales force and branch network) which will promote a single bank rather than two competing brands as was the case pre-merger. We also believe that the larger client base resulting from the merger will provide greater opportunities to cross-sell our products. Once the integration is completed, special emphasis will be placed on improving client service and retention as both Santiago and Old Santander-Chile had attrition rates of approximately 10% in these segments. Various banks in Chile service this segment, but we believe that our segmentation strategy, ample product supply, and improvements in client service, together with our extensive distribution network should help us to achieve growth in this segment.

Middle- to lower-income segment (Banefe and SantiagoExpress). We anticipate that asset growth in this segment will be moderate until economic conditions improve. We aim to increase our profitability in this area by cross-selling among our clients and offering standardized, fixed-price product packages.

We believe that in the medium and long-term these segments have interesting growth potential because of their need for credit and their position as the entry point into the formal banking system. We believe that through the Banefe and SantiagoExpress distribution channels developed by us expressly to address these segments, we possess the expertise, experience, client service standards and infrastructure required to develop and market innovative and user-friendly products that introduce consumers in this segment to the banking system and grow assets while adequately controlling credit risk.

Wholesale Banking

We believe loan growth alone is not an effective means to sustain high levels of profitability in this segment, especially among large corporations. This segment of the market has become increasingly competitive in recent years, primarily due to the increasing ability of large Chilean companies to access the international capital markets and the growth of Chile's domestic capital markets, which have led to a substantial reduction in the role of Chilean

banks as the main source of long-term credit for these companies. This process is sometimes referred to as "financial disintermediation". As a result, domestic lenders have generally experienced narrowing spreads and a decrease in the profit margins generated by loans to large corporate borrowers. To maintain profitability in this segment, our strategy is to expand the range of products offered (cross-selling) and focus on sophisticated services and fee-based products such as cash management, payment and collection services, treasury and other tailored services.

In the middle-income market, our strategy is to continue to target medium-sized companies that operate in sectors of the Chilean economy with the highest growth potential. These companies tend to rely on a limited number of banks to cover their financing needs, principally for the acquisition of capital goods, foreign trade, working capital and checking accounts. Our strategy in this segment is to be selective in targeting sectors for potential growth, as companies in this area have shown the highest levels of deterioration of asset quality in the last few years. We will seek to increase our share of business among middle-market clients that have demonstrated a healthy performance throughout the recent period of slower economic growth. As is the case with large corporations, we believe that cash management and payment service contracts can help us derive greater income from middle market companies, reducing our need to increase profitability through volume growth. Additionally these clients provide us with a low-cost and stable deposit base.

Fee-based business

Historically, there has been low penetration of fee-based services in the Chilean financial market, with financial institutions focusing primarily on asset growth. We seek to become a leader in fee-based businesses by promoting fee-generating products in areas of low penetration and by taking advantage of cross-selling opportunities among our client base. We believe that this strategy will help us to generate greater revenues from our client relationships and to increase our profitability.

Asset management. We believe that the low penetration of asset management products in Chile provides significant opportunities for expansion. According to The Chilean Association of Mutual Fund Managers, total mutual fund assets under management in Chile over GDP, excluding mandatory pension funds, totaled just 10.2% as of September 30, 2002. We intend to explore the new market opportunities created by the recent Chilean markets reform, which allows Chilean banks and their subsidiaries to manage and sell voluntary pension plans. Because less than 10% of our total clients use asset mutual fund products, we will seek to capture potential market growth by directly marketing these products to our existing clients through our branch network, which is the largest in Chile. We are the second largest manager of mutual funds in Chile with a 23.3% market share in terms of funds managed, which as of September 30, 2002, totaled Ch$1,164,556 million (US$1,558 million). Currently we manage 32 funds, the largest number in Chile. This includes local and international stock funds, local and international fixed income funds and mixed funds. We are the leading bank in Chile in terms of total clients, with a 27.2% market share and 101,019 clients as of September 30, 2002. Fees from asset management as of September 30, 2002, totaled Ch$10,239 million (US$13.7 million) and represented 13.3% of our total fee income. Our strategy is to increase the number of funds under management in order to expand our fee income.

Cash management. To maintain and increase profitability in the corporate segment, we are offering more sophisticated services and fee-based products such as cash management, payment and collection services. Currently we have 2,569 cash management contracts from the 11,761 Wholesale Banking clients. We will seek to increase our penetration in this group through increased cross-selling efforts. We have the largest branch network in Chile and advanced electronic banking services through which we expect to offer corporate clients a wide range of cash management and collection services. We believe that our affiliation with Banco Santander Central Hispano gives us access to multinational corporations that have a large demand for these services. Cash management services include payment of suppliers, direct deposit of salaries, and transfer of funds. This not only increases the amount of deposits on which no interest is paid, but also offers an opportunity to gain access to retail customers through their employers. Clients with cash-management services agreements have on average 90.8% higher deposit balances and generate 145.4% more fees than clients without such agreements.

Payment systems. We seek to have our clients' monthly cash flows channeled through us. Once a client obtains a consumer or mortgage loan, we attempt to open a checking account for the client, which is the core product for strengthening a client relationship. We also sell checking or debit accounts to employees of companies that have cash management contracts with us. Once a checking account is opened, a client's salary can be directly deposited, increasing non-interest paying accounts ("free float") and creating an incentive for the client to utilize other bank

services, such as automatic bill payment. Additionally, we provide the client an ATM/debit card, a line of credit or a credit card. On a pro forma basis, for the six months ended June 30, 2002, checking account fees represented 21.6% of total fees, credit card fees 13.3% of total fees and ATM fees 9.7% of total fees. We are a leading issuer of credit cards and debit cards. On a pro forma basis, as of June 30, 2002 we had 1.6 million credit cards outstanding, which represented a market share of 36.4%. We estimate that approximately 8% of all retail sales in Chile are made using a credit card. On a pro forma basis, as of June 30, 2002, we had approximately 722,000 debit cards outstanding, which represented 29.7% of the total debit cards in Chile. We believe that the usage of debit cards in Chile is still relatively low in comparison to more developed markets. We estimate that in Chile debit card transactions equal 5.6% of all check transactions. We also lead the market in terms of ATMs, with 1,091 machines and a 32.0% market share. Our market share in checking accounts as of August 30, 2002 was 26.5%, with 365,833 accounts.

Financial advisory. We also seek to increase our Wholesale Banking financial advisory and underwriting business. Anticipating the trend of financial disintermediation in all financial markets, we have structured our unit with the goal of benefiting from this process. We have participated in bank syndicates that provided financing to important infrastructure projects and have also served as a financial advisor in structuring bond issues for companies. Our account executives have close relationships with major corporate clients arising from our corporate lending work, which allow them to detect opportunities for providing financial advisory services. Additionally, Santander Investment, Banco Santander Central Hispano's investment banking arm in Chile, reports to the head of Wholesale Banking and structures transactions for large corporate clients. Our own Finance Division, the largest in Chile, distributes to investors the financial instruments resulting from such transactions. We believe that this structure, which is unique in Chile, gives us a competitive advantage in this business line. We believe that there will be additional opportunities to participate in the financing of important infrastructure projects and other large bond issues in the future.

Efficiency

Our third strategy is to continue the improvement of our efficiency ratios. This encompasses:

- Realizing the cost savings that we expect to achieve from the merger. We estimate that in the medium- to long-term we will achieve cost savings of at least 10% of the pre-merger aggregated banks' costs. We estimate that half of the synergies will come from headcount reductions, while the other half will come from economies of scale resulting from the integration of our back office, marketing and administrative functions and outsourcing of information technology functions. Achieving these synergies depends on a variety of factors. See "Risk Factors--Risks Associated with the Merger--we may fail to recognize the contemplated benefits from the merger" and "Cautionary Statement Concerning Forward-Looking Statements".

- Managing the post-merger headcount and increasing the relative number of employees in commercial activities as opposed to the back-office.

- Centralizing back-office processes out of our branch offices. For example, in Banefe and SantiagoExpress branches all employees perform multiple functions resulting in a lower headcount. As a result, new or renewed branches in Banefe and SantiagoExpress generally have no more than seven employees compared to an average of ten in the traditional branches. Back-office functions in Banefe's and SantiagoExpress's new and renewed branches have been centralized and, therefore, the average floor space required to be dedicated to back-office functions is smaller than in traditional branches. Finally, all product prices for Banefe and SantiagoExpress branches are fixed and centrally controlled.

- Promoting use of higher-margin, technologically advanced services such as the Internet, ATMs and other electronic banking mechanisms.

Merger Update

We have made substantial progress in the integration process and expect to complete it by the end of the first half of 2003. We believe that the affiliation of Santiago and Old Santander-Chile as commonly controlled subsidiaries of Banco Santander Central Hispano prior to the merger has facilitated the integration process. The last major areas to be integrated are information systems (in the Operations and Technology area), and branch network (in the Retail Banking area) which are the most sensitive to changes and we have deferred these to minimize disruption of client services.

Despite our best efforts, we expect our market share to decrease during the years following the merger. We expect this decline because of client overlapping, and possible disruption of client services during the integration process. We will seek to limit our loss of market share to mainly low-yielding corporate loans which we believe will have a lower impact on our net interest revenue. We do not believe that under current market and economic conditions such a reduction in market share will have a material adverse effect on our financial condition or results of operations, although we can give no assurances in this regard. We estimate that during the year following the mergers of Santiago and O'Higgins in January 1997, and Old Santander-Chile and Osorno in April 1996, the merged banks experienced a loss of market share in terms of total loans of 1% to 2%. In the merger of Banco de A. Edwards and Banco de Chile, the most recent full service bank merger in Chile, we estimate that the merged entity experienced a market share loss in terms of total loans of 1.4%, from October 3, 2001 to June 30, 2002. There can be no assurance that our decline of market share will not exceed the market share losses experienced by other recently merged banks. See "Risk Factors--Risks Associated with the Merger--Our expected market share loss may exceed our projections".

The following table sets forth the principal tasks to be completed for the full integration of the operations of Santiago and Old Santander-Chile and their estimated status as of September 30, 2002:

Area	Status(1)
Senior Management	Completed
Legal	Completed
Strategic planning	Completed
Client service	Completed
Human resources department	Completed
Credit risk	Completed
Auditing	Completed
Accounting	Completed
Financial control	Substantially completed
Administration	Substantially completed
Wholesale banking	Substantially completed
Retail Banking (branch network)	Partially completed
Operations & Technology	Completion expected by June 2003

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(1) "Completed" means that we estimate that 90% or more of the integration has been completed.
"Substantially completed" means that we estimate that between 75% and 90% of the integration has been completed.
"Partially completed" means that we estimate that between 50% and 75% of the integration has been completed.
"Completion expected by June 2003" means that we estimate that less than 50% of the integration process has been completed.

Management Team

On August 1, 2002, the new management assumed full control of our operations. The President and Chairman of the board is Mauricio Larrain Garces, former Vice-Chairman of Old Santander-Chile's board. The Chief Executive Officer is Fernando Canas Berkowitz, former Chief Executive Officer of Santiago.

We have established a new organizational structure, which has been in place since October 31, 2002. The chart below sets forth the names and areas of responsibility of our senior commercial managers.

Commercial Structure

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                    ------------------
                           CEO
                     Fernando Canas
                    -------------------
                            |
                            |
    --------------------------------------------------------
    |                       |                              |
    |                       |                              |
    |                       |                              |
    |                       |                              |
------------------   --------------------        ----------------
Wholesale Banking       Retail Banking                Banefe
Oscar von Chrismar        Marketing            Alejandro Cuevas
                    Andres Raccatagliata
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The chart below sets forth the names and areas of responsibilities of our operating managers.

Operating Structure

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                        -------------                       ----------------
                          Chairman                             Credit Risk*
                          Mauricio                 |--------   Jose Manuel
                          Larrain                  |             Pascual
                        -------------              |        ----------------
                              |                    |
                              |                    |
                        -------------              |        ----------------
                            Chief                  |-------- Internal Audit*
                          Executive----------------|           Manual Dato
                           Officer                 |        ----------------
                        Fernando Canas             |
                        --------------             |
                              |                    |        ----------------
                              |                    |            Financial
                              |                    |--------   Controller*
                              |                    |           David Turiel
                              |                    |        ----------------
                              |                    |
                              |                    |
                              |                    |        ----------------
                              |                    |           Strategic
                              |                    |--------   Planning*
                              |                                Raimundo
                              |                                  Monge
                              |                             ----------------
   -------------------------------------------------
   |           |              |       |            |
   |           |              |       |            |
------------   |     --------------   |    --------------------
Accounting     |     Administration   |           Human
Roberto Jara   |          & Costs     |         Resources*
               |     Juan Fernandez   |    Jose Manuel Manzano
------------   |     --------------   |    --------------------
               |                      |
               |                      |
       --------------         ---------------
       Legal Counsel          Operation and
       Gonzala Romero          Technology
                              Alberto Salinas
       --------------         ---------------
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*Employees of Santander Chile Holding.

Finance Division

The Finance Division of each of the predecessor banks was one of the first areas to be fully merged, with the integration being completed by the end of July 2002. This division includes the trading and distribution desks and the asset and liability management areas. We have adopted Old Santander-Chile's policies and standards regarding market risk, which mirror the standards set by Banco Santander Central Hispano. The portfolios of both banks have been combined and risk management is already being performed on a combined basis.

Asset and Liability Committee

One of the first committees that was redesigned in anticipation of the merger was the Asset and Liabilities Management Committee. See "Market Risk Disclosure of Old Santander-Chile as of June 30, 2002--Asset and Liabilities Management". Our asset and liability management policies are developed by the Asset and Liabilities Management Committee following guidelines and limits established by Banco Santander Central Hispano's Global Risk Department. Prior to the merger, each bank's Asset and Liabilities Management Committee was composed of senior members of each of Old Santander-Chile's and Santiago's Finance Division and their respective General Managers and Controllers. Since the merger, the composition of the Asset and Liabilities Management Committee has been modified. It now includes the Chairman of the Board, three members of the Board, the Chief Executive Officer, the Manager of the Finance Division and the Financial Controller. Senior members of Santander Chile's Finance Division meet daily and, on a formal basis, weekly with the Asset and Liabilities Management Committee and outside consultants.

Credit Risk

We apply the credit risk standards and procedures of Old Santander-Chile, which mirror those followed by Banco Santander Central Hispano. We have already implemented the underwriting and monitoring procedures of Old Santander-Chile. The Credit Risk Department is currently leveling the credit risk classifications of the portfolios of Santiago and Old Santander-Chile. In those cases in which a client of both banks had been assigned a dissimilar risk classification, we have adopted the policy of classifying the client in the lower classification level. The main differences were located in the commercial real estate portfolio. Total provisions and charge-offs associated with credit-risk leveling for the third quarter of 2002 were Ch$8,100 million. We intend to finalize this process by year-end 2002.

We believe that Banco Santander Central Hispano's credit risks standards are more conservative than the standards imposed on Chilean banks by the Superintendency of Banks. In particular, Banco Santander Central Hispano's guidelines impose total independence between the commercial and credit risk areas and all credit operations must be approved by a committee integrated by both commercial and credit risk managers. We believe that these mechanisms contribute to sound growth and a healthier loan portfolio.

Personnel

As of October 31, 2002, on a consolidated basis we had 8,605 employees, 8,036 of whom were bank employees and 569 of whom were employees of our subsidiaries. Of bank employees, 3,777 belonged to one of the fifteen unions that represent our employees while all of the employees of our subsidiaries are non-unionized. Of our 8,605 employees, we classified 598 as supervisors and senior executives, 3,108 as professionals and 4,899 as clerks. With respect to the average number of employees for the bank only, during each of the years ended December 31, 1999, 2000 and 2001 we had, on a pro forma basis, 9,021, 8,916 and 8,852 employees, respectively. We have traditionally enjoyed good relations with our employees and the unions and neither Santiago nor Old Santander-Chile have ever experienced a strike. We are party to six collective bargaining agreements. In the past, we have applied the terms of our collective bargaining agreements to unionized and non-unionized employees.

As of October 31, 2002, 5,958 employees were located in the Santiago Metropolitan Region and 2,647 employees were located in the other regions of Chile.

In August 2002 we offered a voluntary retirement program to all employees in non-commercial areas, up to a maximum of 700 employees. The retirement offer was accepted by 500 persons, or 6.4% of the combined workforce. The retirement program is now closed. The costs associated with the retirement program are estimated at approximately Ch$10,360 million (US$14 million) and will be incurred during 2002. In the third quarter of 2002,

we incurred Ch$3,846 million of such costs. Additionally, we expect that our headcount will be reduced by an additional 800 people between 2003-2004 due to normal attrition at an estimated additional cost of Ch$8,140 million (US$11 million). See "Cautionary Statement Concerning Forward-Looking Statements".

Systems' Integration

The systems' integration is still in process. We have decided to adopt the Santiago platform as our standard system. We have adopted a cautious approach to the merger of systems so as to minimize client-service disruptions. We have concluded the process of defining the compatibility of both systems and the master plan for integrating them. We expect to complete the merger of systems by the middle of 2003. However, no assurance can be given that the system's integration will be completed by that time.

Distribution Network

We expect to integrate the Santiago and Old Santander-Chile branch networks once the operating systems of both banks are integrated. We believe that this integration will enable the branch offices, once connected under a single network, to minimize client-service difficulties. As of the date of this prospectus, each of the Santiago and Old Santander-Chile branch networks continues to operate independently under its former brand name. The ATM networks remain separate, but both are connected to the Redbanc network, the largest ATM network in Chile. Clients of both banks can utilize each other's ATMs, as well as all ATMs connected to the Redbanc network. As the core systems have not been integrated, most Internet functions are still separate. We currently operate the Worldwide Web sites of Santiago and Old Santander-Chile separately, but both have similar features and share some information. The areas managing Internet functions have been merged. We are also in the process of merging our sales forces. Old Santander-Chile outsourced the management of its sales force while the management of Santiago's sales force was performed by a subsidiary of that bank. We expect that in the future our sales force will be managed through outsourcing.

Brand Name and Products

The main brand of the new bank will be "Santander". Currently the branch network is utilizing both the "Santander" and "Santiago" brands. In the future, we plan for all branches to carry the "Santander" brand. The brand "Santiago" will continue to be used to identify certain products or market niches. New products and promotions currently have the same image, but use both brands. All marketing efforts are now combined, utilizing both brands in advertisements.

The Products, Segmentation and Marketing Division currently manages brands and product mix in the Retail Banking area. The reporting levels in these units have been defined, but until the systems merger is complete, many similar products from both Santiago and Old Santander-Chile continue to have distinct features, the most important of which is the credit card business. For example, Santiago credit cards have different attributes and co-branding contracts than Old Santander-Chile credit cards. Banefe and SantiagoExpress have their own product mix. Wholesale Banking, which encompasses clients that are not usually covered by the branch network, is marketed under the Santander brand. The product mix has also been unified in this segment.

Merger Expenses and Synergies

We are assessing the cost and savings impact of the merger. In the third quarter of 2002 we recognized Ch$18,557 million in costs and charges related to the merger integration process. We expect to reduce our headcount by 500 people in 2002 and by an additional 800 people between 2003 and 2004. We also believe that there will be significant additional costs related to the merger that we expect to recognize in the fourth quarter of 2002 and during 2003. Because we are still in the process of evaluating the scope of the merger process we are unable to produce an accurate cost estimate at this time. We expect the main costs of the merger will consist of:

- Personnel expenses arising from early retirement.

- Administrative expenses, principally including the cost of integrating systems and the branch network; the amortization of redundant assets and other charge-offs.

- Provision expenses due to the leveling of credit risk classifications.

Given the headcount reductions already announced and other expected cost savings, we expect that total cost savings will reach a minimum of 10% of our pre-merger aggregated banks' costs. No assurance can be given that we will achieve such cost savings, or that the merger will produce the expected synergies.

See "Risk Factors--Risk Associated with the Merger--We may fail to recognize the contemplated benefits from the merger" and "Cautionary Statement Regarding Forward Looking Statements". The recognition of merger integration expenses is likely to adversely affect certain of our ratios and ranking in the Chilean financial system.

Asset Divestitures

We currently do not anticipate any material divestitures and we are not required by law or regulatory action to reduce our market share. We evaluated the possibility of voluntarily divesting some assets following the merger. We have since concluded that given prevailing market conditions it would not be in our shareholders' best interests to proceed with the sale of these assets at this time. We will continue to explore, on an ongoing basis, the advisability of selling assets.

Market Overview

As shown in the table set forth below, as a result of the merger we are the market leader in practically every aspect of the banking industry in Chile:

	Pro forma Market Share at September 30, 2002	Rank as of September 30, 2002
Commercial loans	24.0%	1
Consumer loans	27.3	1
Mortgage loans (residential and general purpose)	26.7	1
Residential mortgage loans	25.3	2
Foreign trade loans	27.6	1
Total loans	25.7	1
Deposits	22.9	1
Mutual funds (assets managed)	23.3	2
Mutual funds (clients)	27.2	1
Credit card accounts (1)	36.6	1
Branches (1) (2)	21.4	1
ATM locations (1)	31.0	1

Source: Superintendency of Banks (unconsolidated data).

(1) As of September 30, 2002.

(2) Excluding special-service payment centers.

The following tables set out certain statistics comparing our market position in comparison to our peer group, defined as the five largest banks in Chile in terms of shareholders' equity as of September 30, 2002.

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Loans

As of September 30, 2002 our loan portfolio was the largest among Chilean banks. Our unconsolidated portfolio represented 25.7% of the market for loans in the Chilean financial system (comprising all commercial banks and finance companies) as of such date. The following table sets forth the market shares in terms of loans for us and our peer group as of September 30, 2002:

	As of September 30, 2002		
Loans(1)	Ch$ millions	In thousands of US$	Market Share
Santander Chile	8,193,974	10,960,079	25.7%
Banco de Chile	5,931,360	7,933,656	18.6
Banco del Estado	3,957,774	5,293,831	12.4
Banco de Credito e Inversiones ..	3,255,096	4,353,945	10.2
BBVA-Banco Bhif	2,090,866	2,796,696	6.6
Total	23,429,070	31,338,207	73.5

Source: Superintendency of Banks (unconsolidated data).

(1) Because the method of classification of assets used by the Superintendency of Banks for its public information differs in minor respects from that used by us for accounting purposes, the amounts in this table may differ from the figures included in our financial statements and those of our predecessor banks.

Deposits

In unconsolidated terms, our 22.9% of the market for deposits ranks us in first place among banks. The following table sets forth the market shares in terms of deposits for us and our peer group as of September 30, 2002:

	As of September 30, 2002		
Deposits(1)	Ch$ millions	In thousand of of US$	Market Share
Santander Chile	6,311,735	8,442,437	22.9%
Banco de Chile	4,728,051	6,324,137	17.1
Banco del Estado	3,886,413	5,198,380	14.1
Banco de Credito e Inversiones..	2,706,219	3,619,779	9.8
BBVA-Banco Bhif	1,825,564	2,441,834	6.6
Total	19,457,982	26,026,567	70.5

Source: Superintendency of Banks (unconsolidated basis).

(1) Because the method of classification of assets used by the Superintendency of Banks for its public information differs in minor respects from that used by us for accounting purposes, the amounts in this table may differ from the figures included in our financial statements and those of our predecessor banks.

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Shareholders' equity

With Ch$960,169 million (US$1,284 million) in shareholders' equity as of September 30, 2002, we were the largest commercial bank in Chile in terms of shareholders' equity. The following table sets forth the level of shareholders' equity for us and our peer group as of September 30, 2002:

	As of September 30, 2002		
Equity(1)	Ch$ millions	In thousands of US$	%(1)
Santander Chile(1)	960,169	1,284,301	25.0%
Banco de Chile	598,104	800,011	15.5
Banco del Estado	361,776	483,904	9.4
Banco de Credito e Inversiones .	286,629	383,389	7.5
BBVA-Banco Bhif	250,073	334,492	6.5

Total	2,456,751	3,286,097	63.9

Source: Superintendency of Banks.

(1) Percentage of total shareholders' equity of financial system.

Efficiency

As of September 30, 2002, on an unconsolidated basis we were the most efficient bank in our peer group. The following table sets forth the efficiency ratio defined as operating expenses divided by operating income for us and our peer group as of September 30, 2002:

Efficiency ratio	As of September 30, 2002 %
Santander Chile	47.3%
Banco de Chile	58.5
Banco del Estado	66.5
Banco de Credito e Inversiones	57.8
BBVA-Banco Bhif	64.0
Chilean Financial System	55.0

Source: Superintendency of Banks (unconsolidated data).

Return on capital

As of September 30, 2002, we were the most profitable bank in our peer group. The following table sets forth the annualized return on capital as defined by the Superintendency of Banks for us and our peer group as of September 30, 2002:

Return on Capital	As of September 30, 2002 %
Santander Chile	26.1%
Banco de Chile	10.6
Banco del Estado	7.6
Banco de Credito e Inversiones	18.7
BBVA-Banco Bhif	9.2
Chilean Financial System	16.6

Source: Superintendency of Banks (unconsolidated data).

Asset quality (risk index)

As of June 30, 2002, we had the second best asset quality among our peer group. The following table sets forth the risk index as defined by the Superintendency of Banks for us and our peer group as of June 30, 2002:

Risk Index	As of June 30, 2002, except Santander Chile %
Santander Chile(1)	1.56%
Banco de Chile	3.40
Banco del Estado	1.44
Banco de Credito e Inversiones	1.52
BBVA-Banco Bhif	1.99
Chilean Financial System	2.00

Source: Superintendency of Banks (unconsolidated data).

(1) Santander Chile's risk index as of September 30, 2002. The average risk index for all banks and financial institutions that provide information to the Superintendency of Banks has been calculated using data as of June 30, 2002, the latest date for which data is available.

MARKET RISK DISCLOSURE OF THE NEW BANK

The finance divisions of Santiago and Old Santander-Chile were one of the first areas to be fully merged in July 2002. These divisions include the trading and distribution desks and the asset and liability management areas. We have adopted the policies and standards regarding market risk of Old Santander-Chile, which mirrored the standards set by Banco Santander Central Hispano, Global Risk Department. The portfolios of both banks have been combined and risk measurement policies are being applied on a combined basis.

The market risk methodologies we follow are the same as those of Old Santander-Chile, which are described in detail in Old Santander-Chile's Form 20-F under "Quantitative and Qualitative Disclosures about Market Risk".

Trading Portfolio

Local Currency Trading Activities (VaR Model)

Trading portfolio used for local currency trading VaR calculation	As of August 31, 2002 Ch$ millions
PRC (Central Bank bond)	13,925
Mortgage Finance Bonds issued by Santander Chile	375
Ceros Central Bank bonds	5,273
Chilean corporate bonds	2,449
Chilean Yankee Bonds	4,340
Chilean Sovereign	18,402
Total	44,764

Local Currency Trading VaR

For our trading portfolio, the VaR as of September 30, 2002 was Ch$1,053,419,009 or US$1.40 million.

Non-Trading Portfolio Foreign Currency Position VaR

For our net foreign currency position, the VaR as of September 30, 2002 was Ch$1,071,899,427 or US$1.43 million.

Foreign Currency Position Scenario Simulations

For our net foreign currency position, any loss caused by a 100-basis point shift in US dollar interest rates cannot be greater than 3.5% of total equity or of budgeted net financial income. The 3.5% is an internally imposed limit set by the Assets and Liabilities Committee.

Scenario Simulation: 100 Basis Point Shift	Loss Limit established for 2002	
	Capital and Reserves	Budgeted Net Financial Income
US dollar interest rates		
Foreign currency position	3.5%	3.5%

The following table, which contemplates a 100-basis point shift in the relevant interest rate, indicates that we were within the limits established for 2002.

100 Basis Point Shift	Net Foreign Currency Position	
	Financial Income	Capital and Reserves
As of September 30, 2002	0.03%	0.20%
Loss limit in 2002	3.50%	3.50%

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Local Currency Non-Trading Activities (Sensitivity Analysis/Scenario Simulations)

The potential loss in the market value of our local currency non-trading portfolio resulting from a 100-basis point shift in the yield curve was set at 6.0% of total equity and 3.5% of budgeted net financial income.

Scenario Simulation: 100 Basis Point Shift	Loss Limit established for 2002	
	Capital and Reserves	Budgeted Net Financial I
Local currency interest rates		
Non-trading portfolio	6.0%	3.5%

The following table, which contemplates a 100-basis point shift in the relevant interest rate, indicates that we were within the limits established in 2002.

100 Basis Point Shift	Local Currency Non-Trading Portfolio	
	Financial Income	Capital and Reserves
As of September 30, 2002	0.97%	4.46%
Loss limit in 2002	3.50%	6.00%

Consolidated Limits

Finally, we track a consolidated indicator in order to have a notion of the total interest rate risk to which we are exposed in terms of capital at risk and financial income at risk. These loss limits are 6.0% of total equity and 3.5% budgeted net income for the year.

100 Basis Point Shift	Consolidated	
	Financial Income	Capital and Reserves
As of September 30, 2002	0.97%	4.46%
Loss limit in 2002	3.50%	6.00%

Liquidity Management

We have also set internal liquidity limits. The Market Risk Control Department measures two other liquidity indicators:

Net accumulated liquidity ratio:

$$\frac{\Sigma\ ((\text{Assets with maturity up to 30 days}) - (\text{Liabilities with maturity up to 30 days}))}{\Sigma\ (\text{Liabilities with maturity up to 30 days})} \geq (7.5)\%$$

As of September 30, 2002, the liquidity ratio for local currency was 26.50% and for foreign currency was (2.89)%.

Liquidity coefficient:

Liquid assets (at liquidation value) / (Total liabilities - capital + contingent) >=2%

As of September 30, 2002, the liquidity coefficient for local currency was 17.70% and for foreign currency was 7.32%.

Chilean Pension Funds

One of the first areas analyzed in connection with the merger was the potential impact caused by the legal limits on Chilean Pension Fund (AFP) investments in connection with Chilean companies. Currently, each pension fund can invest up to 7% of its assets under management in any securities (including bank deposits common stock and any other instrument or security) of any single issuer. One of the first tasks of the Finance Division was to calculate the consolidated exposure of the AFPs to the combined bank. The amount of the AFPs' excess exposure to

Santander Chile was Ch$973,909 million (US$1.3 billion) or 8.1% of our pro forma liabilities as of July 30, 2002. The AFPs have until August 1, 2005, to reduce their investments to within the limit. We are not obligated to cancel obligations we have with AFPs that have surpassed their exposure limit. We renewed approximately 85% of the short-term deposits with AFPs that expired before year-end 2002, mitigating any immediate adverse consequences of the eventual disinvestment. The short-term deposits were renewed for a period greater than 1 year. See "Risk Factors--Risk Associated with the Merger--The merger may affect our access to funding from Chilean pension funds (AFPs)".

Although we can give no assurances in this regard, we believe that the impact of the reduction of the AFPs' exposure to Santander Chile over the next three years will be ameliorated by a number of factors. First, total funds under management by AFPs have grown at an average annual rate of 16.4% over the past three years. If growth continues at this rate, the permitted exposure, in peso terms, of the AFPs to Santander Chile is expected to grow and absorb a large part of the current excess exposure. Second, we expect to be able to replace much of the excess AFP liabilities with customer deposits, inter-bank funding and bond offerings during the next three years. Third, parties may securitize deposits with us. We expect AFPs to acquire such securitized deposits as their exposure to these types of instruments is subject to a less stringent limit (the exposure of an AFP to an economic group's securitized deposits may not exceed 15% of the AFP's total exposure). Furthermore, as a result of the higher exposure allowed in the case of securitized instruments, AFPs may still invest in our securitized mortgage bonds. We also believe we will be able to issue mortgage bonds to insurance companies and other institutional buyers.

THE EXCHANGE OFFER

General

We are offering, upon the terms and conditions described in this prospectus and in the related letter of transmittal, to exchange a combination of new notes and a US dollar amount in cash for any and all of our old notes. The consideration you will receive in exchange for your old notes is based on formulas that include market information that will not be known until three business days before the expiration of the exchange offer. Consequently, we cannot provide you with the specific US dollar amount in cash that you will receive or with the specific interest rate on the new notes. The purpose of the exchange offer is to extend the maturity of the old notes from July 18, 2007 to July 18, 2012. Extending the maturity on our subordinated debt represented by the old notes will help us to maintain required regulatory capital levels. Chilean banking regulations applicable after the merger require that we maintain an "effective equity" equivalent to 12% or more of our risk-weighted assets and permit us to consider our subordinated debt as part of our "effective equity". However, commencing six years prior to its maturity, the total amount of subordinated debt that can be considered "effective equity" decreases by 20% each year. By extending the maturity of the old notes we will be able to continue considering the entirety of the subordinated debt represented by the old notes as "effective equity" for a much longer period of time. See Item 4 "Information of the Company--Regulation and Supervision--Capital Adequacy Requirements" in Santiago's 20-F and Item 4B "Information on the Company--Business Overview--Chilean Regulation and Supervision--Capital Adequacy Requirements" in Old Santander-Chile's 20-F.

The exchange offer is not conditioned upon the receipt of a minimum amount of old notes being tendered. For more information about conditions to the exchange offer, see "--Conditions".

Terms of the Offer

If we accept any old notes you tender in the exchange offer you will receive, in exchange for each US$1,000 principal amount of old notes tendered:

- US$1,000 principal amount of new notes, the interest rate on which will be determined on the third business day before this offer expires, in the manner described below under "--New Note Interest Rate", and will depend on the yield of a specified benchmark US treasury note; plus

- an amount in cash calculated pursuant to the formula described below under "--Cash Payment".

Cash Payment

For each US$1,000 principal amount of old notes tendered and accepted by us, you will receive an amount in cash (rounded to the nearest US$.01) equal to the Exchange Ratio minus US$1,000, where:

The Exchange Ratio equals:

$$\frac{\text{US\$1,000 x Old Note Price}}{\text{New Note Price}}$$

New Note Price

The New Note Price will be an amount in US dollars per US$1,000 principal amount of new notes determined pursuant to the new note price formula set forth in Schedule A on the basis of the New Note Reference Yield to maturity, which is equal to the sum of (i) the yield on the % US Treasury Note due , 2012 as of the pricing time (which we refer to as the New Note Benchmark Treasury Yield), plus (ii) %.

Old Note Price

The Old Note Price will be an amount in US dollars per US$1,000 principal amount of old notes determined pursuant to the old note price formula set forth in Schedule A on the basis of the Old Note Reference Yield to maturity, which is equal to the sum of (i) the yield on the % US Treasury Note due , 2007 as of the pricing time (which we refer to as the Old Note Benchmark Treasury Yield) plus (ii) %.

New Note Interest Rate

The annual interest rate on the new notes will equal the New Note Reference Yield (rounded down to the nearest one-eighth of a percentage point). Because the interest rate on the new notes is linked to the New Note Benchwork Treasury Yield, the actual interest rate on the new notes will be affected by changes in that Benchmark Treasury Yield during the term of the Exchange Offer.

Pricing Time

The Old Note Price, the New Note Price, the Exchange Ratio and the interest rate on the new notes will be determined based on the Benchmark Treasury Yields, at 4:00 p.m., New York City time, on the third business day prior to the expiration time, which we refer to as the pricing time.

We refer to the principal amount of new notes and the US dollar cash amount you will receive in exchange for each US$1,000 principal amount of old notes as the "Total Consideration". See "--Illustrative Hypothethical Examples" for hypothetical calculations of the Total Consideration.

In addition to the Total Consideration, we will pay you accrued but unpaid interest on the old notes you exchange to, but not including, the exchange date.

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Because the Exchange Ratio, the Old Note Price and the New Note Price are based on a fixed-spread pricing formula linked to Benchmark Treasury Yields, the amount of cash that you will receive if the exchange offer is consummated will be affected by changes in those Benchmark Treasury Yields during the term of the exchange offer.

Expiration Time

The expiration time is the deadline by which the exchange agent must receive an agent's message in respect of your old notes.

The expiration time of the exchange offer is noon, New York City time, on , 2003, unless we extend it in our sole discretion. If the conditions to the exchange offer are satisfied or waived, we will accept validly tendered and not withdrawn old notes for exchange pursuant to the exchange offer on the first business day following the date on which the expiration time occurs and settle the exchange offer on the third business day following the date on which the expiration time occurs (or as soon thereafter as practicable).

If you wish to tender your old notes into the exchange offer, you must follow the procedures described under "--Procedure for Tendering Old Notes" below. If your old notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee, you must contact that institution to tender your old notes.

Please keep in mind: If you want to tender your old notes, you must complete the tender procedures described below under "--Procedure for Tendering Old Notes" before the expiration time.

During the term of the exchange offer, you can obtain current information (calculated as if the pricing time had occurred the previous business day) regarding the Benchmark Treasury Yields, the Reference Yields, the Old Note Price, the Exchange Ratio, the Total Consideration payable to a holder of old notes, the interest rate on the new notes, the New Note Price and other information regarding the terms of the exchange offer from the lead dealer manager at (866) 846-2874 (toll free) or (212) 834-7279.

Illustrative Hypothetical Examples

THE INFORMATION SET FORTH IN THE FOLLOWING TABLES IS FOR ILLUSTRATIVE PURPOSES ONLY AND NO REPRESENTATION IS INTENDED WITH RESPECT TO THE ACTUAL CONSIDERATION THAT MAY BE PAID PURSUANT TO THE EXCHANGE OFFER. THE AMOUNT OF CASH PAID AND THE INTEREST RATE ON THE NEW NOTES MAY BE GREATER OR LESS THAN THAT DEPICTED IN THE FOLLOWING TABLES DEPENDING ON THE ACTUAL BENCHMARK TREASURY YIELDS AS OF THE PRICING TIME.

The following table illustrates application of the formulas set forth in Schedule A, which will be used to determine the Old Note Price, the New Note Price, the Exchange Ratio, the Total Consideration and the interest rate on the new notes. This table applies the formulas using the Benchmark Treasury Yields as of 5:00 p.m., New York City time, on December , 2002. The Benchmark Treasury Yields at the Pricing Time may differ materially.

FOR ILLUSTRATIVE PURPOSES ONLY

Hypothetical determinations of Old Note Price, New Note Price, Exchange Ratio, Total Consideration and annual interest rate on the new notes demonstrating the methodology specified in Schedule A

	Old Notes	New Notes
Assumed Benchmarks		
Assumed Benchmark Treasury Yield(1)		
Fixed Spread		
Reference Yield		
Assumed Interest Rate on New Notes		
Assumed Exchange and Issuance Date		

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(1) The assumed Benchmark Treasury Yields are the yields on the Benchmark Treasury Notes as of 5:00 p.m., New York City time, on December , 2002. These yields are assumed for purposes of this hypothetical calculation only. Actual Benchmark Treasury Yields used to determine the Old Note Price, the New Note Price, the Exchange Ratio, the Total Consideration and the annual interest rate on the new notes will depend on market conditions as of the pricing time and may differ materially from the hypothetical Benchmark Treasury Yields assumed here.

Computation of Old Note Price and New Note Price	Old Notes	New Notes
YLD(1)		
CPN(2)		

N(3) ....
S(4) ....
Z(5) ....
Old Note Price and New Note Price(6)...............
Exchange Ratio(6) ....
Total Consideration(6) ....

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(1) The Old Note Reference Yield or the New Note Reference Yield, as applicable.

(2) The nominal rate of interest payable on the securities expressed as a decimal.

(3) The number of regular semi-annual interest payments, based on the maturity date for the old note or new note, as the case may be, from (but excluding) the settlement date of the exchange offer to (and including) the applicable maturity date pursuant to the terms of the securities.

(4) The number of days from and including the semi-annual interest payment date immediately preceding the settlement date up to (but excluding) the applicable settlement date. The number of days is computed using the 30/360 day-count method.

(5) The number of days from and including the settlement date to (but excluding) the first interest payment date minus 180.

(6) These are hypothetical amounts determined on the basis of the hypothetical Benchmark Treasury Yields set forth in the preceding table. Actual amounts determined at the pricing time may differ materially from these hypothetical amounts.

The following table sets forth changes in the interest rate on the new notes and the amount of cash consideration (in addition to US$1,000 principal amount of the corresponding issue of new notes) that would be received in exchange for each US$1,000 principal amount of old notes that we accept, based on various hypothetical Old Note Benchmark Treasury Yields and hypothetical New Note Benchmark Treasury Yields. These yields are assumed for purposes of this hypothetical calculation only. Actual Benchmark Treasury Yields used to determine the annual interest rate on the new notes and the amount of cash consideration will depend on market conditions as of the pricing time and may differ materially from the hypothetical Benchmark Treasury Yields assumed here.

Hypothetical Old Note Benchmark Treasury Yield (November 2007)	Hypothetical New Note Benchmark Treasury Yield (November 2012)	Interest Rate on New Note	Cash Considerat per US$1,000 principal amou

Methodology Generally; No Recommendation

The Old Note Price and the New Note Price will have no necessary relationship to the actual value to you of the old notes or the new notes. You should independently analyze the value of the old notes and the value of the Total Consideration, including the new notes, and make an independent assessment of the terms of the exchange offer. None of us, the dealer managers, the exchange agent or the information agent has expressed any opinion as to whether the terms of the exchange offer are fair. None of us, the dealer managers, the exchange agent or the information agent makes any recommendation that you tender old notes pursuant to the exchange offer or refrain from doing so, and no one has been authorized by us, the dealer managers, the exchange agent or the information agent to make any such recommendation.

Calculations; Information

The Old Note Price will be determined by calculating, per US$1,000 principal amount of old notes, the present value as of the exchange date, using the Old Note Reference Yield, of (i) the principal amount payable at the maturity plus (ii) all remaining payments of interest up to and including the maturity date. The Old Note Price will be rounded to the nearest cent per US$1,000 principal amount of old notes. The New Note Price will be determined by calculating, per US$1,000 principal amount of new notes, the present value as of the exchange date, using the New Note Reference Yield, of (i) the principal amount payable at the maturity plus (ii) all remaining payments of interest up to and including the maturity date. The New Note Price will be rounded to the nearest cent per US$1,000 principal amount of new notes. The methodology to be used in calculating the Old Note Price and New Note Price is set forth in Schedule A hereto. The interest rate on the new notes will be determined by calculating the sum, rounded down to the nearest eighth of (i) the New Note Benchmark Treasury Yield, which is the yield on the % US Treasury Note due 2012 as of the pricing time, plus %. The price and interest rate calculation will be made using the relevant Benchmark Treasury Yields as of the pricing time. The exchange date will be the settlement date for all calculations.

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The Benchmark Treasury Yield on each Benchmark Treasury Note will be calculated by the lead dealer manager in accordance with standard market practice, based on the bid price for such Benchmark Treasury Note as of the pricing time, as such bid price is displayed on page PX1 of the Bloomberg screen. If any relevant price is not available on a timely basis on page PX1 of the Bloomberg screen or is manifestly erroneous, the relevant price information may be obtained from such other quotation service as the lead dealer manager shall select in its sole discretion, the identity of which shall be disclosed by the dealer managers to tendering holders. Although the Benchmark Treasury Yields will be determined based solely on the sources described above, information regarding the prices of Benchmark Treasury Notes also may be found in The Wall Street Journal.

As soon as practicable after the pricing time, but in any event before 9:00 a.m., New York City time, on the following business day, we will publicly announce by press release to the Dow Jones News Service: (i) for the old notes: the Old Note Benchmark Treasury Yield, the Old Note Reference Yield, the Old Note Price, the Exchange Ratio and the Total Consideration to be received by tendering holders if the exchange offer is consummated and (ii) for the new notes: the New Note Benchmark Treasury Yield, the New Note Price and the annual interest rate.

In the event any dispute arises with respect to the Benchmark Treasury Yields, Old Note and New Note Reference Yield, the Exchange Ratio, Old Note Price, interest rate on the new notes or any quotation or calculation with respect to the exchange offer, the lead dealer manager's determination shall be conclusive and binding absent manifest error.

Expiration Time; Extension; Amendment; Termination

The expiration time will be noon, New York City time, on January , 2003, unless we extend it in our sole discretion.

In the event the exchange offer is extended, the term "expiration date" with respect to the exchange offer shall mean the date on which the exchange offer as so extended shall expire.

We expressly reserve the right, in our sole discretion, subject to applicable law, to:

- extend or terminate the exchange offer and not accept for exchange any tendered old notes, if any of the conditions specified in "--Conditions" is not satisfied or waived,

- waive any condition to the exchange offer and accept all old notes tendered pursuant to the exchange offer,

- extend the exchange offer and retain all old notes tendered pursuant to the exchange offer until the expiration of the exchange offer, subject, however, to the withdrawal rights of holders, see "--Withdrawals of Tenders",

- amend the terms of the exchange offer, and

- modify the form of the Total Consideration to be paid pursuant to the exchange offer.

If the Total Consideration offered with respect to the exchange offer is changed, the exchange offer will remain open at least ten business days from the date public notice of such change is given. If the exchange offer is extended, the Old Note Price, the New Note Price, the Exchange Ratio and the interest rate on the new notes will be determined based on the Benchmark Treasury Yields at 4:00 p.m., New York City time, on the third business day prior to the extended expiration time.

Any extension, termination or amendment will be followed as promptly as practicable by a public announcement and notification. In the case of any extension, a public announcement will be issued prior to 9:00 a.m. New York City time, on the next business day after the previously scheduled expiration date of the exchange offer. Without limiting the manner in which we may choose to make any public announcement, we shall not be obligated to publish, advertise or otherwise communicate any such public announcement other than by release to the Dow Jones News Service, with a copy to DTC, Euroclear and Clearstream, Luxembourg, or otherwise as required by law. In the event of any extension of the exchange offer, all old notes tendered pursuant to the exchange offer and not subsequently withdrawn will remain subject to, and holders will continue to have, withdrawal rights until the expiration of, the exchange offer.

In the event that the exchange offer is terminated, withdrawn or otherwise not consummated, the Total Consideration will not be paid or become payable to holders of old notes who have validly tendered their old notes in connection with the exchange offer. In any such event, the old notes previously tendered pursuant to the exchange offer will be promptly returned to the tendering holder.

Conditions

We will not be required to accept any validly tendered old note and may terminate the exchange offer or delay the acceptance of the old notes for exchange if any of the following events occurs on or prior to the expiration date:

- any action or proceeding is instituted or threatened before any court or governmental agency challenging the exchange offer or directly or indirectly relating to the exchange offer or which, in our reasonable judgment would or might impair a contemplated purpose of the exchange offer; any development occurs in any pending action or proceeding which in our reasonable judgment, would or might (1) prohibit, prevent, restrict or delay consummation of the exchange offer, or (2) impair a contemplated purpose of the exchange offer;

- any statute, rule or regulation is proposed or enacted, or any action is taken by any governmental authority, which in our reasonable judgment, would or might (1) prohibit, prevent, restrict or delay consummation of the exchange offer, (2) impair a contemplated purpose of the exchange offer, or (3) result in the imposition of exchange controls by the United States or Chile;

- any change, or development involving a prospective change, occurs which in our reasonable judgment, has had or may have a material adverse effect on the exchange offer or a contemplated purpose of the exchange offer;

- in our reasonable judgment, any actual or threatened legal impediment exists (including a default or prospective default under an agreement, indenture or other instrument or obligation to which we are a party or by which we are bound) to the consummation of the transactions contemplated by the exchange offer;

- any of our securities are suspended or materially limited for trading in the Santiago Stock Exchange, the New York Stock Exchange or any other exchange or quotation system where any of our securities are listed or quoted; or

- any other event occurs, or shall be likely to occur, that in our reasonable judgment may materially affect our business, financial or other condition, income, operations, properties, assets, liabilities or prospects.

The conditions listed above are for our sole benefit and we may, subject to applicable law, waive them, in whole or in part. Any determination we make concerning an event, development or circumstance described or referred to above will be final and binding on all parties to the exchange offer. Our failure at any time to exercise any of the foregoing rights shall not be deemed a waiver of that right.

The exchange offer is not conditioned upon a minimum number of old notes being tendered.

Procedure for Tendering Old Notes

If you are a beneficial owner of old notes, you must contact the broker, dealer, commercial bank, trust company or other custodian through which you hold your notes to ask that your old notes be tendered on your behalf. If your old notes are held through Euroclear or Clearstream, Luxembourg, you must comply with the procedures established by Euroclear or Clearstream, Luxembourg for tendering through Euroclear or Clearstream, Luxembourg.

As of the date of this prospectus all of the old notes are held by the nominee of DTC. The old notes are recorded on DTC's books in the names of DTC participants (each a "DTC participant") who hold the existing notes for beneficial owners or other custodians.

The exchange agent and DTC have confirmed that the exchange offers are eligible for ATOP. Accordingly, a DTC participant may only tender existing notes by electronically transmitting its acceptance of the exchange offer through ATOP. DTC will then verify the acceptance, execute a book-entry transfer to the exchange agent's account at DTC, and send an agent's message to the exchange agent. The term "agent's message" means a message transmitted by DTC, received by the exchange agent and forming part of the book-entry confirmation, which states that DTC has received an express acknowledgment from the DTC participant tendering existing notes that are subject of such confirmation of book-entry transfer and that such DTC participant has received and agrees to be bound by terms of the letter of transmittal and that we may enforce the terms of the letter of transmittal against such DTC participant.

The exchange agent will make a request to establish an account with respect to the old notes at DTC for purposes of the exchange offer within two business days after the date of this prospectus. In order for a book-entry transfer to constitute a valid tender of your old notes in the exchange offer, the exchange agent must receive a confirmation of book-entry transfer of your existing notes. ALTHOUGH YOU SHOULD NOT DELIVER A COMPLETED LETTER OF TRANSMITTAL WHEN YOU TENDER YOUR EXISTING NOTES BY BOOK-ENTRY DELIVERY, YOU ARE STILL BOUND BY THE TERMS OF THE LETTER OF TRANSMITTAL.

You should not send any document relating to the exchange offer to us, the information agent, the dealer managers or DTC.

You may tender old notes only in principal amounts of at least US$5,000 and only in integral multiples of US$1,000. You may tender fewer than all of your old notes provided you appropriately indicate that fact in accordance with the procedures established by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, for tendering through those institutions. We will not accept tenders of old notes in principal amounts less than US$5,000 or that are not integral multiples of US$1,000.

We reserve the right to determine all questions as to tenders, including the date and time of receipt of a tender, the propriety of execution of any document, and other questions as to the validity, form, eligibility or acceptability

of any tender. Alternate, conditional or contingent tenders will not be considered valid. We reserve the right to reject any tender not in proper form or otherwise not valid or the acceptance of which may, in our opinion, be unlawful or to waive any defects, irregularities or conditions of tender as to particular old notes. Our interpretation of the terms and conditions of the exchange offer will be final and binding. None of us, the dealer managers, the exchange agent or the information agent or any other person shall be obligated or under any duty to give notice of any defects or irregularities in tenders, nor shall any of the foregoing incur any liability for failure to give notice of any defects or irregularities. Tenders will not be deemed valid unless and until all defects and irregularities are cured or waived.

Bond Powers; Signature Guaranty

If the registered holder of the old notes (as such holder appears in a DTC securities position listing as the owner of such old notes as of the time of tender) is a person other than the DTC participant referred to in the applicable agent's message, the tender must be accompanied by appropriate bond powers, signed exactly as the name of such registered holder appears in such securities position listing, with the signature on the bond powers guaranteed as described below.

Signatures must be guaranteed by a recognized participant in the Securities Transfer Agents Medallion Program, unless the old notes tendered thereby are tendered (a) by the registered holder of such old notes (as such holder appears on the books of the transfer agent for the old notes or in a DTC securities position listing as the owner of such old notes as of the time of tender) and that registered holder has not completed the box entitled "Special Delivery Instructions" on the letter of transmittal, or (b) for the account of a firm that is a member of a registered national securities exchange or the National Association of Securities Dealers, Inc. or is a commercial bank or trust company having an office in the United States. We refer to any such institution as an "eligible institution".

Guaranteed Delivery Procedures

If a holder of old notes desires to tender such old notes and such holder cannot complete the procedure for book-entry transfer on a timely basis, a tender may be effected if:

(a) the tender is made through an eligible institution;

(b) prior to the expiration time, the exchange agent receives from such eligible institution a properly completed and duly executed notice of guaranteed delivery (by facsimile transmission, mail or hand delivery) setting forth the name and address of the holder of old notes and the principal amount of old notes to be delivered stating that the delivery is being made thereby and guaranteeing that within three New York Stock Exchange trading days after the date of execution of the notice of guaranteed delivery, the letter of transmittal, if applicable, and any other documents required thereby will be deposited by the eligible institution with the depositary; and

(c) a confirmation of a book-entry transfer of such old notes into the exchange agent's applicable account at a book-entry transfer facility as described above, the applicable letter of transmittal and all other documents required thereby are received by the exchange agent within three New York Stock Exchange trading days after the date of execution of such notice of guaranteed delivery.

Letter of Transmittal; Representations, Warranties and Covenants of Holders of Old Notes

The letter of transmittal contains various terms and conditions that are part of the exchange offer. Accordingly, you should read the letter of transmittal carefully.

Upon tender of any old notes, the tendering holder, and the beneficial owner of such old notes on whose behalf the holder has tendered, will each be deemed, among other things, to:

(a) sell, assign and transfer to us or upon our order, or to such other person or persons as we may direct, all right, title and interest in and to all of the old notes tendered;

(b) waive any and all other rights with respect to such old notes;

(c) release and discharge us from any and all claims presently existing or arising out of, or related to the old notes, including without limitation, any claims that such holder or beneficial owner is entitled to receive additional principal, interest or dividend payments with respect to such old notes, or to participate in any redemption or defeasance of such old notes;

(d) irrevocably appoint the exchange agent the true and lawful agent and attorney-in-fact of such holder or beneficial owner (with full knowledge that the exchange agent also acts as our agent) with respect to the old notes tendered, with full powers of substitution and revocation (such power of attorney shall be deemed to be an irrevocable power coupled with an interest), to (i) transfer ownership of such old notes on the account books maintained by DTC to us or upon our order, or to such other person or persons as we may direct; (ii) complete and execute all or any forms of transfer and other such documents, and to deliver any document of title or evidencing transfer or authenticity, as the exchange agent may deem necessary to vest ownership of such old notes in us or our nominee; (iii) receive all benefits and otherwise exercise all rights of beneficial ownership in respect of such old notes, and (iv) execute all such other documents and do all such other acts as in the opinion of the exchange agent may be necessary or expedient for the purpose of, or in connection with, the tender of such old notes, the acceptance of the exchange offer and the transfer of ownership of such old notes to us or our nominee. Such procedures will apply in lieu of any and all other procedures set forth in the indenture, which will be deemed waived upon tender; and

(e) make certain requests, representations and warranties that are set forth in the letter of transmittal.

Withdrawals of Tenders

If you tender old notes, you may withdraw that tender at any time prior to the expiration time. You may not withdraw a tender of old notes after the expiration time. To be effective, your notice of withdrawal must be timely received by the exchange agent at one of its addresses set forth on the back cover page of this prospectus and must (a) specify the name of the participant for whose account such old notes were tendered and such participant's account number at DTC to be credited with the withdrawn old notes, (b) specify the principal amount of the old notes to be withdrawn, and (c) be signed by such participant in the same manner as the participant's name is listed on the applicable agent's message). In addition, the signature on the notice of withdrawal must be guaranteed by an eligible institution unless such old notes have been tendered for the account of an eligible institution. The exchange agent will return the properly withdrawn old notes as soon as practicable following receipt of notice of withdrawal. All questions as to the validity (including time of receipt) of notices of withdrawals will be determined by us, in our sole discretion, and such determination will be final and binding on all parties. None of us, the dealer managers, the exchange agent or the information agent or any other person shall be obligated or under any duty to give notice of any defects or irregularities in any notice of withdrawal, nor shall any of the foregoing incur any liability for failure to give notice of any defects or irregularities. Withdrawals will not be deemed valid unless and until all defects and irregularities are cured or waived.

Withdrawals of tenders can only be accomplished in accordance with the foregoing procedures. Withdrawals of tenders of old notes may not be rescinded, and any tenders properly withdrawn will thereafter be deemed not validly made or given for purposes of the exchange offer. Properly withdrawn old notes may, however, be re-tendered or re-given by again following the procedures described in "--Procedure for Tendering Old Notes" above at any time prior to the relevant deadline.

Acceptance of Tenders; Settlement of Exchange Offer

Subject to the terms and conditions of the exchange offer, we will, within one business day following the date on which the expiration time occurs, accept for exchange (by delivery of a notice of acceptance from us to the exchange agent) all old notes properly tendered and not withdrawn. We will publicly announce our acceptance of old notes for exchange by issuing a press release.

Thereafter, we will settle the exchange offer by issuing new notes in exchange for accepted old notes (and paying net accrued interest) on the third business day following the date on which the expiration time occurs (or as soon thereafter as practicable). We will return old notes that are not accepted for exchange promptly after the expiration time.

Beneficial interests in new notes issued in exchange for validly tendered old notes will be recorded in records maintained by (i) DTC or its nominee or (ii) institutions that have accounts with DTC.

Payment of the dollar cash amounts will be made by deposit of such amounts in immediately available funds by us promptly after the exchange offer expiration time with the exchange agent, which will act as agent for tendering holders for the purpose of receiving payment from us and transmitting such payment to tendering holders. Under no circumstances will interest be paid by us including by reason of any delay in making payment by the exchange agent.

Certain Effects of the Exchange Offer

Successful completion of the exchange offer will reduce the aggregate principal amount of outstanding old notes and may reduce the number of beneficial owners of the remaining old notes. As a result, depending on the aggregate principal amount of old notes exchanged, the successful completion of the exchange offer may adversely affect the liquidity and market prices of the remaining old notes. See "Risk Factors--Risks Associated with the Exchange Offer--The Liquidity of the Old Notes Will Be Reduced".

Other Purchases of Old Notes

Whether or not the exchange offer is consummated, we or our affiliates may from time to time acquire old notes, otherwise than pursuant to the exchange offer, through open market purchases, privately negotiated transactions, tender offers, exchange offers, or otherwise, for such consideration as we may determine, which may be more or less valuable than the value of the consideration to be paid pursuant to the exchange offer.

Solicitation of Tenders; Expenses; Source of Funds

Except as described below under "Exchange Agent, Dealer Managers and Information Agent," we have not retained any agent in connection with the exchange offer and will not make any payments to brokers, dealers, salespersons or other persons for soliciting or recommending acceptances of the exchange offer. However, we will pay brokerage houses and other custodians, nominees and fiduciaries the reasonable out-of-pocket expenses incurred by them in forwarding copies of this prospectus and related documents to the beneficial owners of the old notes.

Regulatory Approvals

The exchange offer is not subject to any regulatory approval in Chile. However, in order to maintain guaranteed access to the Formal Exchange Market to purchase US dollars to pay principal and interest on the notes, we intend to register the exchange offer with the Central Bank as an amendment of the registration of the original offer.

If the Central Bank does not consider the exchange offer to be an amendment of the original registration, we will only be required to inform the Central Bank of the new terms of the notes. In this event, however, we will not have guaranteed access to the Formal Exchange Market to purchase US dollars for repayment with respect to the new notes. See "Risk Factors--Risks Relating to our Notes--The new notes may not have the same guaranteed access to US dollars for repayment as the old notes".

Old Notes Owned by Our Affiliates

Our affiliate Santander Investment Chile Limitada owns 3.72% (US$11,150,000) of the outstanding old notes. Santander Investment Chile Limitada is a subsidiary of Santander Central Hispano, our controlling shareholder.

COMPARISON OF MATERIAL DIFFERENCES BETWEEN
THE OLD NOTES AND THE NEW NOTES

The following is a summary of the material differences between the terms of the old notes and the new notes. For a description of the terms of the new notes, see "Description of the Notes". Other than as described below, the new notes will not differ in any material respects from the old notes. The new notes will be issued under the same indenture as the old notes.

	Old Notes	New Notes
Maturity	July 18, 2007	July 18, 2012
Interest Rate	7%	*

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* Rate to be determined based on fixed-spread methodology described under "The Exchange Offer--Terms of the Offer".

EXCHANGE AGENT, DEALER MANAGERS AND INFORMATION AGENT

We have retained JPMorgan Chase Bank to act as exchange agent, J.P. Morgan Securities Inc. to act as lead dealer manager, Santander Central Hispano Investment Securities Inc. to act as co-dealer manager and D.F. King and Co. to act as information agent in connection with the exchange offer. As compensation for their services, we will pay the exchange agent, the dealer managers and the information agent customary fees. We have also agreed to reimburse the exchange agent, the dealer managers and the information agent for their out-of-pocket expenses (including the fees and disbursements of counsel) and to indemnify them against certain liabilities, including liabilities under federal securities laws.

No person or firm has been retained to render an opinion regarding the fairness of the terms of the exchange offer to the holders of the old notes, and no such opinion will be prepared or delivered.

None of the exchange agent, the dealer managers or the information agent assumes any responsibility for the accuracy or completeness of the information concerning us or our affiliates, the old notes or the new notes contained in this prospectus or for any failure by us to disclose events that may have occurred and may affect the significance or accuracy of such information.

The dealer managers, in the ordinary course of their respective businesses, make markets in our securities, including the old notes. As a result, from time to time, the dealer managers may own certain of our securities, including the old notes.

Our affiliate Santander Central Hispano Investment Securities Inc. will be co-dealer manager in connection with the offer and sale of new notes in the exchange offer. The offering of the notes will be conducted in compliance with any applicable requirements of Rule 2720 of the Conduct Rules of the National Association of Securities Dealers Regulation Inc., regarding the offering by Santander Central Hispano Investment Securities Inc. of the securities of an affiliate. In addition, Santander Central Hispano Investment Securities Inc. may use this prospectus in connection with offers and sales related to market-making activities. Santander Central Hispano Investment Securities Inc. may act as a principal agent in any of these transactions. These sales will be made at negotiated prices related to the prevailing market prices at the time of the sale.

SELECTED HISTORICAL FINANCIAL AND OTHER DATA

The following information has been derived from the audited financial statements of Santiago and Old Santander-Chile as of and for the years ended December 31, 1997 through 2001 and from the unaudited interim financial statements of Santiago and Old Santander-Chile as of and for the six months ended June 30, 2001 and 2002. The financial statements are prepared in accordance with Chilean GAAP and the rules of the Chilean Superintendency of Banks, which together differ in certain significant respects with US GAAP. The information is only a summary and you should read it together with the historical financial statements and related notes contained in this prospectus and the annual reports and other information that we at Old Santander-Chile and

Santiago have filed with the SEC which is incorporated by reference herein. See "Where You Can Find More Information". The financial statements as of and for the six months ended June 30, 2002 may not be indicative of the results we will obtain for the fiscal year 2002 or for any other period.

Under Chilean GAAP, the merger between Santiago and Old Santander-Chile is being accounted for as a "pooling of interests" on a prospective basis. As such, the historical financial statements for periods prior to the merger are not restated under Chilean GAAP. Under US GAAP, the merger between these two, which have been under common control since May 3, 1999, is accounted for in a manner similar to a pooling of interests. As a consequence of the merger, Santander Chile is required to restate its US GAAP historical financial statements previously issued for all periods to retroactively reflect the merged bank as if Santiago and Old Santander-Chile had been combined throughout the periods during which common control existed. Under US GAAP, for periods presented prior to May 3, 1999, the reported financial information reflects book values of Old Santander-Chile, which had been under Banco Santander Central Hispano's control since 1978. See Note 25(a) to Santiago's Consolidated Financial Statements.

Unless otherwise indicated, US dollar amounts have been translated from Chilean pesos based on the observed exchange rate of Ch$747.62 per US$1.00 as reported by the Central Bank on September 30, 2002. The rate reported by the Central Bank is based on the rate for the prior business day in Chile and is the exchange rate specified by the Chilean Superintendency of Banks for use by Chilean banks in the preparation of their financial statements.

SELECTED HISTORICAL FINANCIAL AND OTHER DATA OF SANTIAGO

	As of and for the years ended December 31,					As of
	1997	1998	1999	2000	2001	200
	(in millions of constant Ch$ as of December 31, 2001)(1)					(i Ch$
CONSOLIDATED INCOME STATEMENT DATA						
Chilean GAAP:						
Interest revenue	Ch$618,754	Ch$674,689	Ch$568,848	Ch$625,509	Ch$579,607	Ch$299
Interest expense	(409,980)	(459,904)	(358,528)	(391,652)	(327,033)	(167
Net interest revenue	208,774	214,785	210,320	233,857	252,574	132
Provision for loan losses	(18,921)	(39,758)	(66,981)	(46,220)	(46,567)	(22
Net interest revenue after provisions for loan losses	189,853	175,027	143,339	187,637	206,007	109
Total fees and income from						

services, net	30,245	33,433	33,215	39,417	42,109	23
Loan loss recoveries	9,503	5,952	8,557	9,086	11,336	5
Total other operating income, net	881	8,725	21,821	16,561	18,742	7
Other income (expenses), net	4,686	2,999	208	(5,995)	(1,361)	(4
Operating expenses	(150,157)	(138,399)	(151,351)	(143,413)	(153,992)	(74
Loss from price-level restatement	(14,430)	(11,942)	(7,125)	(11,628)	(7,617)	(3
Income before income taxes	70,581	75,795	48,664	91,665	115,224	64
Income taxes	(515)	(435)	5,880	(411)	3,540	
Net income	70,066	75,360	54,544	91,254	118,764	65
US GAAP:						
Net interest income(3)	161,252	167,151	343,319	421,835	465,521	249
Provision for loan losses	(33,473)	(33,551)	(83,134)	(55,016)	(69,570)	(34
Amortization of goodwill	13,142	13,301	30,058	38,996	38,996	19
Net income	30,720	21,943	64,053	130,685	154,883	93
Long-term borrowings	1,288,143	1,362,167	3,315,124	3,062,309	3,730,767	3,624
CONSOLIDATED BALANCE SHEET DATA						
Chilean GAAP:						
Cash and due from banks	324,659	532,524	361,487	515,982	555,605	686
Financial investments(4)	479,276	526,643	739,664	570,750	944,387	823
Loans, net of allowances	4,497,623	4,697,386	4,491,485	4,626,925	4,945,190	4,884
Loan loss allowances	(46,294)	(64,875)	(92,550)	(89,296)	(94,468)	(91
Total assets	5,536,260	6,004,913	5,841,364	6,031,992	6,760,916	6,856
Deposits	2,549,862	3,122,978	3,109,455	3,138,268	3,476,343	3,599
Other interest-bearing liabilities	2,024,070	1,900,172	1,841,596	1,976,343	2,264,913	2,174
Shareholders' equity(5)	475,432	490,488	470,291	510,357	538,989	487
US GAAP:						
Total assets(3)	4,203,749	4,364,582	10,645,823	10,209,619	11,648,287	11,502
Shareholders' equity(6)	576,676	571,903	1,353,294	1,383,143	1,371,478	1,380
Goodwill	220,875	207,580	581,390	542,394	503,398	524

As of and for the years ended December 3

	1997	1998	1999	2000	20
CONSOLIDATED RATIOS					
Chilean GAAP:					
Profitability and Performance					
Net interest margin(7)	4.5%	4.1%	3.9%	4.6%	
Return on average total assets(8)	1.4%	1.3%	0.9%	1.6%	
Return on average shareholders' equity(9)	18.2%	15.9%	12.2%	19.8%	2
Capital					
Average shareholders' equity as a percentage of average total assets	7.0%	8.0%	7.4%	8.1%	
Total liabilities as a multiple of shareholders' equity	10.6	11.2	11.4	10.8	
Bank regulatory capital as percentage of minimum regulatory capital required	2.1%	2.4%	2.5%	2.4%	
Credit Quality					
Loan loss allowances as a percentage of non-performing loans(10)	74.2%	59.8%	57.9%	79.7%	8
Non-performing loans as a percentage of total loans(10)	1.4%	2.3%	3.5%	2.4%	
Loan loss allowances as a percentage of total loans	1.0%	1.4%	2.0%	1.9%	
Past due loans as a percentage of total loans(11) ...	0.6%	1.1%	1.3%	1.3%	
Operating Ratios					
Operating expenses/operating revenue(12)	62.6%	53.9%	57.0%	49.5%	4
Operating expenses/average total assets	2.9%	2.3%	2.5%	2.5%	
Consolidated risk index	0.84%	1.05%	1.52%	1.37%	1
Ratio of earnings to fixed charges:(13)					
Including interest on deposits	1.17	1.17	1.14	1.23	
Excluding interest on deposits	1.38	1.50	1.38	1.50	
US GAAP:					
Profitability and Performance					
Net interest margin(14)	4.3%	4.2%	3.5%	4.3%	
Return on average total assets(15)	0.7%	0.5%	0.6%	1.3%	
Return on average shareholders' equity(16)	5.5%	3.8%	4.9%	9.6%	1
Ratio of earnings to fixed charges:(13)					
Including interest on deposits	1.11	1.07	1.19	1.25	
Excluding interest on deposits	1.27	1.18	1.47	1.56	
CREDIT QUALITY					
Past-due loans to total loans	0.8%	1.1%	1.1%	1.4%	
Provisions for loan losses to total loans	1.0%	1.0%	1.5%	1.3%	
OTHER DATA					
GDP Growth Rate(%)	6.6%	3.2%	(1.0)%	4.4%	
Inflation Rate(17)	6.0%	4.7%	2.3%	4.5%	
Revaluation (Devaluation) Rate (Ch$/US$) at period end(17)	3.5%	7.7%	11.4%	8.5%	1

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(1) Except percentages and ratios.

(2) Amounts stated in US dollars as of and for the six months ended June 30, 2002 have been translated from Chilean pesos at the observed exchange rate of Ch$747.62 = US$1.00 as of September 30, 2002. See "Exchange Rates" for more information on the observed exchange rate.

(3) Net interest income and total assets on a US GAAP basis have been determined by applying the relevant US GAAP adjustments to net interest income presented in accordance with Article 9 of Regulation S-X but calculated on a Chilean GAAP basis (see Note 25(x) to Santiago's Consolidated Financial Statements and Note 17 to Santiago's Interim Unaudited Consolidated Financial Statements).

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

(5) Shareholders' equity as of year or period end includes net income for that period.

(6) Shareholders' equity as of year or period end. See Note 25(v) to Santiago's Consolidated Financial Statements Note 17 to Santiago's Interim Unaudited Financial Statements.

(7) Net interest revenue (annualized, in the case of information for the six-month periods ended June 30, 2001 and 2002) divided by average interest earning assets (as presented in "Selected Statistical Information" in Santiago's Form 20-F).

(8) Net income (annualized, in the case of information for the six-month periods ended June 30, 2001 and 2002) divided by average total assets as presented in "Item 4: Information on the Company--Selected Statistical Information" in Santiago's Form 20-F.

(9) Net income (annualized, in the case of information for the six-month periods ended June 30, 2001 and 2002) divided by average shareholders' equity as presented in "Item 4: Information on the Company--Selected Statistical Information" in Santiago's Form 20-F.

(10) Non-performing loans consist of non-accrual loans and restructured loans earning no interest. Pursuant to regulations of the Chilean Superintendency of Banks, we cease to accrue interest on a loan as soon as it becomes overdue as to any payment of principal or interest.

(11) Past due loans are loans that are 90 days or more overdue.

(12) Operating revenue includes "Net interest revenue," "Total fees and income from services, net" and "Other operating income, net".

(13) 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 (excluding and including interest on deposits) and the proportion deemed representative of the interest factor of rental expense.

(14) Net interest margin on a US GAAP basis has been determined by applying the relevant US GAAP adjustments to net interest income presented in accordance with Article 9 of Regulation S-X but calculated on a Chilean GAAP basis. See Note 25(x) to Santiago's Consolidated Financial Statements and Note 17 to Santiago's Interim Unaudited Consolidated Financial Statements.

(15) Net income (annualized, in the case of information for the six-month periods ended June 30, 2001 and 2002) divided by average total assets.

Average total assets were calculated as an average of the beginning and ending balance for each year, and total assets on a US GAAP basis has been determined by applying the relevant US GAAP adjustments to total assets presented in accordance with Article 9 of Regulation S-X. See Note 25(x) to Santiago's Consolidated Financial Statements and Note 17 to Santiago's Interim Unaudited Consolidated Financial Statements.

(16) Average shareholders' equity was calculated as an average of the beginning and ending balance for each year. Shareholders' equity on a US GAAP basis has been determined by applying the relevant US GAAP adjustments to shareholders' equity presented in accordance with Article 9 of Regulation S-X. See Note 25(x) to Santiago's Consolidated Financial Statements and Note 17 to Santiago's Interim Unaudited Consolidated Financial Statements.

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

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SELECTED HISTORICAL FINANCIAL AND OTHER DATA
OF OLD SANTANDER-CHILE

	As of and for the years ended December 31,					As of and
	1997	1998	1999	2000	2001	2001
	(in millions of constant Ch$ as of December 31, 2001)(1)					(in mill const Ch$ as of 200
CONSOLIDATED INCOME STATEMENT DATA						
Chilean GAAP:						
Interest revenue	Ch$521,380	Ch$554,207	Ch$520,241	Ch$548,917	Ch$501,860	Ch$263,076
Interest expense	(350,586)	(391,259)	(317,653)	(351,025)	(286,050)	(148,075
Net interest revenue	170,794	162,948	202,588	197,892	215,810	115,001
Provision for loan losses	(41,819)	(48,336)	(60,959)	(43,617)	(48,424)	(26,394
Net interest revenue after provision for loan losses	128,975	114,612	141,629	154,275	167,386	88,607
Fees and income from services, net	33,150	39,698	34,372	35,377	44,870	22,897
Gains (losses) from trading and brokerage activities, net	(3,008)	(790)	6,470	9,288	7,199	12,522
Foreign exchange transactions, net	11,474	24,408	10,639	20,548	19,690	(2,077
Other operating expenses (3)	--	--	(8,407)	(7,851)	(10,338)	(6,386
Subtotal	8,466	23,618	8,702	21,985	16,551	4,059
Other income						

(expenses), net:						
Recovery of loans previously charged off	8,356	10,039	11,276	12,428	12,140	5,801
Minority interest	(28)	253	(200)	(71)	(86)	(50
Total other income (expenses)	4,989	4,315	436	(15)	(2,127)	(737
Subtotal	13,317	14,607	11,512	12,342	9,927	5,064
Operating expenses (3) ..	(130,674)	(129,618)	(123,281)	(119,399)	(123,436)	(59,486
Loss from price-level restatement	(10,723)	(7,396)	(4,351)	(8,354)	(6,155)	(3,334
Income before income taxes	42,511	52,521	68,583	96,226	109,143	57,757
Income taxes	(5,776)	(5,806)	(9,961)	(14,790)	(17,050)	(9,282
Net income	36,735	46,715	58,622	81,436	92,093	48,475

	As of December 31,					As of and
	1997	1998	1999	2000	2001	2001
	(in millions of constant Ch$ as of December 31, 2001)(1)					(in mi constan June
CONSOLIDATED BALANCE SHEET DATA						
Chilean GAAP:						
Financial investments ..	779,126	1,022,178	1,375,174	1,405,015	1,566,922	1,387,38
Loans, net of allowance for loan losses	3,133,186	3,096,182	3,293,395	3,187,488	3,474,862	3,359,95
Total assets	4,408,107	4,835,497	5,275,507	5,258,683	5,842,177	5,661,86
Deposits	2,350,213	2,671,042	3,001,132	3,013,556	3,259,850	3,172,40
Other interest-bearing liabilities	1,324,709	1,402,174	1,496,867	1,485,924	1,609,196	1,496,90
Shareholders' equity ...	355,316	374,193	366,211	409,176	453,869	411,50

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	As of and for the year ended December 31,				As of and for
	1997	1998	1999	2000	2001
CONSOLIDATED RATIOS					
Chilean GAAP:					
Profitability and Performance:					
Net interest margin(4)	4.57%	4.11%	4.55%	4.29%	4.55%

Return on average total assets(5)	0.83%	1.02%	1.04%	1.52%	1.71%
Return on average shareholders' equity(6)	10.21%	11.98%	16.50%	20.16%	21.45%
Ratio of earnings to fixed charges(15)					
Including interest on deposits	1.12	1.13	1.22	1.27	1.38
Excluding interest on deposits	1.30	1.34	1.50	1.69	1.82
Capital:					
Period-end shareholders' equity as a percentage of period-end total assets	8.06%	7.74%	6.94%	7.78%	7.77%
Bank regulatory capital as a percentage of minimum regulatory capital required(7)	175.88%	236.46%	201.83%	217.63%	215.15%
Minimum effective equity required as a percentage of bank's effective equity(8)	--	163.33%	147.62%	153.34%	140.75%
Credit Quality:					
Category "B-," "C" and "D" loans as a percentage of total loans(9)	2.62%	2.48%	2.61%	3.00%	2.49%
Past due loans as a percentage of total loans(10)	1.31%	1.53%	1.68%	1.61%	1.36%
Reserves for loan losses as a percentage of category "B-," "C" and "D" loans	50.03%	64.11%	75.81%	68.12%	73.87%
Reserves for loan losses as a percentage of past due loans	120.53%	103.82%	117.77%	126.48%	135.70%
Risk index (unconsolidated)(11)	1.20%	1.27%	1.38%	1.51%	1.30%
Efficiency Ratios:					
Operating expenses as a percentage of operating revenue, net(3)(12)	61.52%	58.06%	50.08%	46.73%	44.52%
Operating expenses as a percentage of average total assets(3)(13)	2.94%	2.82%	2.19%	2.22%	2.29%
OTHER DATA:					
GDP growth rate(14)	6.6%	3.2%	(1.0)%	4.4%	2.8%
Inflation rate	6.0%	4.7%	2.3%	4.5%	2.6%
Price-level restatement factor ...	6.3%	4.3%	2.6%	4.7%	3.1%
Period-end Exchange Rate (Ch$ per US$)	439.81	473.77	527.7	572.68	656.20

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(1) Except percentages and ratios.

(2) Amounts stated in US dollars as of and for the six months ended June 30, 2002 have been translated from Chilean pesos at the observed exchange rate of Ch$747.62 = US$1.00 for September 30, 2002. See "Exchange Rate" for more information on the observed exchange rate.

(3) In the year 2001 the Old Santander-Chile reclassified the variable portion of its sales force expense from "Administrative Expenses" to "Other Operating Expenses". In order to make the figures comparable, the same

reclassification is reflected in the Consolidated Statement of Income of 1999 and 2000 for an amount of Ch$8,231 million and Ch$7,858 million, respectively. The efficiency ratio therefore, was also adjusted for this change from 51.80% to 50.08% in 1999 and from 48.37% to 46.73% in 2000.

(4) Net interest (annualized, in the case of information for the six-month periods ended June 30, 2001 and 2002 revenue) divided by average interest earning assets.

(5) Net income (annualized, in the case of information for the six-month periods ended June 30, 2001 and 2002) divided by average total assets. Average total assets was calculated on the basis of daily balances of Santander Chile and on the basis of monthly balances for its subsidiaries.

(6) Net income (annualized, in the case of information for the six-month periods ended June 30, 2001 and 2002) divided by average shareholders' equity. Average shareholders' equity used in this calculation includes Santander Chile's net income, net of dividends paid in the applicable period.

(7) In accordance with the General Banking Law, banks are required to have a minimum paid-in capital and reserves of at least 3% of its total unconsolidated assets.

(8) In accordance with the General Banking Law, banks are required to have a minimum effective equity of at least 8% of its consolidated risk-weighted assets, net of required reserves. In June 2002 the Superintendency of Banks modified the formula for calculating effective equity. Previously, the investment in subsidiaries was subtracted from effective equity and the risk weighted assets of the subsidiaries were not included in the total risk weighted assets of Old Santander-Chile. Currently, the investment in subsidiaries is no longer subtracted and the risk weighted assets of the subsidiaries are included in the bank's total risk weighted assets. As Old Santander-Chile's subsidiaries mainly invested in risk-free investments the net effect of this change is positive for the calculation of Old Santander-Chile's effective equity and BIS ratio.

(9) All loans in categories "B-," "C" and "D" are substandard loans. See "Item 5D: Asset and Liability Management--Loan Portfolio--Classification of Loan Portfolio".

(10) Past due loans include, with respect to any loan, only that portion of principal or interest that is 90 days or more overdue. See "Selected Statistical Information of Old Santander-Chile--Classification of Loan Portfolio Based on the Borrower's Payment Performance".

(11) Chilean banking regulations require the calculation of a risk index, calculated on an unconsolidated basis, relating to the classifications of Santander Chile's loans based on the payment performance of Santander Chile's borrowers. Does not include leasing loans. See "Selected Statistical Information of Old Santander-Chile--Classification of Loan Portfolio Based on the Borrower's Payment Performance--Analysis of Loan Loss Allowances".

(12) Operating expenses divided by net operating revenue. Net operating revenue consists of net interest revenue, fees and income from services, net and other operating income, net.

(13) Operating expenses divided by average total assets. Average total assets was calculated on the basis of daily balances of Santander Chile and on the basis of monthly balances for its subsidiaries.

(14) Central Bank of Chile. In 2001 the Central Bank of Chile changed the base year for calculating GDP from 1986 to 1996, and adjusted historical figures using this new base year. The figures presented for the period 1997-2002 use 1996 as the base year.

(15) Earnings consist of earnings before income tax and fixed charges. Fixed charges consist of gross interest expense (excluding and including interest on deposits) and the proportion deemed representative of the interest factor of rental expense.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following pro forma financial information gives effect to the merger of Old Santander-Chile into Santiago through the exchange of shares or in the case of fractional shares, cash.

The pro forma financial information is presented in accordance with guidelines specified by the SEC. The pro forma presentation is intended to reflect the hypothetical impact on historical financial statements if the proposed merger transaction occurred, with respect to the balance sheet, as of the pro forma balance sheet date and with respect to the income statement, as of the beginning of the pro forma income statement period. This pro forma presentation does not give effect to anticipated changes to be implemented by management to achieve consolidated cost savings nor other changes that may result from implementation of operational or strategic changes.

The pro forma combined balance sheet at June 30, 2002 has been prepared as if the merger had been completed on June 30, 2002. The pro forma combined income statements for the year ended December 31, 2001 have been prepared as if the merger had been completed on January 1, 2001, and the pro forma combined income statements for the six-month period ended June 30, 2002 have been prepared as if the merger had been completed on January 1, 2002.

Unless we indicate otherwise, the pro forma combined financial information is presented in constant Chilean pesos of June 30, 2002 purchasing power. The US dollar amounts disclosed in the pro forma combined financial information are presented solely for the convenience of the reader at the observed exchange rate for September 30, 2002 of Ch$747.62 per US$1.00. This translation should not be construed as a representation that Chilean pesos amounts actually represent US dollars or have been or could be converted into US dollars at such rate or at any other rate. See "Exchange Rates" for an explanation of the observed exchange rate.

Chilean GAAP Accounting Treatment

Under Chilean GAAP, we intend to account for the transaction as a merger commonly referred to as a "pooling of interests" on a prospective basis based from the effective date of the transaction, without retroactively restating our historical financial statements issued prior to the date of the merger. In the pro forma presentation below, we have accounted for the transaction by combining our historical balance sheets and income statements after eliminating any transactions or balances between the two banks. The footnotes that follow the pro forma information provide additional explanation of the presentation.

We have prepared and presented the pro forma combined financial information in accordance with Chilean GAAP, which differs in some respects from US GAAP. See "--Notes to the Unaudited Pro Forma Condensed Combined Financial Statements" for a description of the material differences between Chilean GAAP and US GAAP.

We have also prepared a reconciliation between the pro forma combined financial information in accordance with Chilean GAAP and US GAAP. For a discussion of the differences between Chilean GAAP and US GAAP, see "--Accounting Treatment of Merger for US GAAP Purposes" below.

The pro forma combined financial information of Old Santander-Chile and Santiago is for informational purposes only and does not represent either bank's financial position or results of operations as of any date or for any period, nor does it project either bank's financial position or results of operations as of any future date or for any future period.

Unaudited Pro Forma Condensed Combined Balance Sheet
As of June 30, 2002

Historical financial information under Chilean GAAP (Unaudited)

	1 Old Santander-Chile	2 Santiago	3 Sub-Total Banks	4 Mer Adjust
	(in millions of constant Ch$ as of June			
ASSETS				
Cash and due from banks	636,501	627,055	1,263,556	(
Financial investments	1,483,139	908,709	2,391,848	(61,
Loans	3,533,317	5,167,497	8,700,814	(28,
Allowance for losses	(57,581)	(94,443)	(152,024)	
Bank premises and equipment, net	109,958	115,514	225,472	
Other	367,123	243,818	610,941	
Total assets	6,072,457	6,968,150	13,040,607	(89,
LIABILITIES				
Deposits:				
Current accounts	441,585	508,712	950,297	(
Bankers drafts and other deposits	557,759	462,095	1,019,854	
Saving accounts and time deposits	2,375,225	2,762,764	5,137,989	(12,
Total deposits	3,374,569	3,733,571	7,108,140	(13,
Other interest liabilities:				
Central Bank borrowings	26,637	60,097	86,734	
Investment under Agreements to Repurchase..	298,230	191,435	489,665	
Mortgage finance bonds	562,565	1,113,547	1,676,112	(32,
Foreign borrowings	198,464	253,912	452,376	

Bonds	362,928	493,469	856,397	(15,
Other interest-bearing liabilities	185,404	108,212	293,616	(28,
Total other interest-bearing liabilities	1,634,228	2,220,672	3,854,900	(76,
Other liabilities	643,285	523,781	1,167,066	
Total liabilities	5,652,082	6,478,024	12,130,106	(89,
Minority interest	671	--	671	
Shareholders' equity	419,704	490,126	909,830	
Total liabilities and shareholders' equity	6,072,457	6,968,150	13,040,607	(89,

See Notes to the Unaudited Pro Forma Financial Information.

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Unaudited Pro Forma Condensed Combined Income Statement
For the six-month period ended June 30, 2002

	1 Old Santander-Chile	2 Santiago	3 Sub-Total Banks	M Adj
	(in millions of Ch$ as of June 30			
Historical Financial information under Chilean GAAP (unaudited)				
Interest revenue	239,809	269,522	509,331	
Interest expense	(112,569)	(130,312)	(242,881)	
Provision for loan losses	(13,787)	(21,773)	(35,560)	
Total fees and income from services, net	22,741	22,818	45,559	
Total other operating income (expenses), net	(5,083)	6,680	1,597	
Personnel, administrative and other operating expenses	(60,627)	(78,119)	(138,746)	
Other non-operating income	10,973	12,517	23,490	
Other non-operating expense	(12,673)	(5,113)	(17,786)	
Loss from price level restatement, net	(1,283)	(1,002)	(2,285)	
Income before income taxes	67,501	75,218	142,719	
Income taxes	(10,490)	(8,232)	(18,722)	
Minority interest	(80)	--	(80)	
Net income	56,931	66,986	123,917	

See Notes to the Unaudited Pro Forma Financial Information.

Unaudited Pro Forma Condensed Combined Income Statement
For the year ended December 31, 2001

	1 Old Santander-Chile	2 Santiago	3 Sub-Total Banks	Ad
	(in millions of constant Ch$ as of De			
Historical Financial information under Chilean GAAP (unaudited)				
Interest revenue	501,860	579,607	1,081,467	
Interest expense	(286,050)	(327,033)	(613,083)	
Provision for loan losses	(48,424)	(46,567)	(94,991)	
Total fees and income from services, net	44,870	42,109	86,979	
Total other operating income (expenses), net ...	16,551	18,742	35,293	
Personnel, administrative and other operating expenses	(123,436)	(153,992)	(277,428)	
Other non-operating income	18,241	27,585	45,826	
Other non-operating expense	(8,228)	(17,610)	(25,838)	
Loss from price level restatement, net	(6,155)	(7,617)	(13,772)	
Income before income taxes	109,229	115,224	224,453	
Income taxes	(17,050)	3,540	(13,510)	
Minority interest	(86)	--	(86)	
Net income	92,093	118,764	210,857	

See Notes to the Unaudited Pro Forma Financial Information.

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Basis of Presentation

We have prepared the pro forma combined financial information of Santander Chile based on the historical unaudited interim financial statements of Old Santander-Chile and Santiago for the six-month period ended June 30, 2002 and the audited financial statements for the year ended December 31, 2001. We have presented the pro forma combined financial information of Santander Chile in columnar format. The six columns represent the following:

Columns 1 and 2: The columns labeled "Old Santander-Chile" and "Santiago" have been derived from the historical financial statement amounts for the named banks, prepared in accordance with Chilean GAAP and expressed in millions of constant Chilean pesos as of June 30, 2002 and December 31, 2001, as applicable.

Column 3: The column labeled "Sub-Total Banks" is the sum of columns 1 and 2.

Column 4: The column labeled "Merger Adjustments" includes the elimination of transactions and account balances between Old Santander-Chile and Santiago as of or for the periods presented, in accordance with Chilean GAAP and expressed in millions of constant Chilean pesos. It includes an estimate of Ch$499 million in severance indemnities and transaction costs of Ch$1,338 million associated with the merger, such as legal fees, consultants' fees, accounting fees and printing costs. The adjustments are expressed in millions of constant Chilean pesos as of June 30, 2002 and December 31, 2001, as applicable.

Column 5: The column labeled "Pro Forma Combined" is the sum of columns 3 and 4, which represents the pro forma combined balance sheet or pro forma combined income statement, prepared in accordance with Chilean GAAP and expressed in constant Chilean pesos.

Column 6: This column presents a convenience translation of the US dollar amounts disclosed in column 5, presented solely for the convenience of the reader, using the September 30, 2002 closing exchange rate of Ch$747.62 per US$1.00. Both Old Santander-Chile and Santiago maintain their accounting records and prepare their financial statements in Chilean pesos.

Accounting Treatment of the Merger for US GAAP Purposes

Under US GAAP, we intend to account for the transaction as a merger of entities under common control as Banco Santander Central Hispano, controls both Old Santander-Chile and Santiago. US GAAP requires that we record the transaction in a manner similar to a pooling of interests based on the carrying values for Old Santander-Chile included the accounting records of the common parent, Banco Santander Central Hispano. However, to the extent that we exchange either Santiago shares or cash (in the case of fractional shares) for Old Santander-Chile shares held by parties other than Banco Santander Central Hispano, we will account for the transaction using the purchase method based on fair values.

Reasons leading to our conclusion on US GAAP Accounting Treatment

We intend to account for the purchase of each bank by our parent company Banco Santander Central Hispano separately when combining the banks. Therefore, for US GAAP purposes, the transactions will be considered as a merger of two separate companies that are under common control. We base this accounting treatment on the factors described below.

In 1978, Banco Santander S.A. in the Banco Santander Central Hispano Group established a subsidiary in Chile, which was subsequently merged into Banco Osorno in July 1996 in a stock for stock transaction. Under Chilean GAAP, this transaction was accounted for as a pooling of interests in which the recorded assets and liabilities of each of Old Santander-Chile and Banco Osorno were carried forward and combined at their recorded amounts as at January 1, 1996. Under US GAAP, the transaction was accounted for as a reverse acquisition with Banco Osorno being accounted for as the acquired entity. As such, purchase accounting adjustments were applied to the accounts

of Banco Osorno to reflect the ownership interest acquired by the shareholders of Banco Santander S.A.'s Chilean subsidiary. Consequently, goodwill was recorded as the difference between fair value of the consideration paid by Old Santander-Chile's shareholders and the fair value of separately identifiable net assets of Banco Osorno received. For US GAAP purposes, the merger occurred on July 1, 1996. The name of the merged entity was changed to "Banco Santander Chile". The participation of Banco Santander Central Hispano S.A. in Old Santander-Chile prior to the merger was 89.1% with the balance held by the public.

In March 1999, the parent company, Banco Santander S.A. agreed to merge with Banco Central Hispanoamericano S.A. to form Banco Santander Central Hispano. At the time of this merger, Banco Central Hispanoamericano S.A. indirectly owned 21.7% of Santiago through a 50% participation in the Chilean financial holding company, O'Higgins Central Hispano S.A., now known as Teatinos Siglo XXI S.A. In May 1999, Banco Santander Central Hispano acquired the 50% of O'Higgins Central Hispano S.A. that it did not already own from the Luksic family. Although Banco Santander Central Hispano had a participation of less than 50.0%, they gained control of Santiago at this date, because the shares held by the Central Bank of Chile were restricted from voting. In the first quarter of 2002, Banco Santander Central Hispano through its subsidiaries acquired the 35.44% participation in Santiago held by the Central Bank. As a result of these transactions, Banco Santander Central Hispano held a 78.95% participation in Santiago prior to the merger.

For pro forma purposes we have determined the purchase price using the share price as of August 1, 2002 and the fair values of the assets acquired and liabilities assumed as of June 30, 2002.

The following shareholding structure which does not reflect the merger of Old Santander-Chile and Santiago, details Banco Santander Central Hispano's participation in each bank as of June 30, 2002:

Summarized Shareholding Structure of Banco Santiago and Old Santander-Chile

```
                                 -----------------
                                       BSCH
                                 -----------------
                                      (Spain)
                                 -----------------
                                   |     |     |
                                   |     |     |
           ------------------------      |     ----------------------
           |                             |                          |
           |                             |                          |
           |                             |                          |
           |                             |                          |
         99.9%                         98.92%                     100.0%
 -------------------           -------------------          -------------------
        SCH                         Santander                   Teatinos
    Bank & Trust          ----   Chile Holding                  Siglo XXI
 -------------------      |    -------------------          -------------------
           |              |              |                          |
           |              |              |                          |
           |              |              |                          |
           |              |              |                          |
           |              |            99.9%                        |
           |        52.15%|    -------------------                  |
           |              |         Servicios                       |
           |              |          Bandera                        |
           |              |    -------------------                  |
           |              |              |                          |
           |              |              |                          |
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```
          |               |            |                     78.95%
          |               |            |              -------------------
          |               |          22.5%                  Santiago
          |               |   -------------------             (Chile)
          |              ----   Old Santander-        -------------------
          |-------------------      Chile
                15.22%        -------------------
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Differences between Chilean GAAP and US GAAP

Set forth below is a reconciliation of combined pro forma shareholders' equity as of June 30, 2002 and combined pro forma net income for the six-month period ended June 30, 2002 under Chilean GAAP to the corresponding amounts that would be reported in accordance with US GAAP, except for the omission of adjustments necessary to eliminate the effect of price-level changes. The reconciliations to US GAAP below are presented in constant Chilean pesos of June 30, 2002. For a description of the material differences between Chilean GAAP and US GAAP as they relate to us, see Note 25 to Santiago's Consolidated Financial Statements and Note 17 to the Santiago's Interim Unaudited Consolidated Financial Statements.

Reconciliation to US GAAP of Pro Forma Shareholders' Equity as of June 30, 2002

	As of June 3
	(in millions of constant as of June 30, 2002)
Pro forma combined shareholders' equity under Chilean GAAP	909,829
US GAAP adjustments:	
Adjustments relating to Santiago	
Historical US GAAP adjustments in Santiago	534,357
Adjustments relating to Old Santander-Chile	
Incremental carrying values in records of Banco Santander Central Hispano relating to 89% stake	
Goodwill	150,152
Investment Securities	9,366
Other US GAAP differences	(11,598)
Acquisition of 11% minority interest at fair value	
Goodwill	40,014
Core deposit intangibles and other identifiable intangibles	21,912
Other purchase accounting differences	299
Sub-total pro forma US GAAP adjustments	744,502
Pro forma combined shareholders' equity under US GAAP	1,654,331

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(1) Amounts stated in US dollars have been translated from Chilean pesos at the observed exchange rate on September 30, 2002 of Ch$747.62 per US$1.00.

Reconciliation to US GAAP of Pro Forma Net Income for the Year ended December 31, 2001 and Six Months ended June 30, 2002

	For the year ended December 31, 2001	
	(in millions of constant Ch$ of December 31, 2001)	(in thousands of US$)(3)
Pro forma combined net income under Chilean GAAP	209,020	279,581
US GAAP adjustments:		
Adjustments relating to Santiago-		
Historical US GAAP adjustments in Santiago	(46,893)	(62,723)
Adjustments relating to Old Santander-Chile-		
Carrying values in records of Banco Santander Central Hispano relating to 89% stake		
Amortization of Goodwill (1)	(11,834)	(15,829)
Investment securities	5,924	7,924
Other US GAAP differences	(3,603)	(4,819)
Acquisition of 11% minority interest at fair value		
Amortization of core deposit intangible and other identifiable intangibles	(1,061)	(1,419)
Other purchase accounting adjustments (2)	357	478
Sub-total pro forma US GAAP adjustments	(57,110)	(76,388)
Pro forma combined net income under US GAAP	151,910	203,193
Other comprehensive income	3,872	5,179
Comprehensive income	155,782	208,372

(1) Goodwill resulting from acquisitions that took place after June 30, 2001 has not been amortized. Instead, annual impairment tests are performed.

(2) Goodwill resulting from acquisitions that took place prior to June 30, 2001 has been amortized through December 31, 2001, after which time no amortization is charged and annual impairment tests have been performed.

(3) Amounts stated in US dollars have been translated from Chilean pesos at the observed exchange rate on September 30, 2002 of Ch$747.62 per US$1.00.

Additional Disclosures

The following table sets forth the US GAAP purchase accounting adjustment as of June 30, 2002, relating to the purchase of 11% of Old Santander-Chile.

	June 30, 2002 (in millions of Ch$)(2)
Net book value of Old Santander-Chile	419,704
Incremental fair value of identified intangible assets	199,201
Fair value increment of identifiable assets acquired other than identified intangible assets	68,859
Fair value decrease of identifiable liabilities assumed	(24,782)
Fair value of Old Santander-Chile	662,982
Fair value of interest acquired in Old Santander-Chile (11%)	72,928
Purchase cost, including an estimated Ch$1,837 million of related acquisition expenses(1)	112,942
Pro forma goodwill under US GAAP(3)(4)(5)	40,014

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(1) The purchase price was the market value of Santiago shares on the Santiago Stock Exchange multiplied by the percentage of shares to be issued in the merger relating to the purchase of Banco Santander Chile. The market value is the share price on August 1, 2002.

(2) Converted into Chilean pesos using the exchange rate on September 30, 2002 of Ch$747.62 per US$1.00.

(3) Under changes that have been made to US GAAP, goodwill resulting from acquisitions that took place after June 30, 2001 is not amortized. Instead, annual impairment tests are performed.

(4) Goodwill resulting from acquisitions that took place prior to June 30, 2001, has been amortized through December 31, 2001, after which time no amortization is charged and annual impairment tests will be performed.

(5) Under Chilean GAAP the transaction is being accounted for as a merger, commonly referred to as a "pooling of interests". For this reason, no goodwill arises.

Pro Forma Earnings Per Share

The pro forma weighted average number of shares of the combined entity set forth in the following table is based on the 188,446,126,794 shares outstanding as of June 30, 2002.

	For the year ended December 31, 2001 (in millions of constant Ch$ of December 31, 2001)	For t J (in mil Ch$ o
Pro forma earnings per and diluted earnings per share:		

Chilean GAAP (in single Chilean pesos)	1.11
US GAAP (in single Chilean pesos)	0.82
Weighted average number of shares of common stock outstanding (in millions of shares)	188,446.1

Basic and diluted earnings per share has been calculated by dividing net income by the weighted average number of common shares outstanding during the period. Santander Chile has not issued convertible debt or equity securities. Consequently, there are not potentially dilutive effects on the earnings of Santander Chile.

Earnings per share has been calculated by dividing net income by the weighted average number of common shares outstanding based on the exchange ratio of the number of Santiago shares that holders of Old Santander-Chile received, less 4,954 fractional shares acquired in cash, as per the merger agreement.

Operating and Financial Review of Santiago

Santiago prepared its financial statements in accordance with Chilean GAAP and the rules of the Superintendency of Banks relating thereto, which together differ in certain important respects from US GAAP. Note 25 to Santiago's Consolidated Financial Statements describes the principal differences between Chilean GAAP and US GAAP. Note 17 to Santiago's Interim Unaudited Consolidated Financial Statements includes a reconciliation to US GAAP of Santiago's net income for the six months ended June 30, 2001 and 2002 and shareholders' equity as of June 30, 2001 and 2002.

Pursuant to Chilean GAAP, the financial information in the following pages, for both six-month periods, is restated in constant Chilean pesos as of June 30, 2002.

Critical Accounting Policies

For a description of Santiago's critical accounting policies, see "Item 5: Operating and Financial Review and Prospects--Liquidity and Capital Information" in Santiago's Form 20-F.

Results of Operations for the Six-Month Periods ended June 30, 2001 and 2002

The performance of the Chilean banking system is closely linked to the performance of the Chilean economy. In the past the growth of the loan market has outpaced the growth of the overall economy. The high levels of growth in GDP between 1986 and 1997 led to a corresponding increase in loans, especially in the mid-sized business and individual markets. Similarly, the growth in real wages during this period led to an increase in savings and deposits.

In 1998, the performance of the Chilean economy changed drastically due to a severe imbalance in the growth of aggregate expenditures compared to a much smaller growth in output and income, which caused an increase in the current account deficit. In response, the Central Bank implemented a restrictive monetary policy and increased interest rates. The increase in interest rates coupled with the effects of the 1998 Asian financial crisis led the Chilean economy into recession in 1999 with a decrease in GDP of 1.0%. Consequently, the Chilean banking system experienced a slowdown in loan growth while credit risk levels and allowances for loan losses charged to income increased. Real growth in loans for 1998 was 4.7% while in 1999 loans grew by only 2.7%. Following several interest rate reductions by the Central Bank and increasing activity in the export sector, the Chilean economy improved in 2000, growing 4.4% compared to the prior year. This recovery resulted in a decrease in allowances for loan losses charged to income, which together with improved efficiency levels and higher spreads resulted in a significant increase in net income, which had a positive effect on the Chilean banking system. The economic recovery began to lose momentum in the third quarter of 2000. After posting a 6.0% increase in the second quarter of 2000 (compared to the second quarter of 1999), GDP for the fourth quarter of 2000 expanded only 4.5% (compared to the fourth quarter of 1999). The slowing economy kept loan growth at more moderate levels than those seen before 1998. Domestic factors, including consistently high unemployment rates, the deterioration in the price of exports and the terms of trade and foreign concerns including the worldwide economic downturn, particularly in the United States and the economic crisis in Argentina, also contributed to low loan growth in 2000.

The Central Bank reduced interest rates throughout 2001 in response to stable inflation. On August 9, 2001, the Central Bank began implementing its monetary policy based on nominal, rather than indexed, short term interest rates. The Central Bank announced a rate of 6.5%, which reflected an expected annual inflation rate of 3.0%. During 2001, the Chilean economy grew at an estimated rate of 2.8% and inflation was 2.6%. Loans grew by 4.6% and risk levels associated with loans declined slightly. During 2002, the Central Bank reduced interest rates six times, from 6.0% in January 2002, to 2.75% at the end of August, in all cases due to continued sluggish growth in internal demand, generally low economic activity and the absence of inflationary pressures. For 2002, the GDP growth estimates have been declining consistently, with the market consensus currently in the range of 1.7% to 2.0%. For the first six months of the year, the real loan growth posted for the banking system was 1.8%, while the economy grew at a modest rate of 1.6%.

The following table sets forth the principal components of Santiago's net income for the six-month periods ended June 30, 2001 and 2002.

	Six-month Period ended June 30,		
	2001	2002	% Change
	(in millions of constant Ch$ as of June 30, 2002, except for percentages)		
Components of net income			
Net interest revenue	132,411	139,210	5.1%
Provision for loan losses	(22,566)	(21,773)	3.5
Loan loss recoveries	5,696	6,803	19.4
Other income(1)	26,940	30,099	11.7
Operating expenses	(74,372)	(78,119)	(5.0)
Loss from price-level restatement	(3,725)	(1,002)	73.1
Minority interest in consolidated subsidiaries	(12)	--	100.0
Income before income taxes	64,372	75,218	16.8
Income taxes	732	(8,232)	(1,224.6)

Net income	65,104	66,986	2.9

(1) Includes "Fees and income from services", "Other operating income (net)" and "Other income and expenses (net)" excluding "Loan loss recoveries".

Net Interest Revenue

The following table sets forth the elements of Santiago's net interest revenue for the six-month periods ended June 30, 2001 and 2002.

	Six-month Period ended June 30,		
	2001	2002	% Change
	(in millions of constant Ch$ as of June 30, 2002, except for percentages)		
Interest revenue	299,952	269,522	(10.1)%
Interest expense	(167,541)	(130,312)	22.2
Net interest revenue	132,411	139,210	5.1
Net interest margins(1) ..	4.89%	4.60%	
Average Spread	3.39%	3.58%	

(1) Net interest margin is net interest revenue annualized divided by average interest earnings assets. Pursuant to Chilean GAAP, Santiago cannot include as net interest revenue the earnings or losses on forward contracts, which hedge foreign currencies. Under the rules of the Superintendency of Banks, these gains (or losses) cannot be considered interest revenue, but must be considered as gains (or losses) from foreign exchange transactions and, accordingly, recorded as a different item in the income statement. This treatment may artificially distort net interest revenue and foreign exchange transaction gains especially during periods when the exchange rate is volatile. If the results of these hedged positions were added to net interest revenue, then Santiago's net interest margin for the six-month period ended June 2001 and 2002 would have been 4.72% and 4.17%, respectively.

Santiago's net interest revenue increased 5.1% from Ch$132,411 million for the first half of 2001 to Ch$139,210 million for the same period of 2002, primarily due to a 22.2% (Ch$37,229 million) decrease in interest expense, which was partially offset by a 10.1% (Ch$30,430 million) decrease in interest revenue. The 10.1% reduction in interest revenue resulted from a 19.5% (216 basis points) decrease in the nominal average interest rate earned on interest earning assets, which was partially offset by an 11.6% increase in average interest-earning assets. The nominal average interest rate earned was 8.91% for the first six months of 2002 and 11.07% for the same period in 2001.

Santiago's net interest margin decreased to 4.60% for the six-month period ended June 30, 2002, compared to 4.89% for the six-month period ended June 30, 2001, notwithstanding an average spread increase of 0.19% for the six-month period ended June 30, 2001 to 3.58%. The percentage of interest-earning assets funded by interest-bearing liabilities increased from 80.5% for the six-month period ended 2001 to 80.9% for the six month period ended 2002, offsetting the positive effect of the increase in average spread. Additionally, net interest margin was adversely affected by both the lower interest rate environment and lower inflation, which caused non-interest-bearing liabilities to be less attractive in terms of their yield. The increase in average spread from 3.39% in 2001 to 3.58% in 2002 was primarily market driven. In addition, the increase in the average spread resulted from the changes in Santiago's asset and liability mix and, in particular, from the relative growth of Chilean peso-denominated assets and the relative contraction of UF-denominated liabilities.

The reduction in the nominal interest rates affected all three asset classes. Nominal interest rates on Chilean peso-denominated assets decreased 392 basis points, nominal interest rates on UF-denominated assets decreased 184 basis points and nominal interest rates on foreign currency denominated assets decreased 269 basis points in each case from the first six months of 2001 to the first six months of 2002. For Chilean peso and UF-denominated average interest earning assets, the reduction in nominal interest rates resulted from lower inflation. For foreign currency denominated assets, the reduction in nominal interest rates resulted from the lower interest rates prevailing in the international market and, in particular, the US market.

Chilean peso-denominated interest-earning assets accounted for 26.8% of total interest-earning assets for the first six months of 2002, up from 20.9% for the same period in 2001. Interest earned on Chilean peso-denominated interest-earning assets accounted for 41.9% of total interest earned in the first half of 2002, up from 33.8% for the same period in 2001.

Regarding asset growth, as long as the economy does not recover its momentum, Santiago did not foresee a strong pick up in loan growth. However, Santiago pursued a strategy of focusing growth on assets with higher spreads, such as consumer loans and commercial loans to medium and small businesses. By changing the composition of the loan portfolio and decreasing the exposure to large corporations, Santiago expected to achieve higher returns positively impacting its results.

The following table sets forth information as to key elements of Santiago's interest revenue for the first six months of 2001 and 2002.

	Period ended June 30,		
	2001	2002	% Change
	(in millions of constant Ch$ as of June 30, 2002, except for percentages)		
Interest revenue	299,952	269,522	(10.1)%
Average interest earning assets:			
Loans (1)	4,750,155	5,036,373	6.0
Financial investments	588,651	921,483	56.5
Interbank deposits	80,952	91,185	12.6
Total	5,419,758	6,049,041	11.6

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(1) Combines "Loans," "Contingent loans," "Mortgage loans" and "Past due loans"

as reported in the tables set forth under "--Selected Statistical Information of Santiago--Average Balance Sheets, Income Earned from Interest Earning Assets and Interest Paid on Interest-bearing Liabilities".

Interest Expense

The following table sets forth key elements of Santiago's interest expense for the first six-month period ended June 30, 2001 and 2002.

	Period ended June 30, 2001	Period ended June 30, 2002	% Change
	(in millions of constant Ch$ as of June 30, 2002 except for percentages)		
Interest expense	(167,541)	(130,312)	(22.2)%
Average interest-bearing liabilities:			
Deposits (1)	2,372,179	2,780,386	17.2
Central Bank borrowings	23,809	24,959	4.8
Repurchase agreements	198,092	193,505	(2.3)
Mortgage finance bonds (2)	1,001,714	1,073,719	7.2
Other interest-bearing liabilities (3)	765,404	820,982	7.3
Total	4,361,198	4,893,551	12.2

(1) Combines "Savings accounts" and "Time deposits".

(2) Unsecured bonds with maturities ranging from five to twenty years, the proceeds of which are used to finance mortgage lending.

(3) Principally domestic and foreign interbank borrowings and bonds.

Santiago's interest expense decreased by 22.2% from Ch$167,541 million for the first six months of 2001, to Ch$130,312 million for the same period in 2002 due to a 30.6% (235 basis point) decrease in the nominal average interest paid on interest-bearing liabilities. This decrease was partially offset by a 12.2% (Ch$532,353 million) increase in average interest-bearing liabilities. The increase in average interest-bearing liabilities resulted from increases of 82.4% (Ch$704,283 million) in Chilean peso-denominated liabilities and 46.0% (Ch$286,329 million) increase in foreign currency-denominated liabilities (principally US dollars), while UF-denominated liabilities experienced a 15.9% (Ch$458,259 million) decrease. After the Central Bank implemented a monetary policy based on nominal short term interest rates, Santiago followed a new funding strategy in order to decrease exposure to UF-denominated liabilities and increase its exposure to Chilean peso-denominated liabilities. As a result of this new funding strategy and the prevailing market conditions, Santiago experienced increases in Chilean peso and foreign currency-denominated liabilities. Chilean peso-denominated time deposits grew due to their higher interest rates, which made them a more attractive short term investment in the absence of inflationary pressures. Foreign currency-denominated liabilities (mostly US dollars) became a more attractive investment in the market as a result of the depreciation of the Chilean peso against the US dollar and the volatility of the Chilean peso exchange rate. UF-denominated liabilities, which have traditionally been the most expensive liabilities for Santiago, decreased from 66.1% of total interest-bearing liabilities in the first six months of 2001 to 49.6% for the same period in 2002. In addition, UF-denominated liabilities as part of total interest paid decreased from 72.9% in the first six months of 2001 to 58.5% for the same period in 2002.

Nominal interest rates decreased from 7.68% in the first six months of 2001 to 5.33% for the same period in 2002. During the same period the Central Bank monetary-policy interest rate decreased 325 basis points. Additionally, the lower rate of inflation and the change in Santiago's liability structure, coupled with increased growth in Chilean peso-denominated liabilities and foreign currency denominated liabilities, contributed to a decrease in Santiago's cost of funding.

Allowances for Loan Losses

Santiago was required, as are all commercial banks in Chile, to maintain reserves to cover possible credit losses that were at least equal to loans to customers multiplied by the greater of (1) Santiago's "risk index" or (2) 0.75%. In the Chilean banking system, the risk index is used as the primary benchmark for determining the level of risk existing at any time in a loan portfolio, since it is derived from a computation method that classifies loans into specific categories of repayment risk, each with a separate allowance level. See "Selected Statistical Information of Santiago--Loan Loss Allowances".

Santiago experienced a slight increase in its consolidated risk index from 1.35% as of December 31, 2001 to 1.39% as of June 30, 2002. During the first six months of 2002 compared to the same period of 2001, Santiago's write-offs increased 14% from Ch$18,970 million to Ch$21,623 million, due to increases of 11.6% in commercial loan write-offs, 9.7% in consumer loan write-offs and a 258.55% increase in residential mortgage loan write-offs. The increases in consumer and residential mortgage loan write-offs were attributable to continuing high unemployment. See "Selected Statistical Information of Santiago--Loan Loss Allowances" and Note 5 to Santiago's Interim Financial Statements.

Despite the weaker than expected economic environment during the first six months of 2002, Santiago recorded consolidated loan growth of 3.9% for the twelve month period between June 30, 2001 and June 30, 2002. Loan loss allowances charged to income dropped by 3.5% from Ch$22,566 million for the first six months of 2001 to Ch$21,773 million for the same period of 2002. In the first half of 2001, total write-offs represented 84.06% of loan loss allowances charged to income, compared to 99.3% for the same period in 2002. During the first half of 2002, Santiago increased efforts to accelerate write-offs in order to better negotiate their expected recovery. Additionally, Santiago had been able to maintain past due loans as a percentage of total loans at the same level as last year. For the twelve-month period ended June 30, 2002, Santiago established additional loan loss allowances, increasing the balance of loan loss allowances by 3.5% from Ch$91,289 million for the six-month period ended June 30, 2001 to Ch$94,443 million for the six-month period ended June 30, 2002, representing a ratio of allowances to total loans of 1.83% as of June 30, 2001 and 1.83% as of June 30, 2002, respectively. Santiago established loan loss allowances in excess of those required by the Superintendency of Banks of Ch$11,751 million as of June 30, 2001 and Ch$12,671 million as of June 30, 2002, which Santiago believed were adequate to cover any known or probable losses in the loan portfolio.

On an unconsolidated basis, Santiago's 1.35% risk index as of June 30, 2002 compared favorably with the 2.00% average of the financial system as of June 30, 2002. The Superintendency of Banks publishes the unconsolidated risk index for the financial system three times per year in February, June and October. The weaker-than-expected recovery of the Chilean economy in 2000 and 2001, following a slowdown in 1999, continued to affect asset quality throughout the financial system, leading to an increase in the average risk index of the financial system as a whole. However, Santiago was able to improve its risk index between 2001 and 2002, due to the introduction of a debtor rating system for its corporate business, along with a behavior and credit scoring system for its retail segments, which helped it to centralize its risk approval process and reduce risk levels. In 2001, Santiago also implemented a more aggressive write-off policy, which improved its risk index.

The ratio of past due loans to total loans was 1.3% as of both June 30, 2001 and June 30, 2002.

The following table sets forth Santiago's loan loss allowances for the six-month periods ended June 30, 2001 and 2002.

	Period ended June 30,		
	2001	2002	% Change
	(in millions of constant Ch$ as of June 30, 2002, except for percentages)		
Allowances based on risk index	66,678	71,828	7.7%
Allowances based on 0.75%	37,320	38,756	3.8
Global, individual and additional loan loss allowance	79,780	81,772	2.5
Individual loan loss allowance	18,935	16,417	(13.3)
Minimum allowances required	79,538	81,772	2.8
Voluntary allowances	11,751	12,671	7.8
Total loan loss allowances	91,289	94,443	3.5
Total loan allowances as a percentage of total loans	1.83%	1.83%	(0.4)

For a discussion of Santiago's policies and practices regarding allowances for loan losses charged to income, see "--Selected Statistical Information of Santiago--Loan Loss Allowances".

Loan Loss Recoveries

During the banking crisis in Chile in the 1980s, the Central Bank acquired from Santiago (in exchange for the issuance of subordinated debt) a package of problem loans in return for subordinated debt. The problem loans were later reacquired by Santiago. Under Chilean GAAP, the reacquired loans and subordinated debt were accounted for as off-balance sheet items (as was the subordinated debt). Particularly in recent years, Santiago received substantial payments of principal and interest with respect to these loans, all of which (since the loans have no carrying value) were treated as current income.

Santiago also recorded, as loan loss recoveries, amounts recovered with respect to loans carried out in the regular course of business and previously charged-off. For the six months ended June 30, 2001 and 2002, loan loss recoveries accounted for 8.7% and 10.2% of net income after taxes, respectively.

The following table sets forth the components of Santiago's loan loss recoveries for the six-month periods ended June 30, 2001 and 2002.

	Period ended June 30, 2001	Period ended June 30, 2002	% Change
	(in millions of constant Ch$ as of June 30, 2002, except for percentages)		
Loans reacquired from Central Bank portfolio	1,255	1,149	(8.4)%
Loan portfolio previously charged-off	4,441	5,654	27.3
Total	5,696	6,803	19.4

Santiago's loan loss recoveries increased 19.4% from the six-month period ended June 30, 2001, to the six-month period ended June 30, 2002, due to a 27.3% (Ch$1,213 million) increase in recoveries from the previously charged-off loan portfolio, which was partially offset by an 8.4% (Ch$106 million) decrease in recoveries from the loans reacquired from the Central Bank portfolio. This increase in recoveries was the result of the more aggressive write-off strategy followed by Santiago in recent years, the main purpose of which was to accelerate the collection procedure triggered by write-offs. During 2001, Santiago received recovery amounts from the liquidation of some guarantees with respect to the loans reacquired from the Central Bank portfolio. This portfolio is concentrated in a few debtors, whose individual circumstances make the amounts of recoveries highly volatile and difficult to predict. The increase of Santiago's recoveries in the normal course of business was largely due to the increased efficiency in collecting on written off loans and the growth of write-offs in the past years. Santiago expected future annual amounts of these recoveries to be below those reported for the six-month periods ended June 30, 2001 and 2002.

Other Income

The following table sets forth certain components of Santiago's other income for the six-month periods ended June 30, 2001 and 2002.

	Period ended June 30, 2001	Period ended June 30, 2002	% Change
	(in millions of constant Ch$ as of June 30, 2002, except for percentages)		
Fees and income from services (net)	23,694	22,818	(3.7)%
Other operating income (net):			

Trading and brokerage activities (net)	6,822	16,220	137.8
Foreign exchange transactions (net)	1,104	(9,540)	(964.1)
Total	7,926	6,680	(15.7)
Other income and expenses (net)(1)	1,016	7,404	628.7
Total other income	32,636	36,902	13.1

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(1) Includes loan loss recoveries.

Total other income, net, increased 13.1% from Ch$32,636 million in the six-month period ended June 30, 2001, to Ch$36,902 million for the same period in 2002. Santiago's fees and income from services, net, decreased 3.7% from Ch$23,694 million in the six-month period ended June 30, 2001 to Ch$22,818 million for the same period in

2002. Total fee income increased 7.3%, while total service expenses increased by 36.7%. This increase in total service expenses resulted primarily from an increase in sales force costs, linked to several product campaigns that Santiago launched during the first half of the year. During the third quarter of 2001, Santiago reclassified Ch$3,828 million of fees related to sales force expenses which had been previously accounted for as personnel expenses. Income from leasing services increased by 116.4% and fees from insurance brokerage increased by 78.6% which are the principal explanations for the increase in fees and income from services.

Santiago's total other operating income and expenses, net, decreased 15.7% from Ch$7,926 million in the six-month period ended June 30, 2001 to Ch$6,680 million for the same period in 2002 primarily due to a 137.8% increase in trading and brokerage activities, net, offset by an increase of 964.1% in foreign exchange losses. The significant improvement in trading and brokerage activities is due to a drop in interest rates, both in Chile and the US during the first half of 2002. Santiago realized gains on fixed-income securities, primarily Yankee bonds, due to the lower interest rates. Conversely, the significant losses on foreign exchange transactions were the result of Santiago's short US dollar position as of June 30, 2002, and as a result of the strong appreciation of the US dollar in the local market, which resulted in a 964.1% increase in losses for foreign exchange transactions. This short position was hedged with peso denominated securities indexed to the US dollar, however such instruments earned interest, which for accounting purposes are recorded under interest revenue.

Santiago's other income and expenses, net, grew more than seven time from Ch$1,016 million for the six-month period ended June 30, 2001 to Ch$7,404 million for the same period of 2002. During 2000 and 2001, Santiago booked expense provisions related to the technological renewal program (implementation of the Altamira platform) and amortized repossessed assets in its loan portfolio, both of which offset income from loan recoveries. During 2002, Santiago sold a significant amount of its repossessed assets and therefore reversed the provision it had previously taken on those assets, which generated income. Additionally, during the first six months of 2002 Santiago experienced a 19.4% greater recovery of its loans than had been previously written off compared to the same period of 2001.

Operating Expenses

The following table sets forth the principal components of Santiago's operating expenses for the six-month periods ended June 30, 2001 and 2002.

	Period ended June 30,		
	2001	2002	% Change
	(in millions of constant Ch$ as of June 30, 2002, except for percentages)		
Personnel salaries and expenses	38,617	40,099	3.8%
Administrative and other expenses	28,119	27,908	(0.8)
Depreciation and amortization	7,636	10,112	32.4
Total	74,372	78,119	5.0

Santiago's total operating expenses increased 5.0% from Ch$74,372 million in the six-month period ended June 30, 2001 to Ch$78,119 million for the same period in 2002, in part due to a 32.4% increase (Ch$2,476 million) in depreciation and amortization and, to a lesser extent, to a 3.8% increase (Ch$1,482 million) in personnel salaries and expenses. Administrative and other expenses decreased by 0.8%.

Personnel salaries and expenses for the six-month period ended June 30, 2002 included severance packages, of Ch$1,548 million compared to Ch$500 million for the same period in 2001. This increase was the result of the drop in the average payroll from 4,742 employees as of June 30, 2001 compared to 4,429 employees as of June 30, 2002. Excluding these severance packages, personnel salaries and expenses increased by 1.1%. Additionally, during the fourth quarter of 2001, Santiago negotiated a 40-month collective bargaining agreement with its three unions, which includes a health package and productivity bonuses. Additionally, overtime payments during the first half of 2002 were Ch$805 million, 60% over the amount budgeted for the period.

Santiago's operating expenses from depreciation and amortization increased 32.4% from Ch$7,636 million in the first half of 2001 to Ch$10,112 million for the same period of 2002, due to the implementation of Santiago's new technology platform.

Santiago's efficiency ratio (operating expenses as a percentage of operating revenue, which is the aggregate of net interest revenue, fees and income from services, net and other operating income) increased from 45.3% for the first half of 2001 to 46.3% during the same period of 2002.

Loss (or Gain) From Price-Level Restatement

Substantially all of Santiago's assets and liabilities are monetary in nature. Chilean GAAP requires that non-monetary assets and liabilities (in Santiago's case primarily bank premises and equipment and shareholders' equity) be restated to express them in constant pesos of purchasing power at the most recent balance sheet date. Gains arise when the restatements as a result of inflation made to fixed assets exceed restatements to shareholders' equity. Losses arise when restatements to fixed assets are less than restatements to shareholders' equity. See note 1(b) to Santiago's Consolidated Financial Statements.

The 73.1% decrease in the loss from price-level restatement during the six-month period ended June 30, 2002 when compared to the six-month period ending June 30, 2001 was attributable to a lower inflation adjustment, which is the six month change in the Chilean consumer price index (0.6% for the first six months of 2002 versus 1.5% for the same period in 2001). The net effect of this inflation adjustment resulted in charges to income of Ch$3,725 million and Ch$1,002 million for the six-month period ended June 30, 2001 and 2002, respectively.

Income Taxes

Pursuant to an accounting standard issued by the Chilean Association of Accountants, which took effect January 1, 1999, Santiago began recognizing the consolidated tax effects generated by the temporary differences between the financial book values and tax values of assets and liabilities. At the same date, the previously unrecorded net deferred tax was completely offset against a net "complementary" account, and amortized over the estimated reversal periods corresponding to the underlying temporary differences as of January 1, 1999. The effect of the transitional provisions established in this accounting standard and the effect of reversing timing differences related to unrecorded deferred income taxes, which were unrecorded as of the date of application, will be effectively neutralized in future periods. The principal reason for the discrepancy between net financial income and the low to negative tax rates reflected in the financial statements relates to the fact that although Santiago had been able to utilize its tax loss carry-forward to reduce or completely offset taxable income payable in those years, the reversal of the related deferred tax assets, which normally result in tax expense for the period, had been offset by the amortization of the complementary deferred tax liabilities established.

Santiago recognized income tax of Ch$8,232 million during the first half of 2002 compared to a tax benefit of Ch$732 million during the first half of 2001 due to depletion of tax credits generated from the retirement of Santiago's subordinated debt that arose during the financial crisis of the early eighties.

The statutory corporate tax rate in Chile has increased to 16.0% in 2002 and will increase to 16.5% in 2003 and 17.0% in 2004 and thereafter.

Liquidity and Capital Resources

Santiago's general policy was to maintain liquidity adequate to meet its operational needs and comply with regulatory requirements. Santiago's principal sources of liquidity were balances in checking accounts, time deposits and lines of credit with banks in Chile and abroad. Liquidity was also derived from Santiago's capital, allowances and financial investment portfolio.

The minimum liquidity to be maintained by Santiago was determined by the reserve requirements of the Central Bank. In local currency, these reserve requirements are 3.6% of time deposits with terms of less than a year and 9.0% of demand deposits. Santiago had also established internal liquidity limits, approved by Santiago's International and Finance Committee and ratified by Santiago's board of directors. Santiago used gap analysis to set liquidity limits for cash flows of assets and liabilities maturing within the next thirty days.

The following tables set forth Santiago's contractual obligations and commercial commitments by time remaining to maturity.

Contractual Obligations	Due within 1 year	Due after 1 year but within 3 years	Due after 3 years but within 6 years	Due y
	(in millions of constant Ch$ as of June 30,			
Deposit and other obligations(1)	2,456,402	193,791	12,479	8
Mortgage finance bonds	103,874	181,629	260,007	568
Bonds	36,430	59,617	272,520	124
Chilean Central Bank borrowings:				
Credit lines for renegotiations of loans	14,087	--	--	
Other Central Bank borrowings	46,010	--	--	
Borrowings from domestic financial institutions	46,574	23,493	1,046	
Investments sold under agreements to repurchase	174,788	7,626	9,021	
Foreign borrowings	161,874	60,234	31,804	
Other obligations	25,253	4,747	4,106	2
Service contracts	550,936	1,034,681	441,275	10
Leases	3,394	5,490	6,301	9
Total of cash obligations	3,619,622	1,571,308	1,038,559	723

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(1) Excludes demand accounts, savings accounts.

As of June 30, 2002, 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 6
	(in millions of constant Ch$ as of Ju			
Letter of credit	73,326	--	--	
Guarantees	164,606	35,315	16,446	
Other commercial commitments	24,574	19,493	41,450	
Total other commercial commitments	262,506	54,808	57,896	

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 of America. 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.

Note 25 to Santiago's Consolidated Financial Statements and Note 17 to Santiago's Interim Unaudited Consolidated Financial Statements present a description of the significant differences between Chilean GAAP and US GAAP.

The most significant difference in accounting under Chilean GAAP and US GAAP relates to the merger between Santiago and Old Santander-Chile which is accounted for as a "pooling of interests" on a prospective basis according to Chilean GAAP. As such, the historical financial statements for periods prior to the merger are not restated under Chilean GAAP. Under US GAAP, the merger of these two banks, which have been under common control since May 3, 1999, is accounted for in a manner similar to a pooling of interests. As a consequence of the merger, Santander Chile is required to issue supplementary consolidated financial statements, which are identical to the historical audited consolidated financial statements, except note 25 which retroactively reflects the merged bank

as if Santiago and Old Santander-Chile had been combined throughout the periods during which common control existed, and Note 26, which describes certain recent events. Under US GAAP, for periods presented prior to May 3, 1999, the reported financial information reflects book values of Old Santander-Chile, which had been under Banco Santander Central Hispano's control since 1978. See Note 25(a) to Santiago's Consolidated Financial Statements.

As a result of Banco Santander's acquisition of Banco Central Hispano, purchase accounting was applied to Teatinos' investment in Santiago, generating goodwill as a result of the difference between the fair value of Santiago's identifiable assets and liabilities and the book value of these assets and liabilities in Banco Central Hispano's books. This goodwill was held in the books of Banco Central Hispano.

On May 3, 1999, Banco Santander Central Hispano purchased the remaining 50% of Teatinos that it did not already own. Purchase accounting was applied to the fair values of the identifiable assets and liabilities of Teatinos, resulting in the creation of goodwill in Banco Santander Central Hispano's books.

As the goodwill generated in connection with the acquisition of Teatinos relates to Santiago, under US GAAP this goodwill is required to be transferred to Santander Chile's books.

On April 22, 2002, Banco Santander Central Hispano acquired through Teatinos, its wholly-owned subsidiary, an additional 35.45% participation in Santiago from the Central Bank. This transactions generated goodwill in the books of Banco Santander Central Hispano which, according to US GAAP, is required to be transferred to the books of Santander Chile.

MARKET RISK DISCLOSURE OF SANTIAGO AS OF JUNE 30, 2002

Introduction

This section describes the market risks that Santiago was exposed to, the processes and methodology Santiago used to control these risks and the quantitative disclosures that demonstrate the level of exposure to market risk that Santiago was assuming. Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices and commodity prices, as well as the correlation among these factors and their volatility.

Risk Identification

Santiago was exposed to the material financial risks described below, which were derived from the financial positions it maintained.

Currency risk

Santiago was exposed to currency risk due to currency gaps resulting from net asset or liability positions maintained in each currency. Santiago maintained gaps in local currency against the US dollar and, to a lesser extent, against the German mark and the Japanese yen. Other mismatches were not significant. The most common trading instruments for managing these gaps in Chile are currency forward transactions and spot transactions.

Interest rate risk

Santiago was exposed to interest rate risk due to interest rate gaps resulting from asset and liability transactions closed with different repricing profiles. Santiago maintained interest rate gaps in local currency and US dollars. Interest rate gaps in other currencies were not significant.

Credit risk management

Credit risk is the possibility that a loss may be incurred because a party to a transaction with Santiago failed to perform according to the terms of the contract governing such transaction. Credit risk encompassed all forms of counterparty exposure in relation to Santiago's lending, trading, hedging, settlement and other financial activities. The board of directors was responsible for establishing the credit policies and mechanisms, organization and procedures required to analyze, manage and control credit risk. In addition, Santiago maintained a Credit Committee, comprised of all of the members of the board of directors, the Chief Executive Officer and the head of the Risk Management Division. This committee was responsible for approving all credit transactions for amounts that exceeded limits determined by the board of directors. See "Item 5: Operating and Financial Review and Prospects--Results of Operations--Allowances for Loan Losses" in Santiago's Form 20-F for a description of the laws that govern the Chilean financial system regarding lending activities and loan loss allowances. See "Selected Statistical Information of Santiago--Classification of Loan Portfolio" for a detailed description of the composition of Santiago's loan portfolio and credit review process, the risk classification method of the loan portfolio and the manner in which loan loss allowances are determined.

As a general rule, Santiago was not permitted to invest in equity securities or commodity instruments and therefore was exposed only to interest rate and foreign exchange risk.

Functional Structure

In order to manage these significant risks within Santiago's organizational structure, Santiago established specific committees and processes which engaged in two types of market risk management: (1) trading activities that aimed to take advantage of short-term market price fluctuations in both interest rates and foreign exchange rates, and (2) asset and liability management to manage the risk relating to fluctuations in interest rates arising from Santiago's commercial banking business.

Santiago managed these risks through the establishment of rigorous policies and limits approved by Santiago's International and Finance Committee and through the continuous monitoring of Santiago's Market Risk Control

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Unit, which reported separately to both Santiago's Corporate Risk Division and the International and Finance Committee.

International and Finance Committee

Santiago's asset and liability management policies were approved by its International and Finance Committee, which was chaired by one of the members of its board of directors and included several other directors, its Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and other senior bank executives, which met at least on a monthly basis and more often as deemed necessary. The International and Finance Committee was responsible for:

- advising management and making all relevant decisions regarding financial policies that affected Santiago's asset and liability structure,
- analyzing currency positions, the timing mismatch of assets and liabilities and investments in financial instruments,
- evaluating non-traditional treasury and finance operations,
- approving market risk policies and limits proposed by the Corporate Risk Division,
- approving interest rate and liquidity policies and limits regarding asset and liability structure,
- monitoring the profits and losses of Santiago's treasury, the major transactions carried out during the previous month, the market risk assumed by Santiago, its fixed income securities portfolio and its external exposure to sovereign risk,
- establishing policies and limits Santiago applied to its treasury division, including the maximum allowable exposure of Santiago's trading portfolio to market risk, using VaR methodology, loss triggers and stop losses, and
- establishing other complementary market risk limits like equivalent position limits (based on a duration analysis of Santiago's trading portfolio) and notional foreign currency limits (measuring Santiago's exposure to US dollars against Chilean pesos). Loss triggers and stop losses were also established.

Santiago's board of directors later ratified all policies and limits approved by its International and Finance Committee during their normal sessions.

Corporate Risk Division

Santiago's Corporate Risk Division, through its Market Risk Control Unit, was responsible for:

- formulating risk policies,
- implementing methods of measurement,
- daily monitoring of Santiago's risk exposure,
- checking that established limits and procedures were respected, and
- reporting financial profits and losses of all treasury trading activities.

Santiago's Market Risk Control Unit, which was independent of its treasury, was responsible for providing trading activity profits and loss reports, monitoring the use of internal market risk limits, loss triggers and stop losses on a daily basis. The results of such activities were reported to Santiago's Corporate Risk Division.

Asset and Liability Management Committee

Santiago's Asset and Liability Management Committee measured the results of the committees which monitored Santiago's adherence to risk management policies. Santiago's Asset and Liability Management Committee was presided over by its Chief Executive Officer and also included its treasury director, research director, director of management information systems and other senior managers. This committee met on a weekly basis and its objective was to maximize Santiago's net interest margin. The committee measured Santiago's performance, monitored its asset and liability volumes, cash flow, asset and liabilities interest rates, net interest margin, spreads by different business segments or products and carried out benchmark analysis compared against Santiago's main competitors and the Chilean financial system in general.

Use of Derivative Instruments

Santiago engaged in derivative transactions for its own account and on behalf of its customers. At this time, Chilean banks are permitted to use foreign exchange forward contracts (covering either foreign currencies against the US dollar, the UF against the Chilean peso or the UF and the Chilean peso against the US dollar), forward interest rate agreements and interest rate swaps. The majority of Santiago's derivative transactions arose from foreign exchange forward contracts, which were fundamentally of two types: (1) transactions covering two foreign currencies and (2) transactions covering UF or Chilean pesos against the US dollar. The first type were engaged in mainly for trading and hedging purposes, such as when Santiago took a liability position in foreign currency other than the US dollar. The second type, which were carried out mainly in the Chilean local market, were used for trading purposes or to take positions in foreign currency, taking into account internal limits and the fact that the forward foreign currency exposure had to be included in the maximum permitted net foreign currency position (equivalent to 20.0% of regulatory capital).

Santiago completed interest rate swaps linked principally to domestic rates in the domestic markets and US dollar LIBOR against fixed rates. Santiago's interest rate swap portfolio consisted of fixed against floating rate UF swaps which were negotiated in the domestic market and fixed against US dollar LIBOR swaps which were negotiated in foreign markets.

In order to minimize the credit risk of derivative products, Santiago gave each counterparty a line of credit that was drawn upon for each derivative transaction. The counterparty risk exposure was a function of the type of derivative, the term to maturity of the transaction and the volatility of the risk factors that affected the derivative's market value. This function was expressed in terms of risk factors, which were established by the Market Risk Control Unit, approved by the International and Finance Committee and updated on a monthly basis by the Market Risk Control Unit or as market conditions warrant. Based on these credit risk factors Santiago charged a credit risk amount to the corresponding credit line.

For accounting purposes, Santiago recorded forward foreign exchange contracts and spot exchange contracts at market values on a monthly basis using the spot rate at the balance sheet date. The initial premium or discount on these contracts was deferred and included in determining net income over the life of the contract. Santiago's interest rate and cross currency swap agreements were treated as off-balance-sheet financial instruments and the net interest effect, which corresponded to the difference between interest income and interest expense arising from such agreements was recorded in net income in the period that such differences originated. Accordingly, the fair market value of such transactions was not recognized on the balance sheet. However, this value was monitored daily by the Market Risk Control Unit and was taken into account when calculating daily financial profit and loss.

Measurement of Market Risk

Trading Activities

Santiago's Trading Desk aimed to play an important role in the Chilean market, both as a market maker and as a provider of treasury products to its clients. Consequently, the Trading Desk dealt in all the treasury products that had been authorized by the Central Bank and which complied with internal policies and limits. Working with these products necessitated the management of underlying exchange rate and interest rate risk. Foreign exchange transactions in the Chilean market are considered trading activities. In non-dollar currencies, Santiago's policy was

to minimize this type of exposure and to assume such exposure only to hedge currency transactions carried out with customers of Santiago's commercial banking segments. Santiago took US dollar-Chilean peso trading positions within the internal limits established by its International and Finance Committee. Similarly, regarding interest rate risk, investments in fixed-income instruments were classified as trading activities if their purpose was to take advantage of short-term interest rate shifts. If a given investment portfolio was long-term or met commercial needs, it was classified within asset and liability management.

During 2001, and the first six months of 2002, Santiago continued its use of VaR as the measure for market risk of trading activities. Accordingly, all limits concerning trading activities were reformulated with the VaR method. These limits were approved annually by the International and Finance Committee and ratified by the board of directors. These limits were controlled daily by the Market Risk Control Unit, which ensured compliance.

For the VaR calculation, Santiago opted to use the method of historical simulation, as this method did not require making assumptions about the uncertain behavior of market factors and, therefore, did not raise the calibration problems of other approaches. Santiago adopted a 99.0% level of confidence, a one-day holding period and a two-year historical series (520 observations).

The following table shows the average, high and low VaR values for 2001, along with the VaR as of December 31, 2001 and June 30, 2002, all of which are on an unconsolidated basis. The activities covered by the table include trading activities involving certain fixed income investments and all foreign exchange positions entered into by Santiago.

Type of Risk	As of June 30, 2002	For the period ended June 30, 2002		
		Average	High	Low
	(in millions of constant Ch$ as of June 30, 2002)			
Exchange rate risk	1,142	291	1,255	--
Interest rate risk	250	531	1,264	212
VaR trading portfolio ..	1,078	640	1,374	228

Type of Risk	As of December 31, 2001	For the year ended December 31, 2001		
		Average	High	Low
	(in millions of constant Ch$ as of December 31, 2001)			
Exchange rate risk	802	194	574	--
Interest rate risk	427	552	1,193	221
VaR trading portfolio ..	901	552	1,218	231

The table shows how exchange rate VaR increased during the relevant period. This was due to the continued depreciation of the Chilean peso against the US dollar, which led us to take long positions in the dollars. By contrast, interest rate VaR diminished during this period due to selling of fixed income instruments.

Asset and Liability Management

Santiago's policy on asset and liability management was to maximize net interest revenue and return on assets and equity in light of interest rate, liquidity and foreign exchange risks and within the limits of Chilean banking regulations that generally prohibit banks from maintaining substantial asset/liability mismatches and Santiago's internal risk management policies and limits.

Asset and liability management was composed of all the transactions of the treasury and investment portfolio, the objective of which was to manage the interest rate risk originated by the commercial banking unit, representing either long-term risk or risk undertaken for commercial purposes at the commercial banking level. Santiago managed the risks from its investment portfolio, different types of loans, deposits and all assets and liabilities included in the balance sheet. Interest rate risk (mismatches) affecting the structure of Santiago's balance sheet was a major concern in asset and liability management. Santiago's objective was to capture the benefit from the different interest rate yield curves implicit in the markets in which Santiago participates based on its estimate of future curves and interest rates. Santiago traded on these mismatches as it deemed appropriate within the limits established by its internal policies as approved by its International and Finance Committee.

Interest Rate Sensitivity

A key component of Santiago's asset and liability policy was the management of interest rate sensitivity. Interest rate sensitivity is the relationship between market interest rates and net interest revenue due to the maturity or repricing characteristics of interest earning assets and interest-bearing liabilities. For any given period, the pricing structure was matched when an equal amount of such assets or liabilities mature or reprice in that period. Any mismatch of interest earning assets and interest-bearing liabilities is known as a gap position. A positive gap denotes asset sensitivity and normally means that an increase in interest rates would have a positive effect on net interest revenue, while a decrease in interest rates would have a negative effect on net interest revenue.

Santiago's interest rate sensitivity strategy took into account not only the rates of return and the underlying degree of risk, but also liquidity requirements, including minimum regulatory cash reserves, mandatory liquidity ratios, withdrawal and maturity of deposits, capital costs and additional demand for funds. Santiago's maturity mismatches and positions were monitored and managed by the Asset and Liability Management Committee and the International and Finance Committee and were managed within established limits.

Internal limits applicable to Santiago's balance sheet exposure to interest rate risk were approved by the International and Finance Committee and ratified by its board of directors. Santiago established a limit based on its asset/liability sensitivity rate analysis, which was linked to its Tier 1 capital. This policy was complemented by a second internal limit that was based on Santiago's interest rate sensitivity analysis and its impact on Santiago's budget's net interest margin.

The repricing periods for Santiago's interest earning assets and interest-bearing liabilities are shown in the tables below under "Gap analysis of liquidity and interest rates" as of December 31, 2001 and June 30, 2002 and may not reflect positions at other times. In addition, variations in interest rate sensitivity may have existed within the repricing periods presented due to differing repricing dates within the period. Variations may have also arisen among the different currencies in which interest rate positions were held. For these purposes, UF-denominated loans were treated as repricing within 30 days as the principal was readjusted within every such period for the effect of inflation. The interest rate on such loans, however, may have repriced at intervals longer than 30 days. Further, substantially all foreign currency loans were funded by foreign currency borrowings with comparable maturity or repricing dates. Moreover, although some consumer and small business loans were granted on a fixed interest rate basis for up to 18 months, these rates were relatively high and were fixed on the basis of inflation expectations for the loan term. Any remaining substantial interest rate imbalances between Santiago's assets and liabilities was due to risk analysis based on projections as to future economic trends.

The following factors enabled Santiago to measure the interest rate and liquidity risk of its asset and liability management activities:

Gap analysis of liquidity and interest rates. The liquidity gap shows mismatches between contractual and expected maturities of assets and liabilities. The interest rate gap shows mismatches between re-pricing dates of assets and liabilities. In calculating these gaps, Santiago incorporated a statistical analysis of the expected maturities of items without maturity, an estimation of their value sensitivity to interest rate fluctuations and a classification of the financial investment portfolio liquidity.

Sensitivity to interest rate fluctuations. The following measures enabled Santiago to quantify this risk:

- Equity Sensitivity -- the change in balance sheet present value when interest rates fluctuate by 100-basis points. This sensitivity is expressed as a percentage of Net Capital Base.

- Net Interest Margin Sensitivity with a one-year term -- the variation in the net interest margin with a one-year term when interest rates fluctuate by 100-basis points. This figure is expressed as a percentage of the unconsolidated net interest margin budgeted for the fiscal year.

Liquidity ratios. The following ratios enabled Santiago to measure and control the liquidity of the balance sheet:

- 30-Day Mismatch Ratio -- the quotient between the 30-day net accumulated gap and the current liabilities maturing at the same term. This ratio enabled Santiago to measure its short-term liquidity.

- Liquidity Ratio -- the ratio between liquid assets (liquid financial investments) and total current liabilities. This ratio enabled Santiago to measure its structural or long-term liquidity.

Through the aforementioned calculations, limits, which were controlled by the Market Risk Unit and directly managed by the treasury department, were defined. These limits were approved by the International and Finance Committee and ratified by the board of directors. Liquidity ratios were calculated and controlled on a weekly basis, while interest rate sensitivity limits were calculated and controlled on a monthly basis.

Gap Analysis of Liquidity and Interest Rates

The following table shows the liquidity gap related to mismatches between contractual and expected maturities of assets and liabilities as of June 30, 2002 and December 31, 2001.

	As of June 30, 2002				
	Up to 30 days	31-60 days	61-90 days	91-180 days	181-365 days
	(in millions of constant Ch$ as of June 30, 2				

Interest-earning assets					
Interbank deposits	98,821	--	--	--	--
Financial investments	209,516	76,509	88,543	45,110	81,426
Loans	502,250	654,520	204,117	558,836	458,344
Mortgage loans	8,242	7,287	7,273	21,815	43,461
Contingent loans	32,094	36,741	29,895	49,798	114,472
Past due loans	68,821	--	--	--	--
Total interest-earning assets	919,744	775,057	329,828	675,559	697,703
Interest-bearing liabilities					
Deposits	1,337,835	466,984	160,929	163,430	419,142
Central Bank borrowings	46,009	36	461	9,678	3,913
Repurchase agreements	147,611	1,100	15,984	2,470	7,621
Mortgage finance bonds	27,076	4,785	4,264	22,423	45,326
Other interest-bearing liabilities	64,040	42,879	9,286	52,066	102,794
Total interest-bearing liabilities	1,622,571	515,784	190,924	250,067	578,796
Asset/liability gap	(702,827)	259,273	138,904	425,492	118,907
Cumulative gap	(702,827)	(443,554)	(304,650)	120,842	239,749
Ratio of cumulative gap to cumulative total interest earning assets	(76.4)%	(26.2) %	(15.0)%	4.5%	7.1%

	As of December 31, 2				
	Up to 30 days	31-60 days	61-90 days	91-180 days	181-365 days
	(in millions of constant Ch$ as of December 31, 20				
Interest-earning assets					
Interbank deposits	44,317	--	--	--	--
Financial investments	180,936	71,527	56,398	103,317	103,282
Loans	908,454	268,826	256,402	513,456	303,241
Mortgage loans	7,978	7,143	7,107	21,798	44,152
Contingent loans	62,430	22,071	27,010	67,607	58,715
Past due loans	66,292	--	--	--	--
Total interest-earning assets	1,270,407	369,567	346,917	706,178	509,390
Interest-bearing liabilities					
Deposits	1,200,966	520,669	226,503	420,364	204,619
Central Bank borrowings	106,337	2,298	436	1,578	10,481
Repurchase agreements	174,774	953	4,855	14,712	10,587
Mortgage finance bonds	26,459	4,399	4,120	22,118	44,905
Other interest-bearing liabilities	150,328	35,901	30,421	32,295	44,657
Total interest-bearing liabilities	1,658,864	564,220	266,335	491,067	315,249
Asset/liability gap	(388,457)	(194,653)	80,582	215,111	194,141
Cumulative gap	(388,457)	(583,110)	(502,428)	(287,417)	(93,276)

Ratio of cumulative gap to cumulative total interest earning assets	(30.6)%	(35.6)%	(25.3)%	(10.7)%	(2.9)

Liquidity Risk

The following table presents the 30-day mismatch ratio and the liquidity ratio as of June 30, 2002, and December 31, 2001. Results are shown aggregating the Chilean peso, UF and other inflation-related indices and US dollar indexed cash flows under "local currency" and other currencies under "foreign currency".

	As of June 30, 2002		
	30 Day Mismatch Ratio		
	Assets	Liabilities	Ratio
	(in millions of constant Ch$ as of June 30, 2002)		
Local currency	2,024,238	2,093,640	(3.31)%
Foreign currency	521,771	596,132	(12.47)%

	Liquidity Ratio		
	Liquid Assets(1)	Liabilities	Ratio
	(in millions of constant Ch$ as of June 30, 2002)		
Local currency	415,374	6,616,578	6.28%
Foreign currency	104,751	1,434,538	7.30%

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(1) Liquid assets consist of financial investments.

The behavior of the 30-day Mismatch Ratio reflects the portfolio of US dollar indexed bonds issued by the Central Bank, which are treated as local currency, whereas the liabilities used to fund this position are foreign currency-denominated.

	As of December 31, 2001		
	30 Day Mismatch Ratio		
	Assets	Liabilities	Ratio
	(in millions of constant Ch$ as of December 31, 2001)		
Local currency	1,728,825	1,664,721	3.8%
Foreign currency	436,343	522,451	(16.48)%

	Liquidity Ratio		
	Liquid Assets(1)	Liabilities	Ratio
	(in millions of constant Ch$ as of December 31, 2001)		

Local currency	560,236	5,300,022	10.57%
Foreign currency	141,973	1,009,112	14.07%

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(1) Liquid assets consist of financial investments.

Sensitivity to Interest Rate Fluctuations

The following table shows on an unconsolidated basis the internal interest rate sensitivity analysis as of June 30, 2002, and December 31, 2001. The sensitivities are obtained by considering the cash flows from operations and by calculating the change in the present value of these cash flows when there is a 100-basis points fluctuation in interest rates. Three relevant currencies are considered due to the differing interest rate curves applicable in each case: the Chilean peso, the UF and other inflation-indexed currencies and foreign currencies including the operations indexed to the US dollar/Chilean Peso exchange rate. Finally, the sensitivities in each currency are aggregated assuming correlation between the rates curves. See "Trading Activities" above for the measurement of foreign exchange risk related to these instruments.

	Interest Rate Sensitivity			
	As of June 30, 2002		As of December 31, 20	
	Net Interest Margin Sensitivity	Equity Sensitivity	Net Interest Margin Sensitivity	Equit Sensiti
	(in millions of constant Ch$ as of June 30, 2002)		(in millions of constan as of December 31, 20	
Currency				
Ch$	7,089	10,728	5,355	8,29
UF-related	(3,360)	(17,279)	(2,887)	(19,19
US dollar, US dollar indexed and other foreign currencies	(325)	3,600	(1,392)	2,19
Total	6,151	15,532	4,846	16,81
As a % of projected net interest margin or shareholders' equity	2.77%	3.67%	2.20%	4.00
Shareholders' equity(1)	--	423,140	--	420,22
Projected net interest margin	222,000	--	220,000	-

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(1) Shareholders' equity is defined as Net Capital Base minus net income for the fiscal year.

Risks Associated with Santiago Leasing S.A.

In the normal course of business, Santiago Leasing S.A. was subject to interest rate and foreign exchange risks, in addition to the risk associated with potential gaps created by timing mismatches in expected cash flows. The initiative to control and manage those risks was fundamental to Santiago Leasing's business strategy and policies.

Santiago Leasing was subject to position limits imposed by regulatory authorities, which were intended to restrict the permissible level of market risk. In addition, Santiago Leasing implemented its own internal position limits as was determined by its board of directors. These position limits were more stringent than the applicable regulatory standards. The position limits were continually reviewed by its board of directors and revised as internal and external macroeconomic conditions dictated. The position limits were determined in accordance with the type and availability of existing financing sources in the credit markets that Santiago Leasing accessed.

Santiago Leasing was not subject to any specific restrictions regarding timing, currency or interest rates when it sought to obtain financing from the credit markets, which is the standard structure in the lending market. In the event that any individual operation would have caused Santiago Leasing to exceed a position limit, but otherwise complied with all applicable requirements and policies established by Santiago and regulatory authorities, the Finance Department would have established a specific financing source for that operation. The Finance Department also had to ensure that the financing structure was hedged optimally in order to minimize the risk associated with the position.

Each risk was monitored on a monthly basis by the management of the Finance and Operations Departments, which analyzed the net asset and liability position at the close of each month and calculated the estimated cash flows and projected balances for the next twelve months and for the following four years. In this way, management was able to develop strategies that enable it to control and manage the risk inherent in its position at any given time. The following table summarizes the maturities of Santiago Leasing's asset and liability mix through 2006, based on Santiago Leasing's balance sheet position as of June 30, 2002 and December 31, 2001.

	As of June 30, 2002 Expected Maturity					
	2002	2003	2004	2005	2006	Past Due Th
	(in millions of constant Ch$ as of June 30, 2002					
Assets						
UF-fixed rate	21,632	32,157	20,535	13,900	10,396	2,205
(Average interest rate 11.96%)						
UF-variable rate	2,382	4,490	2,891	1,932	1,320	69
(Average interest rate 5.997%)						
US Dollar-fixed rate	1,098	3,524	1,230	798	770	278
(Average interest rate 11.23%)						
US Dollar-variable rate	1,002	1,338	1,132	1,350	567	109
(Average interest rate 6.95%)						
Liabilities						
UF-fixed rate	3,406	21,046	19,345	6,617	6,994	--
(Average interest rate 7.19%)						
UF-variable rate	22,580	10,013	--	--	--	--
(Average interest rate 5.32%)						
US Dollar-fixed rate	3,658	141	6,976	--	--	--
(Average interest rate 7.58%)						
US Dollar-variable rate	4,224	698	698	698	698	--

(Average interest rate 3.10%)

	As of December 31, 2001 Expected Maturity					
	2002	2003	2004	2005	2006	Past Due T
	(in millions of constant Ch$ as of December 31, 2					
Assets						
UF-fixed rate	44,987	31,231	19,429	12,699	9,954	2,519
(Average interest rate 11.12%)						
UF-variable rate	5,337	4,447	2,844	1,905	1,297	249
(Average interest rate 8.27%)						
US Dollar-fixed rate	2,909	3,278	1,139	743	725	460
(Average interest rate 11.28%)						
US Dollar-variable rate	1,945	1,225	1,051	1,272	537	142
(Average interest rate 7.74%)						
Liabilities						
UF-fixed rate	16,058	20,927	19,236	6,580	6,954	--
(Average interest rate 7.05%)						
UF-variable rate	43,627	--	--	--	--	--
(Average interest rate 5.79%)						
US Dollar-fixed rate	3,504	133	6,562	--	--	--
(Average interest rate 7.58%)						
US Dollar-variable rate	3,666	657	656	656	656	--
(Average interest rate 4.05%)						

Selected Statistical Information of Santiago

The following information is included for analytical purposes and should be read in conjunction with Santiago's Consolidated Financial Statements and Santiago's Interim Unaudited Consolidated Financial Statements as well as the discussion in "Operating and Financial Review and Prospects of Santiago". Pursuant to Chilean GAAP, the financial data in the following tables for all periods through June 30, 2002 has been restated in constant Chilean pesos as of June 30, 2002. The UF is linked to, and is adjusted daily to, reflect changes in the previous month's Chilean consumer price index. See note 1 to our financial 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 Santiago and our subsidiaries. Such average balances are presented in Chilean pesos (Ch$), in Unidades de Fomento (UF) and in foreign currencies (principally US$).

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:

$$Rp = \frac{1 + Np}{1 + I} - 1 \qquad Rd = \frac{(1 + Nd)(1 + D)}{1 + I} - 1$$

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 US 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):

$$Rd = \frac{(1 + 0.10)(1 + 0.05)}{1 + 0.12} - 1 = 3.125\% \text{ per year}$$

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 US 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 Santiago did 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 not yet 90 days or more overdue 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 90 days or more overdue are shown as a separate category of loans (Past due loans). Interest and/or indexation readjustments received on all non-performing 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 US 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. Santiago maintained 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 following tables show, by currency of denomination, average balances and, where applicable, interest amounts and real rates for Santiago's assets and liabilities for the six-month periods ended June 30, 2001 and 2002.

	For the six-month period ended June 3					
	2001					
	Average Balance	Interest Earned	Average Nominal Rate	Average Real Rate	Average Balance	Interes Earned
	(in millions of constant Ch$ as of June 30, 2002, except					
Assets						
Interest-earning assets						
Interbank deposits						
Ch$	52,258	466	1.78%	1.76%	55,720	604
UF	--	--	--	--	--	--
Foreign currency	28,694	522	3.64	3.92	35,465	154
Total	80,952	988	2.44	2.52	91,185	758

Financial investments						
Ch$	101,320	3,163	6.24	6.15	327,050	12,915
UF	266,240	9,334	7.01	6.91	229,672	7,256
Foreign currency	221,091	10,269	9.29	10.01	364,761	15,535
Total	588,651	22,766	7.73	7.94	921,483	35,706
Loans						
Ch$	937,143	94,366	20.14	19.84	1,192,057	96,302
UF	1,933,272	96,320	9.96	9.82	1,727,053	69,384
Foreign currency	576,045	27,096	9.41	10.14	664,582	15,684
Total	3,446,460	217,782	12.64	12.60	3,583,692	181,370
Mortgage loans						
Ch$	--	--	--	--	--	--
UF	958,177	52,163	10.89	10.73	1,022,398	46,157
Foreign currency	--	--	--	--	--	--
Total	958,177	52,163	10.89	10.73	1,022,398	46,157
Contingent loans						
Ch$	26,979	485	3.60	3.60	27,140	541
UF	82,265	529	1.29	1.29	128,029	591
Foreign currency	168,961	484	0.57	0.57	206,973	528
Total	278,205	1,498	1.08	1.08	362,142	1,660
Past due loans						
Ch$	17,712	2,765	31.22	30.76	20,947	2,506
UF	47,061	1,957	8.32	8.19	43,868	1,334
Foreign currency	2,540	33	2.60	2.80	3,326	31
Total	67,313	4,755	14.13	13.93	68,141	3,871
Total interest-earning assets						
Ch$	1,135,412	101,245	17.83	17.57	1,622,914	112,868
UF	3,287,015	160,303	9.75	9.61	3,151,020	124,722
Foreign currency	997,331	38,404	7.70	8.30	1,275,107	31,932
Total	5,419,758	299,952	11.07	11.04	6,049,041	269,522

	For the six month period ended June 30,				
	2001				
	Average Balance	Interest Paid	Average Nominal Rate	Average Real Rate	Average Balance	I
	(in millions of constant Ch$ as of June 30, 2002, e				
Liabilities					

Interest-bearing liabilities						
Savings accounts						
Ch$	--	--	--	--	--	
UF	86,748	2,838	6.54%	6.45%	90,828	
Foreign currency	--	--	--	--	--	
Total	86,748	2,838	6.54	6.45	90,828	
Time deposits						
Ch$	593,067	18,509	6.24	6.15	1,321,068	
UF	1,357,674	53,140	7.83	7.71	892,191	
Foreign currency	334,690	8,646	5.17	5.57	476,299	
Total	2,285,431	80,295	7.03	6.99	2,689,558	
Central Bank borrowings						
Ch$	5,159	117	4.54	4.47	8,322	
UF	18,650	548	5.88	5.79	14,676	
Foreign currency	--	--	--	--	1,961	
Total	23,809	665	5.59	5.50	24,959	
Repurchase agreements						
Ch$	157,000	3,071	3.91	3.85	156,735	
UF	27,252	905	6.64	6.54	9,060	
Foreign currency	13,840	(14)	(0.20)	(0.22)	27,710	
Total	198,092	3,962	4.00	3.94	193,505	
Mortgage Finance bonds						
Ch$	--	--	--	--	--	
UF	1,001,714	47,305	9.44	9.31	1,073,719	
Foreign currency	--	--	--	--	--	
Total	1,001,714	47,305	9.44	9.31	1,073,719	
Other interest-bearing liabilities						
Ch$	99,309	2,950	5.94	5.85	72,693	
UF	392,518	17,467	8.90	8.77	345,823	
Foreign currency	273,577	12,059	8.82	9.50	402,466	
Total	765,404	32,476	8.49	8.65	820,982	
Total interest-bearing liabilities						
Ch$	854,535	24,647	5.77	5.68	1,558,818	
UF	2,884,556	122,203	8.47	8.35	2,426,297	
Foreign currency	622,107	20,691	6.65	7.17	908,436	
Total	4,361,198	167,541	7.68	7.66	4,893,551	1

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The following tables show, by currency of denomination, average balances for Santiago's non-interest earning assets and non-interest shareholders' equity for the six month period ended June 30, 2001 and 2002

Non-interest earning Assets	For the six-month period ended June 30, 2001 Average Balance	For the six-month period ended June 30, 2002 Average Balance
	(in millions of constant Ch$ as of June 30, 2002)	
Cash		
Ch$	415,695	456,322
UF	--	--
Foreign currency	35,565	68,247
Total	451,260	524,569
Allowances for loan losses		
Ch$	(88,621)	(95,200)
UF	--	--
Foreign currency	--	--
Total	(88,621)	(95,200)
Fixed assets		
Ch$	122,341	114,509
UF	2,829	1,458
Foreign currency	198	6
Total	125,368	115,973
Other assets		
Ch$	174,146	147,529
UF	231	423
Foreign currency	95,478	138,712
Total	269,855	286,664
Total Non-interest earning assets		
Ch$	623,561	623,160
UF	3,060	1,881
Foreign currency	131,241	206,965
Total	757,862	832,006
Total Assets		
Ch$	1,758,973	2,246,074
UF	3,290,075	3,152,901
Foreign currency	1,128,572	1,482,072
Total(1)	6,177,620	6,881,047

Non-interest-bearing Liabilities and Shareholders' Equity	For the six-month period ended June 30, 2001 Average Balance	2002 Average Balance
	(in millions of constant Ch$ as of June 30, 2002)	
Non-interest-bearing demand deposits		
Ch$	781,487	840,193
UF	9,556	10,345
Foreign currency	46,646	67,049
Total	837,689	917,587
Contingent obligations		
Ch$	26,866	26,975
UF	82,190	127,924
Foreign currency	168,467	206,705
Total	277,523	361,604
Other Non-interest-bearing		
Ch$	101,832	54,739
UF	3,121	711
Foreign currency	104,149	126,743
Total	209,102	182,193
Shareholders' equity		
Ch$	492,108	526,112
UF	--	--
Foreign currency	--	--
Total	492,108	526,112
Total non-interest-bearing liabilities and shareholders' equity		
Ch$	1,402,293	1,448,019
UF	94,867	138,980
Foreign currency	319,262	400,497
Total	1,816,422	1,987,496
Total Liabilities and Shareholders' Equity		
Ch$	2,256,828	3,006,837
UF	2,979,423	2,565,277
Foreign currency	941,369	1,308,933
Total(2)	6,177,620	6,881,047

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(1) Represents total interest- and non-interest-earning assets.

(2) Represents total of interest- and non-interest-bearing liabilities and shareholders' equity.

Interest-Earning Assets -- Net Interest Margin

The following table analyzes, by currency of denomination, Santiago's levels of average interest-earning assets and net interest and illustrates the comparative margins obtained, for each of the periods indicated.

	Six-month period ended June 30, 2001	Six-month period ended June 30, 2002
	(in millions of constant Ch$ as of June 30, 2002)	
Total average interest-earning assets		
Ch$	1,135,412	1,622,914
UF	3,287,015	3,151,020
Foreign currency	997,331	1,275,107
Total	5,419,758	6,049,041
Net interest earned (1)		
Ch$	76,598	74,074
UF	38,100	48,528
Foreign currency	17,713	16,608
Total	132,411	139,210
Net interest margin, nominal basis (2)		
Ch$	6.7%	4.6%
UF	1.2%	1.5%
Foreign currency	1.8%	1.3%
Total	2.4%	2.3%

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(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.

Changes in Net Interest Revenue--Volume and Rate Analysis

The following tables allocate, by currency of denomination, changes in Santiago's net interest revenue between changes in the average volume of interest-earning assets and interest-bearing liabilities and changes in their respective nominal interest rates from June 30, 2001 to June 30, 2002. Volume and rate variances have been calculated based on movements in average balances over the year and changes in nominal interest rates, average interest earning assets and average interest-bearing liabilities. The net change attributable to changes in both volume and rate has been allocated proportionately to the change due to volume and the change due to rate.

	Increase (decrease) from 2001 period to 2002 period due to changes in		Net change from 2001 period to 2002 period
	Volume	Rate	
	(in millions of constant Ch$ as of June 30, 2002)		
Interest-earning assets			
Interbank deposits			
Ch$	32	106	138
UF	--	--	--
Foreign currency	165	(533)	(368)
Total	197	(427)	(230)
Financial investments			
Ch$	8,715	1,037	9,752
UF	(1,208)	(870)	(2,078)
Foreign currency	6,038	(772)	5,266
Total	13,545	(605)	12,940
Loans			
Ch$	7,088	(5,152)	1,936
UF	(9,568)	(17,368)	(26,936)
Foreign currency	5,090	(16,502)	(11,412)
Total	2,610	(39,022)	(36,412)
Mortgage loans			
Ch$	--	--	--
UF	3,882	(9,888)	(6,006)
Foreign currency	--	--	--
Total	3,882	(9,888)	(6,006)
Contingent loans			
Ch$	3	53	56
UF	126	(64)	62
Foreign currency	86	(42)	44
Total	215	(53)	162
Past due loans			
Ch$	928	(1,187)	(259)
UF	(126)	(497)	(623)

Foreign currency	(23)	21	(2)
Total	779	(1,663)	(884)
Total interest-earning assets			
Ch$	16,766	(5,143)	11,623
UF	(6,894)	(28,687)	(35,581)
Foreign currency	11,356	(17,828)	(6,472)
Total	21,228	(51,658)	(30,430)

	Increase (decrease) from 2001 period to 2002 period due to changes in		Net change from 2001 period to 2002 period
	Volume	Rate	
	(in millions of constant Ch$ as of June 30, 2002)		
Interest-bearing liabilities			
Savings accounts			
Ch$	--	--	--
UF	140	(1,793)	(1,653)
Foreign currency	--	--	--
Total	140	(1,793)	(1,653)
Time deposits			
Ch$	18,817	(2,310)	16,507
UF	(14,858)	(17,308)	(32,166)
Foreign currency	8,597	(12,521)	(3,924)
Total	12,556	(32,139)	(19,583)
Central Bank borrowings			
Ch$	84	33	117
UF	(102)	(147)	(249)
Foreign currency	49	--	49
Total	31	(114)	(83)
Repurchase agreements			
Ch$	(5)	(588)	(593)
UF	(409)	(383)	(792)
Foreign currency	(32)	147	115
Total	(446)	(824)	(1,270)

Mortgage finance bonds			
Ch$	--	--	--
UF	3,786	(10,333)	(6,547)
Foreign currency	--	--	--
Total	3,786	(10,333)	(6,547)
Other interest-bearing liabilities			
Ch$	(652)	(1,232)	(1,884)
UF	(1,935)	(2,667)	(4,602)
Foreign currency	(12,557)	10,950	(1,607)
Total	(15,144)	7,051	(8,093)
Total interest-bearing liabilities			
Ch$	18,244	(4,097)	14,147
UF	(13,378)	(32,631)	(46,009)
Foreign currency	(3,943)	(1,424)	(5,367)
Total	23	(38,152)	(37,229)

Return on Equity and Assets

	June 2001	June 2002
Return on assets (net income divided by average total assets)	2.1%	1.9%
Return on equity (net income divided by average shareholders' equity)	26.5%	25.5%
Dividend payout ratio (dividend declared per share divided by the total number of shares)	100.0%	100.0%
Equity to assets ratio (average shareholders' equity divided by average total assets)	8.0%	7.6%

Investment Portfolio

The following table sets forth Santiago's investment in Chilean government and corporate securities and certain other financial investments as of June 30, 2001 and 2002. Financial investments which have a secondary market were carried at market value. As of December 31, 1999, market value adjustments were performed only for those investments with maturities greater than one year. All other financial investments are carried at acquisition cost, plus accrued interest and indexation readjustments, as applicable.

	As of June 30,	
	2001	2002

(in millions of constant Ch$ as of June 30, 2002)

A summary of financial investments is as follows:

Central Bank and Government Securities		
Marketable debt securities	301,940	425,676
Investment collateral under agreements to repurchase	160,213	165,117
Investments purchased under agreements to resell	9,298	5,294
Other Investments	29,717	29,822
Subtotal	501,168	625,909
Corporate securities		
Marketable securities	170,798	161,622
Mortgage finance bonds issued by the bank	12,073	54,079
Investment collateral under agreements to repurchase	38,053	25,674
Subtotal	220,924	241,375
Time deposits in Chilean financial institutions	3,095	4,231
Time deposits in foreign financial institutions	98,335	37,194
Total	823,522	908,709

Loan Portfolio

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

The loan categories were as follows:

Commercial loans were long-term and short-term loans granted in Chilean pesos, on an adjustable or fixed rate basis, primarily to finance working capital or investments.

Foreign trade loans were fixed rate, short-term loans made in foreign currencies (principally US$) to finance imports and exports.

Interbank loans were fixed rate, short-term loans to financial institutions that operate in Chile.

Leasing contracts were agreements for the financial leasing of capital equipment and other property.

Other outstanding loans included checking account overdrafts, bills of exchange and mortgage loans, which were financed by Santiago's general borrowings.

Mortgage loans were inflation-indexed, fixed rate, long-term loans with monthly payments of principal and interest secured by a real property mortgage. They were financed in two ways: traditional mortgages were financed by mortgage finance bonds, and new flexible mortgages were financed by Santiago's own funds. At the time of approval, the amount of a mortgage loan could not be more than 75.0% of the lower of the purchase price or the appraised value of the mortgaged property or such loan would be classified as a commercial loan.

Consumer loans were loans to individuals, granted in Chilean pesos, generally on a fixed rate basis, to finance the purchase of consumer goods or to pay for services. They also included credit card balances subject to interest charges.

Past due loans included, with respect to any loan, the amount of principal or interest that was 90 days or more overdue, and did not include the installments of such loan that was not overdue or that was less than 90 days overdue, unless legal proceedings had been commenced for the entire outstanding balance according to the terms of the loan.

Contingent loans consisted of guarantees granted by Santiago in Ch$, UF and foreign currencies (principally US$), as well as open and unused letters of credit. (Unlike US GAAP, Chilean GAAP requires such loans to be included on a bank's balance sheet.)

Any collateral provided generally consisted of a mortgage on real estate, a pledge of marketable securities, a letter of credit or cash. The existence and amount of collateral generally varied from loan to loan.

Loans by Economic Activity

The following table sets forth at the dates indicated an analysis of Santiago's loan portfolio based on the borrower's principal economic activity. Loans to individuals for business purposes are allocated to their economic activity. The table does not reflect outstanding contingent loans.

	As of June 30,		
	2001		
	Loan Portfolio	% of Loan Portfolio	Loa Portf
	(in millions of constant Ch$ as of June for percentages)		
Agriculture, Livestock, Agribusiness, Fishing			
Agriculture and livestock	71,011	1.5%	69,7
Fruit	38,821	0.9	46,4
Forestry and wood extraction	52,399	1.1	54,3
Fishing	37,897	0.8	54,7
Total	200,128	4.3	225,2
Mining and Petroleum			
Mining and quarries	32,512	0.7	82,9
Natural gas and crude oil extraction	28,208	0.6	32,5
Total	60,720	1.3	115,4
Manufacturing			

Tobacco, food and beverages	145,103	3.1	152,9
Textiles, clothing and leather goods	38,731	0.8	39,4
Wood and wood products	62,673	1.3	65,1
Paper, printing and publishing	34,055	0.7	38,8

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	As of June 30,		
	2001		
	Loan Portfolio	% of Loan Portfolio	Loan Po
	(in millions of constant Ch$ as of June 30, 2002		
Oil refining, carbon and rubber	55,869	1.2%	
Production of basic metal, non minerals, machine and equipment	119,973	2.6	1
Other manufacturing industries	16,837	0.4	
Total	473,241	10.1	4
Electricity, Gas and Water			
Electricity, gas and water	107,205	2.3	
Construction			
Residential buildings	292,749	6.3	3
Other constructions	174,013	3.7	1
Total	466,762	10.0	4
Commerce			
Wholesale	123,430	2.6	1
Retail, restaurants and hotels	445,758	9.6	4
Total	569,188	12.2	5
Transport, Storage and Communications			
Transport and storage	98,302	2.1	1
Communications	34,188	0.7	
Total	132,490	2.8	1
Financial Services			
Financial insurance and companies	700,822	15.0	6
Real estate and other financial services	167,140	3.6	1
Total	867,962	18.6	8

Community, social and personal services			
Community, social and personal services	698,786	15.0	7
Consumer Credit	314,088	6.7	3
Residential Mortgage Loans	778,636	16.7	7
Total	4,669,206	100.0	4,7

Credit Review Process

Under Santiago's credit review system, the approval of a transaction with a customer required the participation of two or more executives who had credit authority, with at least one of them having the credit approval authority that would be necessary to cover Santiago's total risk exposure with respect to that customer.

The evaluation of total customer credit risk took into account the direct risk outstanding and the added risk involved in the proposed transaction, the indirect risks associated with guarantees or security given by the customer and the risk associated with other entities or individuals who had a direct or indirect affiliation with the customer, including in each case outstanding principal (adjusted for inflation), interest and the balance of any unused lines of credit and other credit transactions approved but not completed. Transactions in which the total customer credit risk is more than Ch$3,600 million (Ch$2,400 million unsecured) had to be authorized by the Directors' Risk Committee and required the minimum approval of two directors and the General Manager.

Transactions in which the total customer credit risk was less than Ch$3,600 million (Ch$2,400 million unsecured) could be approved by certain Santiago executives, depending on the amount involved, as follows.

	Limit in millions of Ch$	
	Unsecured	Secured(1)
General Manager	2,400	3,600
Manager of Risk Management Division	1,000	1,500
Managers of Commercial Divisions		
`A' Executives	400	600
`B' Executives	300	450
`C' Executives	250	375
`D' Executives	75	112
`E' Executives	30	45
`F' Executives	15	22
`G' Executives	7	10
`H' Executives	4	6
`I' Executives	0.5	0.8

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(1) Security generally consists of mortgages on real estate. These limits include the respective unsecured limit.

In addition to reviewing the credit limit, the division extending the credit had to review the terms of the loan, the interest rate and any security to be obtained.

Santiago's commercial executives and risk officers used several tools to help them evaluate a customer's credit risk. These tools included sector reports, risk acceptance criteria for the most relevant economic sectors and subsectors, standard risk models for major industries, portfolio monitoring and follow-up systems which analyzed the client's debt history, sales patterns both recent and historic, financial statements, financial indices and monthly sales. Santiago also developed a debtor rating system which was updated periodically. This system was based on certain risk variables such as a client's current economic situation and perspectives, capacity and solvency at the shareholder and management levels, access to alternative financing sources, profitability and ability to pay, along with solvency in a crisis situation. For retail clients, Santiago's evaluation was based on a behavior and credit scoring system which combined the client's commercial behavioral variables, current debt levels, ability to pay, socio-economic level, among others, along with centralized evaluation and decision making systems in cases where the client did not fit the standard model.

Santiago's credit process was regulated by policies and standards established by its Risk Management Division and approved by Santiago's general management. The Risk Management Division was responsible for evaluating the risk presented by Santiago's current or potential debtors. Santiago also relied upon the collective efforts of its professional analysts, who conducted corporate reviews at the request of any of its commercial divisions, senior management and principal debtors. These corporate reports analyzed the amount of a credit, its use, the term, the customer's financial situation and the market in which the customer operated. These reports, as to any customer, were prepared in four different formats: in-depth, summary, follow-up and project analysis. The function of the credit evaluation and approval described in the preceding paragraphs were carried out by specialized units within Risk Management, together with commercial areas. Risk Management also had credit follow-up and recuperation divisions. The follow-up activities were carried out by the Account Surveillance Division, which identified the customers who are most sensitive to eventual losses, and defined the scheme of credit administration and specific controls and procedures. Additionally, the Credit Control Division periodically revised the quality of Santiago's credits, verifying the sufficiency of provisions according to debtors' effective risk and to the regulation in force relating to the matter and prepared reports of the behavior of the principal debtors different risk variables. The credit recuperation activities were carried out by the Normalization Division, which administered the accounts of the principal debtors for whom a potential loss was expected, and supervised the process of charging Santiago's clients before and during legal procedures.

Classification of Loan Portfolio

Chilean banks are required to classify their outstanding exposures on an ongoing basis for the purpose of determining the amount of loan loss allowances. The guidelines used by banks for such classifications are established by the Superintendency of Banks, although banks are given some latitude in devising more stringent classification systems within such guidelines. The Superintendency of Banks regularly examines and evaluates each financial institution's credit management process, including its compliance with the loan classification guidelines, and on that basis classifies banks and other financial institutions into three categories: I, II and III. Category I is reserved for institutions that fully comply with the loan classification guidelines. Institutions are rated in Category II if their loan classification system reveals deficiencies that must be corrected by the bank's management. Category III indicates significant deviations from the Superintendency of Banks' guidelines that clearly reflect inadequacies in the evaluation of the risk and estimated losses associated with loans.

Santiago was classified in Category I since December 1991 (this classification system was established by the Superintendency of Banks in 1990 and was applied to Santiago since 1991).

For purposes of classification, loans are divided into consumer loans, residential mortgage loans and commercial loans (which for these purposes include all loans other than consumer loans and residential mortgage loans). In the case of commercial loans, the classification is based on the estimated losses on all of the loans outstanding to the borrower, as determined by Santiago. In the case of consumer and residential mortgage loans, the extent to which payments are overdue determines the classification. Commercial and consumer loans are rated A, B, B-, C or D, while residential mortgage loans are rated only A, B or B-, except loans purchased from the former Asociacion Nacional de Ahorro y Prestamo, or National Association of Savings and Loans, which may be classified as C or D. Santiago's total exposure to each of its customers and the classification of such customer's loans were reviewed at least every two months by a loan officer and by the Risk Control Division. In July 1997, the Superintendency of Banks modified the criteria for classifying consumer loans. The current regulations established the risk classification, and as a consequence the loan allowances, based upon each debtor's most overdue loans. This new classification takes into account the debtor's payment behavior, instead of classifying each credit individually. The allowances required for each category of loans, which are established by the Superintendency of Banks, are as follows:

	Commercial loans range of estimated losses		Consumer loans past due status(1)		Residential mortgage loans past due status(1)	
Category	From	To	From	To	From	To
			(Days)		(Days)	
A	--	--	--	--	--	--
B	1%	5%	1	30	1	180
B-	6%	39%	31	60	181	>181
C	40%	79%	61	120	--	--
D	80%	100%	121	>121	--	--

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(1) In addition, Santiago maintained a special provision for renegotiated consumer and residential mortgage loans.

The loan classification guidelines of the Superintendency of Banks applicable to commercial loans required that Santiago classify the greater of (1) the commercial loans outstanding to Santiago's 400 largest debtors and (2) the commercial loans outstanding to the number to Santiago's largest debtors whose commercial loans aggregated at least 75.0% of the total amount of loans included in Santiago's commercial loan portfolio. Such guidelines also required Santiago to classify 100% of its residential mortgage and consumer loans. For these purposes, the loan amount includes outstanding principal (whether or not past due) and accrued and unpaid interest. The criteria for determining the range of estimated losses for purposes of the classification of commercial loans are as follows:

Category "A": This category includes loans outstanding to borrowers for whom there exists no doubt as to the ability to repay the loans except to the extent reflected in the loan's original terms, including all interest due, and the revenues generated from the business of the borrower are sufficient to service the debt. If the borrower's business does not generate the revenues needed for debt service, or if repayment depends on revenues generated by another entity, its loans will not be included in this category, even if fully secured.

Category "B": This category includes loans outstanding to borrowers who have shown some degree of non-compliance with their obligations under the original conditions of their loans, but whose past financial records and market history indicate that such non-compliance should be temporary. Category "B" is also the highest category for loans outstanding to borrowers whose source of repayment depends on revenues generated by another entity, and loans outstanding to borrowers whose business does not generate the revenues needed for debt service, but only if the loans are fully secured. The expected loss assigned to the loans classified in this category is less than 5% of the outstanding amounts.

Category "B-": This category principally includes loans outstanding to borrowers who are experiencing severe financial difficulty (whose operational revenues or liquid assets are insufficient to service the loans). Also included in this category are loans outstanding to borrowers whose financial history is insufficient or difficult to establish. Loans bearing interest rates that, due to the bank's cost of funds, generate a financial loss of between 5% and 39% of the outstanding amount are also included in this category. Category "C": This category includes loans outstanding to borrowers who are experiencing severe financial difficulty and whose operational revenues or liquid assets are insufficient to service the loans. Loans bearing interest rates that, due to the bank's cost of funds, generate a financial loss of between 40% and 79% of the outstanding amount are also included in this category.

Category "C": This category includes loans outstanding to borrowers who are experiencing severe financial difficulty and whose operational revenues or liquid assets are insufficient to service the loans. Loans bearing interest rates that, due to the bank's cost of funds, generate a financial loss of between 40% and 79% of the outstanding amount are also included in this category.

Category "D": This category includes loans outstanding to borrowers for which the estimated recovery amount on all loans is 20% or less.

Analysis of Santiago's Loan Classification

The following tables provide statistical data regarding the classification of Santiago's loans at the end of each of the six-month periods ended June 30, 2001 and 2002. As discussed above, Santiago's risk analysis system required Santiago to evaluate, for classification purposes, only a portion (but in no event less than 75.0%) of Santiago's total commercial loan portfolio, including past due and contingent loans.

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As of June 30, 2001
(in millions of constant Ch$ as of June 30, 2002, except for perc

Category	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	Perc o Eval Lo
A	1,594,546	282,532	723,710	2,600,788	
B	1,670,276	16,952	29,154	1,716,382	
B-	57,634	4,603	10,416	72,653	
C	22,653	3,557	--	26,210	
D	9,576	5,030	--	14,604	
Total of evaluated loans	3,354,685	312,674	763,280	4,430,637	1
Total Loans	3,900,001	312,674	763,280	4,975,955	
Percentage evaluated	86.0%	100.0%	100.0%	89.0%	

As of June 30, 2002
(in millions of constant Ch$ as of June 30, 2002, except for perc

Category	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	Perc o Eval Lo
A	1,779,385	292,101	696,485	2,767,971	
B	1,678,017	15,250	24,799	1,718,066	
B-	67,767	4,126	10,006	81,899	
C	16,705	3,956	--	20,661	
D	15,257	4,623	--	19,880	
Total of evaluated loans	3,557,131	320,056	731,290	4,608,477	1
Total Loans	4,116,151	320,056	731,290	5,167,497	
Percentage evaluated	86.4%	100.0%	100.0%	89.2%	

Classification of Loan Portfolio Based on the Borrower's Payment Performance

Accrued interest and UF indexation adjustments from overdue loans are recognized only when, and to the extent, received. Non-performing loans include loans as to which either principal or interest is overdue, and which do not accrue interest. Restructured loans as to which payments are not overdue are not ordinarily classified as non-performing loans. Past due loans include, with respect to any loan, only the portion of principal or interest that is 90 or more days overdue, and do not include the installments of such loan 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, in which case the entire loan is considered past due within 90 days of the beginning 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.

According to the regulations established by the Superintendency of Banks, Santiago was required to write off commercial loans not later than 24 months after being classified as past due, if unsecured, and if secured, not later than 36 months after being classified as past due. When an installment of a past due commercial loan (either secured or unsecured) is written off, Santiago had to write off all installments which are overdue, notwithstanding Santiago's right, if any, to write off the entire amount of the loan. Once any amount of a loan is written off, each subsequent installment must be written off as it becomes overdue, notwithstanding Santiago's right, if any, to write 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 six months past due, Santiago had to write off the entire remaining part of the loan. Santiago could write off any loan (commercial or consumer) before the first installment becomes overdue only in accordance with special procedures established by the Superintendency of Banks and Santiago had to write off an overdue loan (commercial or consumer) before the terms set forth above in certain circumstances. Loans were written off against

the loan loss reserve to the extent of any required reserves for such loans; the remainder of such loans was written off against income.

In general, legal collection proceedings are commenced with respect to consumer loans once they are 90 days past due and with respect to mortgage loans once they are 150 days past due. Legal collection proceedings were always commenced within one year of such loans becoming past due, unless Santiago determined that the size of the past due amount did not warrant such proceedings. In addition, the majority of Santiago's commercial loans were short-term, with single payments at maturity. Past due loans were required to be covered by individual loan loss reserves equivalent to 100% of any unsecured portion thereof; but only if and to the extent that the aggregate of all unsecured past due loans exceeds the global loan loss reserves. See "Loan Loss Allowances--Individual Loan Loss Allowances" below.

	As of June 30,	
	2001	2002
	(in millions of constant Ch$ as of June 30, 2002, except for percentages)	
Current	Ch$4,883,858	Ch$5,057,201
Overdue 1-29 days	9,088	16,182
Overdue 30-89 days	16,783	25,293
Overdue 90 days or more ("past due")	66,226	68,821
Total loans	4,975,955	5,167,497

Overdue loans expressed as a percentage of total loans	1.85%	2.13%
Past due loans as a percentage of total loans	1.33%	1.33%

Santiago suspended the accrual of interest and readjustments on all overdue loans. The amount of interest that would have been recorded on overdue loans if they had been accruing interest was Ch$2,164 million, Ch$3,309 million for the years ended June 30, 2001, 2002, respectively.

Loan Loss Allowances

Chilean banks are required to maintain loan loss allowances in amounts determined in accordance with regulations issued by the Superintendency of Banks. A bank may also maintain voluntary allowances in excess of the minimum required amount so as to provide additional coverage for potential loan losses. Santiago historically followed the practice of maintaining voluntary allowances. Under these regulations, the minimum amount of required loan loss allowances is the greater of (1) the bank's global loan loss allowances and (2) the aggregate amount of its individual loan loss allowances.

Global Loan Loss Allowances

The amount of the global loan loss allowances required to be maintained by a bank is equal to the aggregate amount of its outstanding loans multiplied by the greater of (1) the bank's "risk index" (as defined below) and (2) 0.75%.

A bank's risk index is based on its classified loans, determined as described above under the heading "--Classification of Loan Portfolio". More specifically, the index is computed as follows. First, the aggregate amount of evaluated loans in each category from A through D is multiplied by the corresponding required allowance percentage. Such percentages are as follows

Category	Allowance Percentage
A	0%
B	1
B-	20
C	60
D	90

The risk index itself is then computed by dividing (1) the aggregate amount so computed by (2) the aggregate amount (i.e., the outstanding principal (whether or not past due) and accrued and unpaid interest) of all evaluated loans.

	Consolidated Risk Index
December 31, 1997	0.84%
December 31, 1998	1.05
December 31, 1999	1.52
December 31, 2000	1.37
December 31, 2001	1.35
June 30, 2002	1.39

Santiago's consolidated risk index increased from 0.84% for 1997 to 1.52% for 1999, and then decreased to 1.37% for 2000 and 1.35% for 2001. At the end of June 2002, it had experienced a slight increase to 1.39%. The increase in the risk index between 1997 and 1999 was due principally to the increase of loans classified in Category B- and C (for which allowances of 20% and 60%, respectively, are required) associated with a decrease in the credit quality of Santiago's portfolio due to an economic slowdown experienced during 1998 and 1999. During 2000, the economy experienced a slight recovery, which positively impacted Santiago's loan portfolio classification, reducing Santiago's risk index. Santiago continued to emphasize its strict credit review and origination procedures. The decrease in the consolidated risk index to 1.35% for the year ended December 31, 2001 from 1.37% during the year ended December 31, 2000 is also explained principally by Santiago's particularly conservative credit policy since the economic downturn in 1999. The chart below illustrates the evolution of Santiago's unconsolidated risk index over the last five years.

	Unconsolidated Risk Index
December 31, 1997	0.86%
December 31, 1998	1.04
December 31, 1999	1.48
December 31, 2000	1.31
December 31, 2001	1.30
June 30, 2002	1.35

Individual Loan Loss Allowances

Banks in Chile are also required to establish individual loan loss allowances for loans that are more than ninety days past due. The individual loan loss allowances must equal 100% of the past due portion of such loan, to the extent that is unsecured. Individual loan loss allowances are, however, required only if (and to the extent) they exceed in the aggregate the global loan loss allowances.

Additional Loan Loss Allowances

These allowances correspond to:

- special allowances related to consumer loans and mortgage loans, which consider variables other than the client's payment behavior,
- special allowances related to non-classified commercial loans, which are calculated on an aggregated basis considering variables, such as the payment behavior of the client with Santiago and within the financial system, and existing guarantees, and

. allowances for country risks for certain international transactions.

Voluntary Loan Loss Allowances

Santiago continued to follow a conservative policy regarding its voluntary loan loss allowances, which were reduced more slowly in order to provide for any losses that might arise from unforeseen circumstances.

The table below sets forth Santiago's loan loss allowances as they would be computed on the basis of its risk index and a 0.75% ratio, its global loss allowances, its potential aggregate individual loan loss allowances, the minimum loan allowances to be established by it in accordance with the regulations of the Superintendency of Banks, its voluntary loan loss allowances, its total loan loss allowances and such total allowances expressed as a percentage of its total loans at the end of each of the six-month periods ended June 30, 2001 and 2002.

	As of June 30,	
	2001	2002
	(in millions of constant Ch$ as of June 30, 2002, except for percentages)	
Allowances based on risk index	66,678	71,828
Allowances based on 0.75%	37,320	38,756
Global, individual and additional loan loss allowance	79,780	81,772
Individual loan loss allowance	18,935	16,417
Minimum allowances required	79,538	81,772
Voluntary allowances	11,751	12,671
Total loan loss allowances	91,289	94,443
Total loan allowances as a percentage of total of loans	1.83%	1.83%

Analysis of Substandard Loans and Amounts Past Due

The following table analyzes Santiago's substandard loans (i.e., all of the loans included in categories B-, C and D) and past due loans and the allowances for loan losses existing at the dates indicated. Santiago had no restructured loans (troubled debt restructurings under the definition of Financial Accounting Standard No. 15) that are not included in the following tables.

	As of June 30,	
	2001	2002
	(in millions of constant Ch$ as of June 30, 2002, except for percentages)	
Total loans	4,975,955	5,167,497
Substandard loans	113,467	122,440
Substandard loans as a percentage of total loans	2.28%	2.37%
Amounts past due (1)	66,226	68,821

To the extent secured (2)	47,291	52,404
To the extent unsecured	18,935	16,417
Amounts past due as a percentage of total loans	1.3%	1.3%
To the extent secured (2)	1.0%	1.0%
To the extent unsecured	0.4%	0.3%
Allowances for loan losses taken as a percentage of:		
Total loans	1.8%	1.8%
Total loans excluding contingent loans	2.0%	2.0%
Total amounts past due	137.8%	137.2%
Total unsecured amounts past due	482.1%	575.3%

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(1) In accordance with Chilean regulations, past due loans that are 90 days or more overdue as to any payments of principal or interest.

(2) Security generally consists of mortgages on real estate, pledges of marketable securities, letters of credit or cash.

Analysis of Loan Loss Allowances

The following table analyzes Santiago's loan loss allowances charged to income and changes in the allowances attributable to write-offs, new allowances, allowances released, allowances on loans acquired and the effect of price-level restatement on loan loss allowances.

	As of June 30,	
	2001	2002
	(in millions of constant Ch$ as of June 30, 2002, except for percentages)	
Loan loss reserves at beginning of period	89,841	95,044
Write-offs	(18,970)	(21,623)
Allowances established	23,855	25,260
Allowances released(1)	(2,027)	(3,662)
Price-level restatement(2)	(1,410)	(576)
Loan Loss allowances at end of period	91,289	94,443
Ratio of write-offs to average loans	0.4%	0.4%
Loan loss allowances at end of period as a percentage of total loans	1.8%	1.8%

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(1) Represents the aggregate amount of loan loss allowances released during the year as a result of write-offs, recoveries or a determination by management that the level of risk existing in the loan portfolio has been reduced.

(2) Reflects the effect of inflation on the allowances for loan losses at the beginning of each period, adjusted to constant pesos as of June 30, 2002.

Santiago's policy with respect to write-offs followed the regulations established by the Superintendency of Banks. According to the regulations established by the Superintendency of Banks, Santiago was required to write off commercial loans not later than 24 months after being classified as past due, if unsecured, and, if secured, not later than 36 months after being classified as past due. When an installment of a past due commercial loan (either secured or unsecured) is written off, Santiago had to write off all installments which were overdue, notwithstanding Santiago's right, if any, to write off the entire amount of the loan. Once any amount of a loan is written off, each subsequent installment must be written off as it becomes overdue, notwithstanding Santiago's right, if any, to write 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 three months past due Santiago had to write off the entire remaining part of the loan. Santiago could write off any loan (commercial or consumer) before the first installment becomes overdue only in accordance with special procedures established by the Superintendency of Banks and had to write off an overdue loan (commercial or consumer) before the terms set forth above in certain circumstances.

Write-offs increased in recent years both in Chilean peso amounts and as a percentage of average loans. During the 1999 recession, which had a great impact on loan growth and asset quality, write-offs registered a substantial increase. Moreover, beginning in the second half of 1999 and continuing throughout 2000, Santiago implemented a more conservative policy with respect to the recognition of write-offs. Santiago tended to anticipate write-offs and to recognize them before the end of the time period authorized by regulations. This explains partially the increase in write-offs in 2001 and 2002. These effects can be seen in the following table, which shows the write-offs breakdown by loan category.

	As of June 30,	
	2001	2002
	(in millions of constant Ch$ as of June 30, 2002)	
Consumer loans	6,656	7,303
Residential mortgage loans	234	839
Commercial loans	12,080	13,481
Total	18,970	21,623

The following table presents the amounts of loan loss recoveries by the major type of loans as of June 30, of each of the last two years.

	For the six months ended June 30,	
	2001	2002
	(in millions of constant Ch$ as of June 30, 2002)	
Commercial loans	2,198	2,223
Mortgage loans	1,555	2,741
Consumer loans	688	690
Recoveries of loans reacquired from the Central Bank	1,255	1,149
Total	5,696	6,803

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Allocation of the Loan Loss Allowances

The following tables set forth, as of June 30, 2001 and June 30, 2002, the proportions of Santiago's required minimum loan loss allowances that were attributable to its commercial, consumer and residential mortgage loans, and the amount of voluntary allowances (which are not allocated to any particular category) at each such date.

	As of June 30, 2001			
	Allowance amount(1)	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as a percentage of total loans(2)
	(in millions of constant Ch$ as of June 30, 2002, except for percentages)			
Commercial loans	61,954	1.59%	1.25%	78.38%
Consumer loans	14,483	4.63	0.29	6.28
Residential mortgage loans	3,101	0.41	0.06	15.34
Total Allocated reserves	79,538	1.60	1.60	100.00
Voluntary reserves	11,751	0.26	0.26	
Total reserves	91,289	1.86	1.86	

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	As of June 30, 2002			
	Allowance amount(1)	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as percentage o total loans(
	(in millions of constant Ch$ as of June 30, 2002, except for percentages)			
Commercial loans	66,245	1.61%	1.28%	79.66%
Consumer loans	12,495	3.90	0.24	6.19
Residential mortgage loans ..	3,032	0.41	0.06	14.15
Total Allocated reserves	81,772	1.58	1.58	100.00
Voluntary reserves	12,671	0.25	0.25	
Total reserves	94,443	1.83	1.83	

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(1) In millions of constant Chilean pesos as of June 30, 2002.

(2) Based on Santiago's loan classification, as required by the Superintendency of Banks for the purpose of determining the loan loss allowance.

The following data sets forth Santiago's write-offs for each of the six-month periods ended June 30, 2001 and 2002. This information represents further detail of write-offs to that provided under the discussion of the analysis of loan loss allowances.

	As of June 30,	
	2001	2002
	(in millions of constant Ch$ as of June 30, 2002)	
Agriculture	1,123	596
Mining	17	30
Manufacturing	746	1,983
Construction	1,874	1,367
Commerce	2,001	2,809
Transport	142	266
Financial services	819	363
Community	2,913	4,346
Leasing	2,445	1,721
Subtotal	12,080	13,481
Consumer credit	6,656	7,303
Residential mortgage loans	234	839
Total	18,970	21,623

Composition of Deposits and Other Commitments

The following table sets forth the composition of Santiago's deposits and similar commitments as of June 30, 2001 and 2002.

	As of June 30,	
	2001	2002
	(in millions of constant Ch$ as of June 30, 2002)	
Checking accounts	480,179	508,712
Other demand liabilities	534,489	447,134
Saving accounts	90,117	91,617
Time deposits	2,482,544	2,671,147
Other commitments (1)	12,277	14,961
Total	3,599,606	3,733,571

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

Minimum Capital Requirements

The following table sets forth Santiago's minimum capital requirements set by the Superintendency of Banks as of the dates indicated. See note 14 to Santiago's Consolidated Financial Statements for a description of the minimum capital requirements.

	As of June 30,	
	2001	2002
	(in millions of constant Ch$ as of June 30, 2002, except for percentages)	
Net capital base	422,684	423,140
3% of total assets net of provisions	(213,703)	(200,453)
Excess over minimum required equity	208,981	222,687
Net capital base as a percentage of the total assets, net of provisions	5.93%	6.33%
Effective equity	619,424	606,435
8% of the risk-weighted assets	(403,905)	(379,715)
Excess over minimum required equity	215,519	226,720
Effective equity as a percentage of the risk-weighted assets	11.73%	12.78%

OPERATING AND FINANCIAL REVIEW OF OLD SANTANDER-CHILE

The following discussion is based upon and should be read in conjunction with Old Santander-Chile's Interim Unaudited Consolidated Financial Statements. Old Santander-Chile prepared its financial statements in accordance with Chilean GAAP and the rules of the Chilean Superintendency of Banks relating thereto, which together differ in certain important respects from US GAAP. Note 25 to Santiago's Consolidated Financial Statements describes the principal differences between Chilean GAAP and US GAAP. Old Santander-Chile's Interim Unaudited Consolidated Financial Statements have been restated in constant Chilean pesos as of June 30, 2002. See Note 1(b) to Old Santander-Chile's Interim Unaudited Consolidated Financial Statements.

Pursuant to Chilean GAAP, the financial information in the following pages, for both six-month periods, is restated in constant Chilean pesos as of June 30, 2002.

Critical Accounting Policies

For a description of Old Santander-Chile's critical accounting policies, see "Item 5A. Operating and Financial Review and Process--Critical Accounting Policies" in Old Santander-Chile's Form 20-F.

Operating Results

Interest Rates

Interest rates earned and paid on Old Santander-Chile's assets and liabilities reflected, among other factors, inflation, expectations regarding inflation, shifts 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 with economic growth. Because Old Santander-Chile's liabilities generally repriced faster than its assets, changes in the rate of inflation or short-term rates in the economy were reflected in the rates of interest paid by Old Santander-Chile on its liabilities before such changes were reflected in the rates of interest earned by Old Santander-Chile on its assets. Therefore, when short-term interest rates fell, Old Santander-Chile's net interest margin was positively impacted, but when short-term interest rates increased, Old Santander-Chile's interest margin was negatively affected. At the same time, Old Santander-Chile's net interest margin tended to be adversely affected in the short term by a decrease in inflation since generally Old Santander-Chile's UF-denominated assets exceeded UF-denominated liabilities. An increase in long-term interest rates also had a positive effect on Old Santander-Chile's net interest margin, because Old Santander-Chile's interest-earning assets generally had a longer duration than its interest-bearing liabilities. In addition, because Old Santander-Chile's peso-denominated liabilities had relatively short repricing periods, they are generally more responsive to changes in inflation or short-term rates than Old Santander-Chile's UF-denominated liabilities. As a result, during periods when current inflation or expected inflation exceeded the previous month's inflation, customers often switched funds from UF-denominated deposits to more expensive peso-denominated deposits, thereby adversely affected Old Santander-Chile's net interest margin.

Foreign Exchange Fluctuations

A significant portion of Old Santander-Chile's assets and liabilities were denominated in foreign currencies, principally the US dollar, and Old Santander-Chile historically maintained 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, were translated to Chilean pesos in preparing Old Santander-Chile's financial statements, Old Santander-Chile's reported income was affected by changes in the value of the Chilean peso with respect to foreign currencies (principally the US dollar). The Chilean government's economic policies and any changes in the value of the Chilean peso against the US dollar could adversely affect the financial condition and results of operations of Old Santander-Chile. The Chilean peso has been subject to large devaluation in the past, including a decrease of 8.5% in 2000, 14.7% in 2001 and 6.3% in the first half of 2002, and may be subject to significant fluctuations in the future. Old Santander-Chile's results of operations were affected by fluctuations in the exchange rates between the Chilean peso and the US dollar, despite its policy and Chilean regulations relating to the general avoidance of material exchange rate mismatches. Entering into forward exchange transactions enables Old Santander-Chile to avoid such material exchange rate mismatches. In the six-month periods

ended June 30, 2001 and 2002, the gap between foreign currency denominated assets and foreign currency denominated liabilities at Old Santander-Chile, including forward contracts was Ch$(940) million and Ch$12,560 million, respectively.

Results of Operations for the Six-Month Periods Ended June 30, 2001 and 2002

Introduction

The following table sets forth the principal components of Old Santander-Chile's net income for the six-month periods ended June 30, 2001 and

2002:

	Six-month period ended June 30, 2001	Six-month period ended June 30, 2002	% Change
	(in millions of constant Ch$ of June 30, 2002, except percentages)		
Components of net income:			
Net interest revenue	115,001	127,240	10.6%
Provision for loan losses	(26,394)	(13,787)	(47.8)
Fees and income from services, net	22,897	22,741	(0.7)
Other operating income (expenses), net ...	4,059	(5,083)	(225.2)
Other income and expenses, net	5,064	(1,700)	(133.6)
Operating expenses	(59,486)	(60,627)	1.9
Loss from price-level restatement	(3,334)	(1,283)	(61.5)
Minority interest	(50)	(80)	60.0
Income before income taxes	57,757	67,421	16.7
Income taxes	(9,282)	(10,490)	13.0
Net income	48,475	56,931	17.4

In the six-month period ended June 30, 2002, Old Santander-Chile's net income increased 17.4% compared to the same period of 2001 to Ch$56,931 million (US$76.1 million). Net income growth mainly reflected a 10.6% increase in net interest revenue and savings from cost controls. Net interest revenue increased 10.6% in the first half of 2002 compared to the same period of 2001. This was mainly due to a 10.2% rise in average interest earning assets led by a 10.1% increase in average loans in the first half of 2002 compared to the same period in 2001. The rise in net interest revenue was also due to a slight improvement in Old Santander-Chile's net interest margin from 4.99% in the first half of 2001 to 5.02% in the first half of 2002.

In the six-month period ended June 30, 2002, the net charge to income for loan loss allowances decreased 47.8% compared to the same period 2001. During the second quarter of 2002, Old Santander-Chile, following new guidelines from the Superintendency of Banks, reclassified Ch$6,940 million from voluntary provisions to non-operating income, net with no effect on net income. Excluding the effect of this change in criteria, loan loss allowances decreased 21.5%. This decrease was mainly due to the reduction in Old Santander-Chile's risk index from 1.58% as of June 30, 2001 to 1.25% as of June 30, 2002 which reduced the required loan loss allowances.

Total fee income, net, decreased 0.7% to Ch$22,741 million in the six-month period ended June 30, 2002 compared to the same period of 2001. This decrease in fee income was mainly due to the 34.1% fall in fees from financial advisory services and underwriting which was offset by moderate growth of checking accounts, payment agency services and ATM fees. Insurance brokerage fees rose 43.3% in the period.

In the first half of 2002, operating expenses increased 1.9% compared to the first half of 2001 with administrative expenses increasing 3.4% and personnel expenses rising by 0.1%.

Other operating income and expenses, net decreased three-fold to Ch$5,083 million in the first half of 2002. The net loss from foreign exchange transactions in the six-month periods ended June 30, 2001 and 2002 were mainly the result of hedging transactions that are linked to normal credit operations.

Other income and expenses, net, decreased 133.6% in the first half of 2002, totaling Ch$1,700 million. The decrease was mainly due to the reclassification during the second quarter of 2002 of Ch$6,940 million of voluntary provisions from allowance for loan losses to non-operating income, net, with no effect on net income. Excluding this reclassification total other income and expenses, Old Santander-Chile's would have increased 3.5%, mainly due to the 8.1% increase in loan loss recoveries.

Price-Level Restatement

In the first half of 2002, the loss from price-level restatement totaled Ch$1,283 million compared to a Ch$3,334 million loss in the first half of 2001. This lower loss was mainly due to the lower inflation rate in the first half of 2002 compared to the same period of 2001.

Income Tax

Income tax increased 13.0% in the first half of 2002 compared to the first half of 2001 mainly as a result of the higher pre-tax net income which increased 16.7% in the same period.

Net Interest Revenue

The tables included under this heading and under the headings "--Interest Revenue" and "--Interest Expense" set forth certain information with respect to Old Santander-Chile's interest revenue and expenses and average interest earning assets and interest-bearing liabilities for the six-month periods ended June 30, 2001 and 2002. This information is derived from the tables included in "Selected Statistical Information of Old Santander-Chile--Average Balance Sheets and Interest Rate Data" and is qualified in its entirety by reference to such information.

	Six-month period ended June 30,		
	2001	2002	% Change
	(in millions of constant Ch$ as of June 30, 2002, except percentages)		
Interest revenue	263,076	239,809	(8.8)%
Interest expense	(148,075)	(112,569)	(24.0)
Net interest revenue	115,001	127,240	10.6
Average interest earning assets ...	4,605,310	5,073,165	10.2
Net interest margin(1)	4.99%	5.02%	

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(1) Net interest margin is net interest revenue annualized divided by average interest earning assets. Pursuant to Chilean GAAP, Old Santander-Chile cannot include as net interest revenue the results of forward contracts, which hedge foreign currencies. Under the rules of the Superintendency of Banks, these gains or losses cannot be considered interest revenue, but must be considered as gains or losses from foreign exchange transactions

and, accordingly, recorded as a different item in the income statement. This treatment may artificially distort net interest revenue and foreign exchange transaction gains during periods when the exchange rate is volatile. If the results of these hedged positions were added to net interest revenue, then Old Santander-Chile's net interest margin for the six-month period ended June 2001 and 2002 would have been 4.90% and 4.58%, respectively.

For a discussion of changes in interest revenue or expense, See "--Interest Revenue" or "--Interest Expense".

Old Santander-Chile's net interest revenue increased 10.6% in the first half of 2002 compared to the same period of 2001. This was mainly due to a 10.2% rise in average interest earning assets, principally relating to a 10.1% increase in average loans in the first half of 2002 compared to the same period in 2001. The average balance of commercial loans increased 7.6% due to a rise in large corporate loans. This rise was mainly due to an increase in infrastructure-related bridge loans, which are required to be repaid from the proceeds of long-term bond offerings. The balance of large corporate loans between December 31, 2001 and June 30, 2002 decreased 6.9%. Old Santander-Chile had also been growing selectively in other higher yielding segments to improve its asset mix. In the first half of 2002, consumer loans increased 0.3%, with consumer loans in the middle and upper income segments rising 16.6% when compared to the first half of 2001. This was offset by a 5.1% decrease in loans in Banefe (middle-lower income). This reflected the increase in the perceived risk in Banefe, as unemployment levels remained higher than expected, and Old Santander-Chile's focus on profitability over volume growth in periods of

lower economic prosperity. Among medium-sized companies, Old Santander-Chile focused on high yielding leasing contracts that increased 13.0%.

The rise in net interest revenue was also due to the slight improvement in Old Santander-Chile's net interest margin from 4.99% in the first half of 2001 to 5.02% in the first half of 2002. Old Santander-Chile's net interest margin adjusted for the results of hedging decreased from 4.90% in the first half of 2001 to 4.58% in the first half of 2002. Total non-interest-bearing demand deposits increased 18.0% and average shareholders' equity rose 6.1% from the first half of 2001 to the first half of 2002. At the same time the series of reductions of the Central Bank's overnight inter-bank rate positively impacted Old Santander-Chile's net margin, since interest-bearing liabilities have a shorter duration compared to the duration of interest-earning assets. This difference in duration resulted in interest-bearing liabilities repricing more rapidly to reflect new lower interest rates, while interest-earning assets continued paying interest at higher interest rates for a longer period of time. For example, the yield on the Central Bank's nominal 90-day note, a benchmark rate for deposits, fell 271 basis points in the first half of 2002 to 4.03% compared to the year-end 2001. As of June 30, 2001 the yield on this note was 6.74%.

These positive effects on Old Santander-Chile's net interest margin were offset by a decline in interest rates along the entire length of the yield curve. This reduced the real and nominal interest earned on Old Santander-Chile's interest earning assets. The annualized nominal rate earned on interest earning assets decreased from 11.4% in the first half of 2001 to 9.5% in the first half of 2002. This decline was mainly due to the decrease in inflation in the first half of 2002 compared to the first half of 2001. In the first half of 2002 inflation reached 0.6% compared to 1.6% in the first half of 2001. Real market interest rates also decreased in the period. For example, the yield on the Central Bank's 8-year bond decreased from 5.08% as of June 30, 2001 to 4.29% as of June 30, 2002. This bond denominated in real terms is a benchmark for UF-denominated long-term loans such as mortgage loans. As a result, the real rate earned on interest earning assets fell 140 basis points in the first half of 2002 compared to the same period of 2001, reaching 8.7%. The decline of international real rates also impacted the real rates earned on Old Santander-Chile's foreign currency instruments which decreased 310 basis points from 12.7% in the first half of 2001 to 9.6% in the first half of 2002.

Interest Revenue

The following table sets forth information regarding Old Santander-Chile's interest revenue and average interest earning assets for the six-month periods ended June 30, 2001 and 2002.

	Six-month period ended June 30, 2001	Six-month period ended June 30, 2002	% Change
	(in millions of constant Ch$ as of June 30, 2002, except percentages)		
Interest revenue	263,076	239,809	(8.8)%
Average interest earning assets:			
Commercial loans	1,552,086	1,669,950	7.6
Consumer loans	332,285	333,149	0.3
Mortgage loans(1)	525,052	520,689	(0.8)
Foreign trade loans	303,482	363,134	19.7
Leasing contracts	114,861	129,784	13.0
Contingent loans(2)	277,869	314,380	13.1
Other loans(3)	58,202	160,259	175.3
Past due loans(4)	51,022	49,307	(3.4)
Total loans	3,214,859	3,540,652	10.1
Financial investments	1,365,750	1,444,106	5.7
Interbank deposits	24,701	88,407	257.9
Total	4,605,310	5,073,165	10.2
Interest rates earned:			
Nominal rates	11.4%	9.5%	
Real rates	10.1%	8.7%	

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(1) Includes residential and general purpose mortgage loans funded through mortgage finance bonds.

(2) Contingent loans consist of unfunded letters of credit, guarantees, performance bonds and other unfunded commitments. See "Item 5D: Asset and Liability Management--Loan Portfolio--Contingent Loans" in Old Santander-Chile's Form 20-F.

(3) Combines "interbank loans" and "other outstanding loans" as reported in the tables included in "Asset and Liability Management--Selected Statistical

Information--Average Balance Sheets and Interest Rate Data" in Old Santander-Chile's Form 20-F and in "Selected Statistical Information of Old Santander-Chile-Average Balance Sheet and Interest Rate Data".

(4) Past due loans include interest accrued and unpaid on past due amounts until the date on which the loan is classified as past due.

Interest revenue decreased 8.8% from Ch$263,076 million in the six-month period ended June 30, 2001 to Ch$239,809 million in the six-month period ended June 30, 2002, reflecting a decrease in the annualized nominal rate earned on interest earning assets from 11.4% in the first half of 2001 to 9.5% in the first half of 2002, as explained above. This was partially offset by the 10.2% rise in interest earning assets in the same period. The average balance of financial investments increased 5.7% and the average balance of total loans increased 10.1% in the first half of 2002 compared to the same period in 2001. Currency translation gains also explain, in part, the 19.7% rise in foreign trade loans. The real rates earned on consumer loans also remained at a high level and decreased 20 basis points in the second half of 2002 compared to the second half of 2001, reaching 27.3% on an annualized basis. This was offset by a 5.1% decrease in loans in the Banefe (middle-lower income segment).

Interest Expense

The following table sets forth information as to Old Santander-Chile's interest expense and average interest-bearing liabilities for the six-month periods ended June 30, 2001 and 2002.

	Six-month period ended June 30,		
	2001	2002	% Change
	(in millions of constant Ch$ as of June 30, except percentages)		
Interest expense	(148,075)	(112,569)	(24.0)
Average interest-bearing liabilities:			
Time deposits	2,218,626	2,403,216	8.3
Savings accounts	78,011	73,875	(5.3)
Central Bank borrowings	28,907	23,702	(18.0)
Repurchase agreements	314,194	410,846	30.8
Mortgage finance bonds(1)	546,994	546,736	(0.0)
Other interest-bearing liabilities(2)	507,025	559,910	10.4
Total	3,693,757	4,018,285	8.8
Average rates paid(3):			
Nominal rates	8.0%	5.6%	
Real rates	7.6%	4.8%	
Average non-interest-bearing demand deposits	736,863	869,518	18.0

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(1) Unsecured bonds with maturities ranging from 5 to 20 years which are used to finance mortgage lending. See "Item 4B: Business Overview--Lines of Business" in Old Santander-Chile's 20-F.

(2) Combines borrowings from domestic financial institutions, foreign borrowings, bonds and other obligations.

(3) See "Item 5D: Asset and Liability Management--Selected Statistical

Information--Average Balance Sheets and Interest Rate Data" in Old Santander-Chile's 20-F.

Interest expense decreased 24.0% to Ch$112,569 million in the six-month period ended June 30, 2002 from Ch$148,075 million in the same period in the prior year. This fall in interest expense was due to a 240 basis point decline in average nominal interest rates, reflecting the lower inflationary and interest rate environment. The nominal rate paid on time deposits decreased 250 basis points to 4.6%. For similar reasons, Old Santander-Chile saw a decrease in the average nominal rate paid on savings accounts, Central Bank borrowings and repurchase agreements, which are generally short-term funding instruments. The decline in real rates in the local and international markets also impacted funding costs. The real rate paid on Old Santander-Chile's interest-bearing liabilities decreased from 7.6% in the first half of 2001 to 4.8% in the first half of 2002. The real rate paid on foreign

currency interest-bearing liabilities decreased from 22.7% in the first half of 2001 to 7.4% in the first half of 2002. This decline in real rates was offset in part by the rise in real rates paid on peso denominated time deposits, Old Santander-Chile's main source of funding. The Central Bank adopted a policy of "nominalizing" interest rates in pesos by issuing more instruments denominated in nominal pesos, including all instruments up to 5 years in maturity. As a result, a greater percentage of Old Santander-Chile's longer term time deposits were denominated in nominal terms. This explains the 41.8% increase in average time deposits denominated in nominal pesos. The longer duration of these deposits also explains the increase in the real rate paid on these deposits.

Total non-interest-bearing demand deposits increased 18.0% and average shareholders' equity rose 6.1%. Despite lower rates, average interest-bearing liabilities grew 8.8% in the first half of 2002 compared to the same period of 2001, led by an 8.3% increase in average time deposits, which represented 59.8% of the total interest-bearing liabilities. The average balance of repurchase agreements also rose 30.8%.

Allowance for Loan Losses

Chilean banks are required to maintain reserves to cover possible credit losses that at least equal their loans to customers multiplied by the greater of (i) their risk index or (ii) 0.75%. The risk index was derived from management's classification of Old Santander-Chile's portfolio according to objective criteria relating to the performance of the loans or, in the case of commercial loans, management's estimate of the likelihood of default. See "Selected Statistical Information of Old Santander-Chile--Classification of Loan Portfolio Based on the Borrower's Payment Performance--Global Loan Loss Allowances". Banks in Chile are also required to establish individual loan loss allowances for loans that are more than 90 days past due. The amount of the individual loan loss allowances is equal to 100% of the unsecured past due portion of the loan if such amounts in the aggregate exceed the global loan loss allowance. Banks in Chile are also required to maintain additional consumer loan loss allowances as a result of the new provisioning requirements for consumer loans set by the Superintendency of Banks. A bank may also voluntarily maintain additional loan loss allowances in excess of the minimum amounts required as global and individual loan loss allowances. Provisions to such voluntary reserves are not deducted from income for tax purposes. The amount of provision charged to income in any period consists of net provisions established for possible loan losses, net of provisions made with respect to real estate acquired upon foreclosure and charge-offs against income (equal to the portion of loans charged off that is not allocated to a required reserve at the time of charge-off).

The following table sets forth information with respect to Old Santander-Chile's allowance for loan losses in the six-month periods ended June 30, 2001 and 2002.

	As of and for the six-month period ended June 30, 2001	2002	% Change
	(in millions of constant Ch$ as of June 30, 2002, except percentages)		
Allowances:			
Allowance established	26,300	18,906	(28.1)%
Allowance released	(708)	(6,111)	763.1
Allowance established for assets received in lieu of payment	802	992	23.7
Subtotal	26,394	13,787	(47.8)
Charge-offs against income	--	--	--
Net charge to income	26,394	13,787	(47.8)
Charge-offs:			
Charge-offs against income	--	--	--
Charge-offs against reserves	17,619	20,444	16.0
Total charge-offs	17,619	20,444	16.0
Recovery of loans previously charged off	5,801	6,270	8.1
Charge-offs, net of recoveries	11,818	14,174	19.9
Other asset quality data:			
Total loans (period-end)	3,433,748	3,533,317	2.9
Risk index(1)	1.58%	1.25%	
Required allowance for loan losses	64,379	55,791	(13.3)
Voluntary allowance for loan losses	9,411	1,790	(81.0)
Allowance for loan losses	73,790	57,581	(22.0)
Past due loans	48,609	48,239	(0.8)
Allowance for loan losses as a percentage of past due loans	151.80%	119.37%	(21.36)
Past due loans as a percentage of total loans	1.42%	1.37%	(3.52)

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(1) Represents the unconsolidated risk index of Old Santander-Chile excluding leasing loans.

In the first half of 2002, the net charge to income for loan loss allowances decreased 47.8%. During the second quarter of 2002, Old Santander-Chile, following new guidelines from the Superintendency of Banks, reclassified Ch$6,940 million from voluntary allowances to other non-operating income, net. These voluntary provisions recognized by Old Santander-Chile in 2002, reflected Old Santander-Chile's conservative stance regarding risk. However, as these provisions are not linked to any specific credit risk, they are no longer permitted to be included as credit risk provisions. Excluding the effect of this change in criteria, loan loss allowances decreased 21.5%. This decrease was mainly due to the reduction in Old Santander-Chile's risk index from 1.58% as of June 30, 2001 to 1.25% as of June 30, 2002 which reduced the required loan loss allowances. This was offset by the 16% increase in charge-offs. Old Santander-Chile, in anticipation of a weaker domestic and global economic, increased charge-offs in order to maintain asset quality indicators.

The allowance for loan losses as a percentage of past due loans decreased from 151.8% as of June 30, 2001 to 119.37% as of June 30, 2002, reflecting the 81.0% decrease in voluntary allowances for loan losses in the period mainly as a result of the reclassification of voluntary provisions described above. Excluding the effect of this change, the comparable coverage ratio would have been 133.8%. The increase in charge-offs of B-, C and D rated loans allowed Old Santander-Chile to reserve the provisions related to these loans. The ratio of B-, C and D loans as of June 30, 2002 reached 2.5% compared to 3.0% as of June 30, 2001. The past-due loans to total loans ratio improved from 1.42% in the first half of 2001 to 1.37% in the same period during 2002, while the same indicator for the Chilean financial sector reached 1.78% as of June 30, 2002. Finally, Old Santander-Chile credit risk index at June 2002, calculated according to the method established by the Superintendency of Banks, reached 1.25%, compared to 2.00% for the system as a whole at the same date.

Fees and Income from Services, net

The following table sets forth certain components of Old Santander-Chile's 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 six-month periods ended June 30, 2001 and 2002.

	Period ended June 30,		
	2001	2002	% Change
	(in millions of constant Ch$ as of June 30, 2002, except percentages)		
Payment agency services	2,155	2,234	3.7%
Checking accounts	4,668	4,720	1.1
Credit cards(1)	3,374	3,383	0.3
ATMs(2)	2,541	2,590	1.9
Letters of credit, guarantees, performance bonds and other unfunded commitments	720	741	2.9
Lines of credit	2,384	2,296	(3.7)
Financial advisory and underwriting	2,055	1,354	(34.1)
Bank drafts and fund transfers	105	67	(36.2)
Sales and purchases of foreign currencies	627	613	(2.2)
Insurance brokerage	395	566	43.3
Custody and trusts	145	124	(14.5)
Mutual fund services	3,088	3,179	2.9
Savings accounts	137	201	46.7

Other	503	673	33.8
Total	22,897	22,741	(0.7)

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(1) Net of payments to Transbank in respect of credit card purchase processing expenses.

(2) Net of payments to REDBANC in respect of ATM transaction processing expenses.

Total fee income, net, decreased 0.7% to Ch$22,741 million in the first half of 2002 compared to the same period of 2001. This decrease in fee income was mainly due to a 34.1% decline in fees from financial advisory and underwriting services. The income received by Old Santander-Chile from financial advisory and underwriting services was recorded as fee income or trading gains, depending on how the client preferred the deal to be structured and Old Santander-Chile's role in the issue. This explains the decrease in financial advisory and underwriting fees, as in 2002 a larger portion of the gains from these operations were booked as fixed-income trading gains than in 2001. In the six-month period ended June 30, 2002, Old Santander-Chile was active in financial advisory and underwriting for its corporate clients. For example, during the second quarter of 2002 Old Santander-Chile acted as a dealer and financial advisor to corporate clients in various infrastructure bond issues. This included acting as an agent in the largest infrastructure bond placed in Chile (UF11 million, or approximately US$242 million).

Fee income was driven by moderate growth of checking account, payment agency services and ATM fees. Credit card fees increased 0.3% despite the fact that in 2002 these fees became subject to VAT taxes. Another source of fee income was from Santander S.A. Administradora de Fondos Mutuos ("Santander Fund Management"), Old Santander-Chile's mutual fund subsidiary. This company's fee income totaled Ch$3,179 million and increased 2.9% in the six-month period ended June 30, 2002 compared to the first half of 2001. The average volume of mutual funds managed by Old Santander-Chile reached Ch$480,867 million in the first half of 2002 compared to Ch$489,518 million in the first half of 2001. Finally, insurance brokerage fees rose 43.3%. The growth of fees in this subsidiary reflected the increasing use of the branch network to sell insurance products and the increase in mortgage lending which requires life and casualty insurance.

Other Operating Income (Expense), net

Other operating income (expense), net, consists of net gains and losses from trading and brokerage activities and net gains and losses from foreign exchange transactions. Trading and brokerage results included gains and

losses realized on the sale of financial investments, as well as gains and losses arising from marking-to-market certain financial investments at the end of the period. See Note 1(f) to Old Santander-Chile's Consolidated Financial Statements. Net gains and losses from foreign exchange transactions included gains and losses realized upon the sale of foreign currency and foreign exchange derivatives and gains and losses arising from period-end translation of foreign currency-denominated assets and liabilities into pesos.

The following table sets forth certain components of Old Santander-Chile's other operating income, net, in the six-month periods ended June 30, 2001 and 2002.

	Six-month period ended June 30, 2001	2002	% Change
	(in millions of constant Ch$ as of June 30, 2002, except percentages)		
Net gain (loss) from trading activities ...	12,522	11,028	(11.9)%
Foreign exchange transactions, net	(2,077)	(11,139)	436.3
Other operating expenses, net	(6,386)	(4,972)	(22.1)
Total	4,059	(5,083)	(225.2)

Other operating income (expense), net, changed from income of Ch$4,059 million in the first half of 2001 to an expense of Ch$5,083 million in the first half of 2002. The net losses from foreign exchange transactions registered in the six-month periods ended June 30, 2001 and 2002 is mainly the result of hedging transactions linked to normal credit operations. Under rules of the Superintendency of Banks these gains (or losses) cannot be considered interest revenue, but must be considered as gains (or losses) from foreign exchange transactions. Old Santander-Chile always had a policy of minimizing its net foreign currency position.

The Ch$11,028 million gain from trading and brokerage activities, net, was mainly due to mark-to-market and trading gains of Old Santander-Chile's trading portfolio as defined by the Superintendency of Banks. Interest rates in Chile declined at all duration intervals, both in the in the first half of 2001 and 2002, which produced a gain from Old Santander-Chile's trading portfolio. The fall in long-term interest rates was greater in the first half of 2001 than in 2002, thus explaining the larger mark-to-market gain in the former period. This was partially offset by underwriting gains in the first half of 2002 derived from Old Santander-Chile's participation in corporate bond issues.

The lower other operating expenses, net, was mainly due to lower sales force expenses as a result of lower business activity in Banefe. These costs mainly consist of the fee paid to Old Santander-Chile's outsourced sales force, which is an important distribution channel for Old Santander-Chile's retail business segments.

Other Income (Expenses), net

Other income (expenses), net, consisted of gains arising from the recovery of previously charged off loans, non-operating income, non-operating expenses and income and gains arising from affiliates of Old Santander-Chile accounted for by the equity method. The following table sets forth certain components of Old Santander-Chile's other income (expenses), net for the six-month periods ended June 30, 2001 and 2002.

	Six-month period ended June 30, 2001	2002	% Change
	(in millions of constant Ch$ as of June 30, 2002, except percentages)		
Recovery of previously charged off loans	5,801	6,270	8.1%

Non-operating income (expense), net	(907)	(8,083)	791.2
Income from investments in other companies	170	113	(33.5)
Total	5,064	(1,700)	(133.6)

Other income and expenses, net changed from other income of Ch$5,064 million in the 2001 period to other expense of Ch$1,700 million in the 2002 period. The decrease was mainly due to the reclassification during the second quarter of 2002 of Ch$6,940 million voluntary provisions to non-operating expenses, net from the net charge to income for loan loss allowances. Excluding this reclassification, total other income, net, would have increased 3.5% mainly due to the 8.1% increase in loan loss recoveries.

Operating Expenses

The following table sets forth information regarding Old Santander-Chile's operating expenses for the six-month periods ended June 30, 2001 and 2002.

	Year ended June 30,		
	2001	2002	% Change
	(in millions of constant Ch$ as of June 30, 2002, except percentages)		
Personnel salaries and expenses	(32,657)	(32,677)	0.1%
Administrative expenses	(20,379)	(21,066)	3.4
Depreciation and amortization	(6,450)	(6,884)	6.7
Total	(59,486)	(60,627)	1.9
Efficiency ratio(1)	41.9%	41.8%	

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

In the first half of 2002, operating expenses increased 1.9% compared to the first half of 2001 and the efficiency ratio was 41.8%. The equivalent ratio for the whole banking sector was 55.4% for the six-month period ended June 30, 2002. Personnel salaries and expenses increased 0.1%. Old Santander-Chile froze its headcount to limit the growth of personnel expenses. Administrative expenses rose 3.4% in the same period due mainly to greater marketing expenses. Old Santander-Chile also continued to modify its branch format by centralizing back office functions and increasing the space dedicated to complementary channels such as ATMs, Internet and other automated terminals. The 6.7% rise in depreciation expenses was mainly a result of the larger investments in technology that Old Santander-Chile had been implementing.

Loss (or Gain) from Price-Level Restatement

Chilean GAAP requires that adjustments be made to non-monetary assets (including fixed assets) and to shareholders' equity at the end of each reported period to reflect the effects of inflation during each period. The net effect of this inflation adjustment is reflected in results of operations under gain (loss) from price-level restatement.

In the first half of 2002, the loss from price level restatement totaled Ch$1,283 million compared to Ch$3,334 million in the first half of 2001. This decreased loss was due to the lower inflation rate in the first six months of 2002 (0.6%) in comparison to the first six months of 2001 (1.6%).

Income Tax

The statutory corporate income tax rate in Chile during 2002 is 16.0%. In 2003 it will rise to 16.5% and in 2004 it will reach 17%. In 2001 the corporate tax rate was 15%.

Income tax expenses increased 13.0% totaling Ch$10,490 million in the first half of 2002 as compared to Ch$9,282 million in the first half of 2001. Old Santander-Chile's effective tax rate in this period was 15.6%. This increase in tax expenses was due principally to the higher pre-tax net income which increased 16.7% to Ch$67,421 million.

Chilean and US GAAP reconciliation

Old Santander-Chile prepared its financial statements in accordance with Chilean GAAP, which differs in certain significant respects from US GAAP. The most significant difference in accounting under Chilean GAAP and

US GAAP relates to the merger between Santiago and Old Santander-Chile which is accounted for as a "pooling of interests" on a prospective basis according to Chilean GAAP. As such, the historical financial statements for periods prior to the merger are not restated under Chilean GAAP. Under US GAAP, the merger between these two, which have been under common control since May 3, 1999, is accounted for in a manner similar to a pooling of interests. As a consequence of the merger, Santander Chile is required to issue supplementary consolidated financial statements for Santiago, which are the same as Santiago's historical audited consolidated financial statements, except note 25 which retroactively reflect the merged bank as if Santiago and Old Santander-Chile had been combined throughout the periods during which common control existed and Note 26, which describes certain recent events. Under US GAAP, for periods presented prior to May 3, 1999, the reported financial information reflects book values of Old Santander-Chile, which had been under Banco Santander Central Hispano's control since 1978. See Note 25(a) to Santiago's Consolidated Financial Statements.

Sources of Liquidity

Old Santander -Chile's liquidity depended 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, Old Santander-Chile established lines of credit with foreign and domestic banks and had access to Central Bank borrowings.

The following table sets forth Old Santander-Chile's contractual obligations and commercial commitments by time remaining to maturity. As of June 30, 2002, the schedule maturities of Old Santander-Chile's 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 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but withi 6 years
	At June 30, 2002				
	(in millions of constant Ch$ as of June 30,				
Mortgage finance bonds	164,970	31,949	32,380	31,965	30,338
Bonds	--	11,813	--	--	--
Chilean Central Bank borrowings:					
Credit lines for renegotiations of loans	--	--	--	--	--
Other Central Bank Borrowings	3,305	3,151	3,340	3,540	1,848
Subordinated bonds	--	--	--	140,656	--
Other obligations	8,759	7,175	4,776	2,982	1,988
Service contracts	17,252	10,524	3,838	962	224
Leases	5,701	5,201	4,516	4,065	3,686
Total cash obligations	199,987	69,813	48,850	184,170	38,084

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As of June 30, 2002, the scheduled maturities of other commercial commitments, including accrued interest, were as follows:

Other Commercial Commitments	Due within one year	Due after one year but within three years	Due after three years but within six years
	At June 30, 2002		
	(in millions of constant Ch$ as of J		
Letter of Credit	69,981	4,944	--
Guarantees	136,443	20,758	3,968
Other commercial commitments	18,668	75,601	17,725
Total other commercial commitments	225,092	101,303	21,693

The following table shows Old Santander-Chile's actual equity versus the minimum effective equity required by law:

	At June 30, 2001	2002

	(in millions of constant Ch$ as of June 30, 2002)	
Minimum effective equity required	290,645	303,708
Old Santander-Chile's actual equity	508,300	480,488
Excess over minimum effective equity	217,655	176,780

The following table sets forth Old Santander-Chile's capital reserves versus the minimum regulatory capital required (3% of its total assets) under the Superintendency of Banks regulations:

	At June 30,	
	2001	2002
	(in millions of constant Ch$ as of June 30, 2002)	
Minimum regulatory capital required	169,999	182,658
Net Capital base	363,031	362,773
Excess over minimum regulatory capital required	193,032	180,115

Financial Instruments with Off-Balance-Sheet Risk

As of June 30, 2002, Old Santander-Chile was party to transactions with off-balance-sheet risk in the normal course of its business. These transactions expose Old Santander-Chile 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. These commitments include such items as overdraft and credit card lines of credit.

Such commitments are agreements to lend to a customer at a future date, subject to the customer complying with contractual terms. Since a substantial portion of these commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent actual future cash requirements of Old Santander-Chile. The amounts of these commitments are Ch$646,791 million and Ch$ 848,462 million at June 30, 2001 and 2002, respectively.

Old Santander-Chile used the same credit policies in making commitments to extend credit as it did for granting loans.

Old Santander-Chile and its brokerage subsidiary entered into derivative transactions, particularly foreign exchange contracts, as part of their asset and liability management and in acting as dealers to satisfy their clients' needs. The notional amount of these contracts are carried off-balance-sheet (see

Note 14 to Old Santander's Interim Unaudited Consolidated Financial Information).

MARKET RISK DISCLOSURE OF OLD SANTANDER-CHILE AS OF JUNE 30, 2002

Introduction

This section describes the market risks that Old Santander-Chile was exposed to, the tools and methodology used to control these risks, the portfolios over which these market risk methods were applied and quantitative disclosure that demonstrate the level of exposure to market risk that Old Santander-Chile was assuming. At the same time this section discloses the derivative instruments that Old Santander-Chile used to hedge exposures and offered to its clients.

The principal types of risk inherent in Old Santander-Chile's business were market, liquidity, operational and credit risks. The effectiveness with which Old Santander-Chile was able to manage the balance between risk and reward was a significant factor in Old Santander-Chile's ability to generate long-term, stable earnings growth. Toward that end, Old Santander-Chile's senior management placed great emphasis on risk management.

Old Santander-Chile's relationship with Banco Santander Central Hispano allowed Old Santander-Chile to take advantage of Banco Santander Central Hispano's banking policies, procedures and standards, especially with respect to credit approval and risk management. Such policies and expertise have been successfully used by Banco Santander Central Hispano in the Spanish and other banking markets, and Old Santander-Chile's management believed that such policies and expertise had a beneficial effect upon Old Santander-Chile's operations.

Market Risk

Market risk is the risk of losses due to unexpected changes in interest rates, foreign exchange rates, inflation rates and other rates or prices. Old Santander-Chile was exposed to market risk mainly as a result of having engaged in the following activities:

- trading financial instruments, which exposed Old Santander-Chile to interest rate and foreign exchange rate risk;

- engaging in banking activities, which subjected Old Santander-Chile to interest rate risk, since a change in interest rates affected gross interest income, gross interest expense and customer behavior;

- engaging in banking activities, which exposed Old Santander-Chile to inflation rate risk, since a change in expected inflation affected gross interest income, gross interest expense and customer behavior; and

- investing in assets whose returns or accounts are denominated in currencies other than the Chilean peso, which subjected Old Santander-Chile to foreign exchange risk between the Chilean peso and such other currencies.

Market Risk Exposure Categories

Inflation

Although Chilean inflation has moderated in recent years, Chile has experienced high levels of inflation in the past. High levels of inflation in Chile adversely affected the Chilean economy and, at times, had an adverse effect on Old Santander-Chile's business, financial condition and results of operations. The inflation rate declined in 1990, 1991, 1992, 1993, 1994, 1995, 1996, 1997, 1998 and 1999 to 27.3%, 18.7%, 12.7%, 12.2%, 8.9%, 8.2%, 6.6%, 6.0%, 4.7% and 2.3%, respectively. In 2000 inflation increased to 4.5% as a result of the economic recovery and the rise in international oil prices. In 2001 inflation decreased to 2.6%, reflecting the low growth rate of internal demand, the fall in international oil prices and the high unemployment rates. This situation was unchanged in the first half of 2002 in which the annualized inflation rate reached 1.6%.

UF-denominated Assets and Liabilities. The UF is revalued in monthly cycles. On every 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 each day a pro rata amount of the prior calendar month's change in the CPI. One UF was equal to Ch$16,002.32 and Ch$16,355.2 at June 30, 2001 and 2002, respectively. The effect of any changes in the nominal peso value of Old Santander-Chile's UF-denominated assets and liabilities was reflected in its results of operations as an increase (or decrease, in the event of deflation) in interest revenue and expense, respectively.

Peso-Denominated Assets and Liabilities. Rates of interest prevailing in Chile during any period reflect in significant part the rate of inflation during the period and expectations of future inflation. At the same time the Central Bank in the first half of 2002 announced that all bonds with a maturity of up to 5 years will be denominated in nominal rates. Previously most notes with a maturity grater than one year were indexed to the UF.

Interest Rates

Interest rates earned and paid on Old Santander-Chile's assets and liabilities reflected to a certain degree inflation and expectations regarding inflation as well as shifts in short-term rates related to the Central Bank's monetary policies. The Central Bank manages short-term interest rates based on its objectives of balancing low inflation and economic growth. In the first half of 2002 the Central Bank continued to relax monetary policy in response to sluggish internal consumption and investment growth figures accompanied by low levels of inflation and low international interest rates. As of June 30, 2002, the interbank reference rate set by the Central Bank was set at 2.75% in nominal terms, a historically low level.

Foreign Exchange Fluctuations

Changes in the value of the Chilean peso against the US dollar could adversely affect the financial condition and results of operations of Old Santander-Chile. Old Santander-Chile had a policy of minimizing the effect of the fluctuation of the exchange rate on its results and balance sheet. The Chilean peso has been subject to large devaluations in the past, including a decrease of 8.5% in 2000 and 14.6% in 2001 and may be subject to significant fluctuations in the future. In the first half of 2002 the Chilean peso-US$ dollar exchange rate depreciated 6.3% in relation to year-end 2001. Low interest rates, the fall in the prices of Chile's main export products and the financial situation in neighboring countries caused this devaluation.

Asset and Liability Management

Old Santander-Chile's policy with respect to asset and liability management was to capitalize on its competitive advantages in treasury operations, maximizing its net interest revenue and return on assets and equity considering interest rate, liquidity and foreign exchange risks, while remaining within the limits provided by Chilean banking regulations. Subject to these constraints, Old Santander-Chile occasionally took mismatched positions with respect to interest rates and foreign currencies. Old Santander-Chile's asset and liability management policies were developed by the Asset and Liabilities Committee following guidelines and limits established by Banco Santander Central Hispano's Global Risk Department and Old Santander-Chile's Market Risk and Control Department. The Asset and Liabilities Committee was composed of senior members of Old Santander-Chile's Finance Division, the General Manager and the Controller. Senior members of Old Santander-Chile's Finance Division met daily and, on a formal basis, weekly with the Asset and Liabilities Committee and outside consultants. Old Santander-Chile's limits and positions were reported on a daily basis to Banco Santander Central Hispano's Global Risk Department. The Asset and Liabilities Committee reported as often as deemed necessary to Old Santander-Chile's Board of Directors. The risk limits set by the Asset and Liabilities Committee were implemented by Old Santander-Chile's Finance Division and were controlled by the Market Risk and Control Department, which established guidelines and policies for risk management on a day-to-day basis.

The composition of Old Santander-Chile's assets, liabilities and shareholders' equity as of June 30, 2002 by currency and term was as follows:

	As of June 30, 2002		
	Ch$	UF	Foreign Currency
	(in millions of constant Ch$ as of June 30, 2		
Assets			
Cash and due from banks	593,620	--	42,881
Other assets(1)			
Less than one year	1,146,000	844,929	807,759
From one to three years	193,490	728,308	116,781
More than three years	29,971	957,204	192,014
Bank premises and equipment and other	477,019	--	62
Allowance for loan losses	(57,581)	--	--
Total	2,382,519	2,530,441	1,159,497
Percentage of total assets	39.2%	41.7%	19.1%
Liabilities and Shareholders' Equity			
Non-interest-bearing deposits	938,045	5,547	55,752
Other liabilities(1)			
Less than one year	1,592,941	169,048	7,705
From one to three years	1,183,509	222,331	567,751

More than three years	657,186	90,356	162,581	
Shareholders' equity	362,773	--	--	
2001 net income	56,931	--	--	
Total	4,791,385	487,283	793,789	
Percentage of total liabilities and shareholders' equity	78.9%	8.0%	13.1%	

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(1) Other assets include Old Santander-Chile's rights under foreign exchange contracts, and other liabilities include Old Santander-Chile's obligations under foreign exchange contracts. For purposes of Old Santander-Chile's financial statements, Old Santander-Chile's rights and obligations under foreign exchange contracts were included on a net basis. Mortgage finance bonds issued by Old Santander-Chile were included as other liabilities and mortgage finance bonds held by Old Santander-Chile in its financial investment portfolio (whether issued by Old Santander-Chile or by third parties) were included as other assets.

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The composition of Old Santander-Chile's assets, liabilities and shareholders' equity at December 31, 2001 by currency and term was as follows:

	December 31, 2001			
	Ch$	UF	Foreign Currency	T
	(in millions of constant Ch$ as of Decembe except percentages)			
Assets				
Cash and due from banks	409,045	--	41,895	
Other assets(1)				
Less than one year	1,712,273	948,388	1,670,155	4,
From one to three years	198,495	288,217	419,553	
More than three years	105,414	1,000,366	225,383	1,
Bank premises and equipment and other	349,453	--	--	
Allowance for loan losses	(65,230)	--	--	
Total	2,709,450	2,236,971	2,356,986	7,
Percentage of total assets	37.1%	30.6%	32.3%	
Liabilities and Shareholders' Equity				
Non-interest-bearing deposits	754,937	5,046	47,927	
Other liabilities(1)				
Less than one year	1,367,224	1,551,701	2,088,036	5,
From one to three years	3,971	144,286	49,919	
More than three years	63	668,224	168,204	
Shareholders' equity	361,776	--	--	
2001 net income	92,093	--	--	
Total	2,580,064	2,369,257	2,354,086	7,

Percentage of total liabilities and shareholders' equity	35.3%	32.4%	32.3%

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(1) Other assets include Old Santander-Chile's rights under foreign exchange contracts, and other liabilities include Old Santander-Chile's obligations under foreign exchange contracts. For purposes of Old Santander-Chile's financial statements, Old Santander-Chile's rights and obligations under foreign exchange contracts were included on a net basis. Mortgage finance bonds issued by Old Santander-Chile were included as other liabilities and mortgage finance bonds held by Old Santander-Chile in its financial investment portfolio (whether issued by Old Santander-Chile or by third parties) were included as other assets.

Old Santander-Chile generally maintained more Chilean peso-denominated liabilities than Chilean peso-denominated assets and more UF-denominated assets than UF-denominated liabilities. In the context of a rising CPI, this had a positive impact on Old Santander-Chile's net income by generating net income from adjustments of the UF that exceeded losses arising from price-level restatements. This effect was expected to decrease significantly if rates of inflation would have decreased.

Interest Rate Sensitivity

A key component of Old Santander-Chile's asset and liability policy was the management of interest rate sensitivity. Interest rate sensitivity is the relationship between market interest rates and net interest revenue due to the maturity or repricing characteristics of interest earning assets and interest-bearing liabilities. For any given period, the pricing structure is matched when an equal amount of such assets and liabilities mature or reprice in that period. Any mismatch of interest earning assets and interest-bearing liabilities is known as a gap position. A positive gap denotes asset sensitivity and means that an increase in interest rates would have a positive effect on net interest revenue while a decrease in interest rates would have a negative effect on net interest revenue.

Old Santander-Chile's interest rate sensitivity strategy took into account not only the rates of return and the underlying degree of risk, but also liquidity requirements, including minimum regulatory cash reserves, mandatory

liquidity ratios, withdrawal and maturity of deposits, capital costs and additional demand for funds. Old Santander- Chile's maturity mismatches and positions were monitored by Old Santander-Chile and were managed within established limits.

The following table sets forth the repricing of Old Santander-Chile's interest earning assets and interest-bearing liabilities as of June 30, 2002, and may not reflect interest rate gap positions at other times. In addition, variations in interest rate sensitivity may exist within the repricing periods presented due to the differing repricing dates within the period. Variations may also arise among the different currencies in which interest rate positions are held.

As the following table reflects, Old Santander-Chile's cumulative gap position in peso-denominated interest earning assets and interest-bearing liabilities and its cumulative gap position in UF-denominated interest earning assets and interest-bearing liabilities for maturity durations of less than one year were negative. However, Old Santander-Chile's exposure to potential changes in peso interest rates was reduced by the fact that at June 30, 2002, approximately 62.8% of its peso-denominated interest-bearing liabilities and 60.9% of its peso-denominated interest earning assets had a repricing period of less than one month. Approximately 29.8% of Old Santander-Chile's UF-denominated interest-bearing liabilities and 23.3% of its UF-denominated interest earning assets had a repricing period of less than 90 days. Ninety days is also the most common repricing period for UF-denominated time deposits. In the case of interest earning assets and interest-bearing liabilities denominated in UF, Old Santander-Chile's exposure to changes in interest rates was reduced by the fact that a significant portion of the interest rate earned or paid on such assets or liabilities was indexed to reflect the daily effect of inflation, and as a result Old Santander-Chile's gap position was limited to variations in the real interest rate among such assets and liabilities. Further, substantially all of Old Santander-Chile's foreign currency-denominated loans were funded by foreign currency borrowings and time deposits with comparable maturity or repricing dates. Moreover, mortgage loans which have 8 to 20-year terms were generally financed through mortgage finance bonds issued for the same terms and in the same currency.

	As of June 30, 2002					
	Up to 30 days	31-90 days	91-180 days	181-365 days	1-3 years	Over 3 years
	(in millions of constant Ch$ as of June 30, 2002, except for p					
Interest earning assets(1)						
Ch$	808,032	112,224	92,282	95,778	192,038	26,81
UF	479,214	89,944	91,887	112,700	714,564	955,16
Foreign Currency	437,038	131,043	101,527	21,895	30,673	173,22
Total	1,724,284	333,211	285,696	230,373	937,275	1,155,19
Interest-bearing liabilities(2)						
Ch$	895,404	168,187	56,197	141,916	167,596	4,54
UF	389,189	173,331	187,380	362,466	208,587	565,70
Foreign Currency	287,506	50,268	7,766	195,369	4,249	143,78
Total	1,572,099	391,786	251,343	699,751	380,432	714,04
Asset/liability gap						
Ch$	(87,372)	(55,963)	36,085	(46,138)	24,442	22,26
UF	90,025	(83,387)	(95,493)	(249,766)	505,977	389,45
Foreign Currency	149,532	80,775	93,761	(173,474)	26,424	29,43
Total	152,185	(58,575)	34,353	(469,378)	556,843	441,15
Cumulative gap						
Ch$	(87,372)	(143,335)	(107,250)	(153,388)	(128,946)	(106,67
UF	90,025	6,638	(88,855)	(338,621)	167,356	556,80
Foreign Currency	149,532	230,307	324,068	150,594	177,018	206,45
Total.........................	152,185	93,610	127,963	(341,415)	215,428	656,58

Ratio of cumulative gap to cumulative total interest earning assets						
Ch$	(10.81)%	(15.58)%	(10.59)%	(13.84)%	(9.92)%	(8.0
UF	18.79	1.17	(13.44)	(43.76)	11.24	22.7
Foreign Currency	34.21	40.54	48.40	21.78	24.51	23.0
Total	8.83	4.55	5.46	(13.27)	6.14	14.0

(1) Includes loans (other than contingent loans) and investments.

(2) Includes time deposits, savings accounts, Central Bank borrowings, repurchase agreements, mortgage finance bonds and other interest-bearing deposits (other than contingent liabilities).

	As of December 31, 2001					
	Up to 30 days	31-90 days	91-180 days	181-365 days	1-3 years	Ov y
	(in millions of constant Ch$ as of December 31, 2001, except					
Interest earning assets(1)						
Ch$	838,585	79,631	57,683	116,083	196,520	1
UF	496,477	92,770	92,309	155,965	279,921	9
Foreign Currency	433,511	104,962	99,762	61,743	369,641	1
Total	1,768,573	277,363	249,754	333,791	846,082	1,2
Interest-bearing liabilities(2)						
Ch$	860,072	122,018	28,255	73,259	3,971	
UF	553,983	317,521	380,799	299,398	144,286	6
Foreign Currency	343,576	39,205	12,708	81,530	8	1
Total	1,757,631	478,744	421,762	454,187	148,265	8
Asset/liability gap						
Ch$	(21,487)	(42,387)	29,428	42,824	192,549	1
UF	(57,506)	(224,751)	(288,490)	(143,433)	135,635	3
Foreign Currency	89,935	65,757	87,054	(19,787)	369,633	
Total	10,942	(201,381)	(172,008)	(120,396)	697,817	4
Cumulative gap						
Ch$	(21,487)	(63,874)	(34,446)	8,378	200,927	3
UF	(57,506)	(282,257)	(570,747)	(714,180)	(578,545)	(2
Foreign Currency	89,935	155,692	242,746	222,959	592,592	6
Total	10,942	(190,439)	(362,447)	(482,843)	214,974	6

Ratio of cumulative gap to cumulative total interest earning assets					
Ch$	(2.56)%	(6.96)%	(3.53)%	(0.77)%	15.59%
UF	(11.58)	(47.90)	(83.74)	(85.27)	(51.77)
Foreign Currency	20.75	28.91	38.03	31.85	55.40
Total	(0.62)	(9.31)	(15.79)	(18.36)	6.19

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(1) Includes loans (other than contingent loans) and investments.

(2) Includes time deposits, savings accounts, Central Bank borrowings, repurchase agreements, mortgage finance bonds and other interest-bearing deposits (other than contingent liabilities).

Exchange Rate Sensitivity

The regulations of the Central Bank do not permit the difference, whether positive or negative, between a bank's assets and liabilities denominated in foreign currencies (including assets and liabilities denominated in US dollars but payable in pesos, as well as those denominated in pesos and adjusted by the variation of the US dollars exchange rate) to exceed 20% of the bank's paid-in capital and reserves; provided that if its assets are higher than its liabilities, it may exceed 20% in an amount equal to its allowances and reserves in foreign currency (excluding those which correspond to profits to be remitted abroad). In the years ended June 30, 2001 and 2002, the gap between foreign currency denominated assets and foreign currency denominated liabilities at Old Santander-Chile, including forward contracts was Ch$(940) million and Ch$12,560 million, respectively.

In recent years, Old Santander-Chile's results of operations benefited from fluctuations in the exchange rate between the Chilean peso and the US dollar in part due to Old Santander-Chile's policy and Central Bank regulations relating to the control of material exchange rate mismatches. However, the rate of devaluation or appreciation of the peso against the US dollar was expected to have the following principal effects:

- if Old Santander-Chile maintained a net asset position in US dollars and a devaluation of the peso against the dollar occurred, Old Santander-Chile would have recorded a related gain, and if an appreciation of the peso occurred, Old Santander-Chile would have recorded a related loss;

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- if Old Santander-Chile maintained a net liability position in US dollars and a devaluation of the peso against the dollar occurred, Old Santander-Chile would have recorded a related loss, and if an appreciation of the peso occurred, Old Santander-Chile would have recorded a related gain;

- if the inflation rate for a period exceeded the devaluation of the peso against the US dollar during the same period, Old Santander-Chile would have recorded a related gain if it had a net asset position in UFs which exceeded a net liability position in US dollars, and it would have recorded a related loss if it had a net liability position in US dollars which exceeded a net asset position in UFs. The same effect would have occurred if there were an appreciation of the peso against the US dollar; and

- if the inflation rate for a period were lower than the rate of devaluation of the peso against the US dollar during the same period, Old Santander-Chile would have recorded a related gain if it maintained a net asset position in US dollars and a net liability position in UFs and would have recorded a related loss if it had a net liability position in US dollars and a net asset position in UFs. The same effect would have occurred if there were an appreciation of the peso against the US dollar.

Old Santander-Chile entered into forward exchange contracts which were fundamentally of two types: (i) transactions covering two foreign currencies and (ii) transactions covering only Chilean pesos and UFs against US dollars. The first type was done for hedging purposes, such as when Old Santander-Chile took a liability position in foreign currency other than the US dollar; the second type, which was carried out only in the Chilean local market, was utilized to take foreign currency positions, subject to the regulatory requirement that the forward foreign currency exposure had to be included in the maximum net foreign currency position permitted by applicable regulations.

Statistical Tools for Measuring and Managing Risk

Old Santander-Chile used a variety of mathematical and statistical models, including value at risk (VaR) models, volume limits and scenario simulations to measure, monitor, report and manage market risk.

VaR Model

The VaR model was mainly used to measure interest rate risk of Old Santander-Chile's local currency trading portfolio and the net foreign currency position

All VaR measurements try to determine the distribution function for the change in value of a given portfolio, and once this distribution is known calculate a percentile linked to the confidence level required which will be equal to the VaR under those parameters. Therefore, if the distribution function of the change in value of a portfolio is known and given by f(x), where x is the random variable of the change in value of the portfolio, then the VaR for a determined level of confidence of k%, is given by the number such that:

$$k\% = \int_{VaR} f(x)\,dx$$

or:

$$1-k\% = \int^{VaR} f(x)\,dx$$

As calculated by Old Santander-Chile, VaR estimated the expected maximum loss in the market value of a given portfolio based on historical simulations to calculate changes in market values which were applied to current values, generating a simulated distribution of gains and losses. The methodology utilized by Old Santander-Chile was based on historical simulations with a confidence level of 99%, over a one-day horizon and a lambda factor of 94%. It was the maximum one-day loss that Old Santander-Chile would have expected to suffer on a given portfolio 99.00% of the time, subject to certain assumptions and limitations discussed below. Conversely, it is the figure that

Old Santander-Chile would have expected to exceed only 1.0% of the time. VaR provides a single estimate of market risk that is comparable from one market risk to the other.

Old Santander-Chile used VaR estimates to alert senior management whenever the statistically expected losses in its trading portfolio and net foreign currency position exceeded prudent levels. Limits on VaR were used to control exposure on the local currency fixed-income trading portfolio and the net foreign currency position. Old Santander-Chile's trading portfolio was mainly comprised of government bonds, mortgage finance bonds and mortgage finance bonds issued and held by Old Santander-Chile. The net foreign currency position included all assets and liabilities in foreign currency (principally US dollars) including forward contracts used to hedge positions. A daily VaR was calculated for the trading portfolio and the net foreign currency position. These daily VaRs were monitored and limited by three different methods: "VaR Stop", "Loss Trigger" and "Stop Loss".

VaR Stop. VaR Stop constituted a mixture of risk and performance based on two fundamental parameters: the daily VaR and the monthly results from trading and the net foreign currency position.

VaR Stop = Initial VaR Stop limit - (20% x Monthly loss)

The 20% was calculated based on the assumption that the daily results are independent events and that the daily result is a proxy of the monthly result divided by the square root of 25, considering that there are, on average, 25 business days in a month. VaR Stop permitted Old Santander-Chile not only to impose a daily VaR limit but a limit on the accumulated losses that Old Santander-Chile may have incurred in a given time period. The monthly loss or gain was the accumulated result from the marking to market of Old Santander-Chile's trading portfolio during the month.

The following is an example of how VaR Stop was utilized.

Day	Daily VaR	Daily Result	Monthly Results	Year-to-Date Results	VaR Stop Limit	Ut
31-Jan	100	10	20	20	150	
1-Feb	120	0	0	20	150	
2-Feb	110	(30)	(30)	(10)	144	
3-Feb	130	(80)	(110)	(90)	128(1)	

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(1) Equal to 150 - (20% x (110))

When the initial VaR limit was surpassed, as is the case of February 3, in the example above, Old Santander-Chile's Market Risk and Control Department would have reported this event to the Chief Executive Officer, the Finance Division and the Asset and Liability Committee. These results were sent on a daily basis to Banco Santander Central Hispano's Global Risk Department and the Finance Division. The Asset and Liability Committee reviewed the current status of the VaR Stop limits on a weekly basis.

Loss Trigger. A loss trigger was activated when the accumulated losses in the period, both realized and unrealized, exceeded the Loss Trigger limit. The VaR Stop was applicable to limit monthly losses; the Loss Trigger was an additional control over the year-to-date results produced by the trading portfolio and the net foreign currency position. Once the Loss Trigger limit was surpassed, an action plan had to be established. This plan would be executed if the Stop Loss level was reached. The Market Risk and Control Department designed the control and follow-up procedures for the Loss Trigger in coordination with Banco Santander Central Hispano's Global Risk Department.

Stop Loss. This was defined as the maximum loss permitted. Once this level was reached, the action plan established at the Loss Trigger stage had to be executed and, if necessary, the position had to be closed and/or eliminated. The methodology for calculating the Stop Loss was identical to the Loss Trigger. The Stop Loss was activated when the accumulated losses in a period surpassed an established amount. While the Loss Trigger was a measure for communicating an excessively risky scenario and for defining the action plan, the Stop Loss resulted in the elimination of the position and a limitation on the total loss.

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The following is an example of how the Loss Trigger and Stop Loss was utilized.

Day	Daily VaR	Monthly Results	Year-to-Date Results	Loss Trigger	% Utilization	Stop Los
31-Jan	100	20	20	(150)	0%	(200)
3-Feb	130	(110)	(90)	(150)	60	(200)
4-Apr	120	(120)	(210)	(150)	140	(200)

In this case, on April 4 both the Loss Trigger and Stop Loss are activated since not only has the VaR Stop limit been surpassed, but the year-to-date losses activated the Loss Trigger and Stop Loss results.

The actual Loss Trigger and the Stop Loss levels were calculated as percentages of the amount budgeted of the expected gains from Old Santander-Chile's trading portfolio and its net foreign currency position.

Complementary methods

Old Santander-Chile also performed other tests in order to ensure the reliability of it models. Back testing was performed in order to compare VaR and the actual results generated. These tests were performed in order to check the precision of the VaR models. The daily estimated VaR was contrasted with the actual results of the portfolio of the previous day valued at the following days prices. Additionally, the back tests included hypothesis test, excess tests, normal tests, Spearman rank correlation, etc. in order to calibrate the VaR model.

Additionally Old Santander-Chile performed stress tests which consisted of simulating scenarios to estimate the impact these scenarios would have on the value of the portfolios. Old Santander-Chile performed two types of stress test: (i) historical stress testing which re-created historical events such as past financial crisis to see the impact on the present portfolio and (ii) stress tests that simulated extreme scenarios that were not necessarily historical events.

Assumptions and Limitations of VaR Model

Old Santander-Chile's VaR model assumed that changes in the market risk factors had a normal distribution and that the parameters of this joint distribution (in particular, the standard deviation of risk factor changes and the correlation between them) had been estimated accurately. The model assumed that the correlation and changes in market rates/prices included in Old Santander-Chile's historical databases were independent and identically distributed random variables, and provided a good estimate of correlation and rate/price changes in the future.

Old Santander-Chile's VaR methodology should be interpreted in light of the limitations of Old Santander-Chile's models, which included:

- A one-day time horizon may not have fully captured the market risk positions that cannot be liquidated or hedged within one day.

- Old Santander-Chile computed VaR at the close of business, and trading positions may have changed substantially during the course of the trading day.

Scenario Simulations/Sensitivity Analysis

The interest rate risk of the non-trading portfolio and the net foreign currency position is measured using scenario simulations. Because of the limitation in VaR methodology, Old Santander-Chile used scenario simulations to analyze the impact of extreme movements and to adopt policies and procedures in an effort to protect Old Santander-Chile's capital and results against such contingencies. Old Santander-Chile's non-trading portfolio was comprised of all positions not included in the trading portfolio. Old Santander-Chile's net foreign currency position included all positions in a foreign currency.

Old Santander-Chile used scenario simulations to measure Chilean peso and US dollar interest rate risk of the non-trading portfolio and the net foreign currency position. Old Santander-Chile calculated the existing gaps in

terms of inflation indexed and non-inflation indexed non-trading portfolios and performed a scenario simulation by calculating the potential loss from an increase (or decrease) of 100-basis points in the entire yield curve in terms of local rates. The same scenario was performed for the net foreign currency position and US dollar interest rates. Old Santander-Chile had set limits as to the maximum loss these types of movements in interest rates could have over Old Santander-Chile's capital and net financial income budgeted for the year.

These limits are calculated according to the formulas discussed below.

Scenario Simulation (Net Financial Income). To determine the percentage of Old Santander-Chile's budgeted net financial income for the year that was at risk of being lost with a sudden 100-basis point movement in the entire yield curve, Old Santander-Chile utilized the following equation:

$$\text{Sensitivity} = \sum_{i=1}^{n} \frac{GAP_i \times \Delta r \times (365-t_j)}{365}$$

n: Number of intervals in which sensitivity is measured.

ti: Average maturity (or duration) for each interval being measured.

/\ r: Change in interest rate. A 100-basis point increase (decrease)in the yield curve is used.

GAP: Difference between assets and liabilities that are sensitive to interest rates for each period.

Scenario Simulation (Capital and Reserves). To determine the percentage of Old Santander-Chile's capital and reserves that was at risk of being lost with a sudden 100-basis point movement in the entire yield curve, Old Santander-Chile utilized the following equation:

$$\text{Sensitivity} = \sum_{i=1}^{n} GAPi \times \Delta r \times (Dmj)$$

n: Number of intervals in which sensitivity is measured.

Dmj: Modified duration for interval i

/\r: Change in interest rate. A 100-basis point increase (decrease)in the yield curve is used.

GAP: Difference between assets and liabilities that are sensitive to interest rates for each period.

Consolidated limits. To determine the consolidated limit, the foreign currency limit was added to the local currency limit for both the net financial income loss limit and the loss limit over capital and reserves using the following formula:

Consolidated limit = Square root of a2 + b2 + 2ab

a: limit in local currency

b: limit in foreign currency

Since correlation is assumed to be 0, 2ab = 0

Assumptions and Limitations of Scenario Simulations/Sensitivity Analysis

The most important assumption was the usage of a 100-basis point shift in the yield curve. Old Santander-Chile used a 100-basis point shift since a sudden shift of this magnitude was considered realistic, but not an everyday occurrence given historical movements in the yield curve, and significant in terms of the possible effects a shift of

this size could have had on Old Santander-Chile's performance. Banco Santander Central Hispanos' Global Risk Department also set comparable limits by country in order to be able to compare, monitor and consolidate market risk by country in a realistic and orderly manner.

Old Santander-Chile's scenario simulation methodology should be interpreted in light of the limitations of Old Santander-Chile's models, which included:

- The scenario simulation assumed that the volumes remained on balance sheet and that they were always renewed at maturity, omitting the fact that credit risk considerations and pre-payments may affect the maturity of certain position.

- This model assumed an equal shift throughout the entire yield curve and did not take into consideration different movements for different maturities.

- The model did not take into consideration the sensitivity of volumes to these shift in interest rates.

- The limits to the loss of the budgeted financial income was calculated over an expected financial income for the year which may not be obtained, signifying that the actual percentage of financial income at risk could be higher than expected.

Volume Limits

In order not to depend solely on the VaR model to measure market risk, Old Santander-Chile also developed Volume Limits which placed a cap on the actual size of the different portfolios being controlled.

Fixed Income: Volume-Equivalent. This system was considered to be an additional limit to the size of Old Santander-Chile's trading portfolio. This measure sought to homogenize the different instruments in Old Santander-Chile's fixed income trading portfolio and convert the portfolio into a single instrument of known duration. Old Santander-Chile limited the size of this volume-equivalent portfolio. The equivalent instrument was assumed to have a duration of one year. The equivalent volume was calculated by the Market Risk and Control Department and limits were set by the Assets and Liabilities Committee with respect to size of the volume-equivalent portfolio.

Net Foreign Currency Position: Maximum Net Position. Old Santander-Chile also set an absolute limit to the size of Old Santander-Chile's net foreign currency position. As of June 30, 2002, the limit was US$90 million. This limit was a useful measure in limiting Old Santander-Chile's exposure to foreign exchange and interest rate risk, especially in periods of lower volatility and low daily VaR levels. The limit to the size of the net foreign currency position was determined by the Asset and Liabilities Committee and was calculated and monitored by the Market Risk and Control Department.

Central Bank Gap Requirements

The Central Bank also implemented regulations regarding the size of asset and liability gaps. The interest rate gap between assets and liabilities in local and foreign currency cannot exceed 8% of a bank's capital. In order to measure this Gap, Old Santander-Chile was required to construct the following table:

Period	Gap (1)	Change in interest rate (2)	Sensitivi factor (3)

Up to 30 days	A-L	100 bp	0
31 days to 3 months	A-L	100	0.15
3 months - 6 months	A-L	100	0.34
6 months - 1 year	A-L	100	0.68
1-2 years	A-L	100	1.3
2 - 3 years	A-L	75	2.04
3 -4 years	A-L	75	2.69
4 - 5 years	A-L	75	3.27
5- 7 years	A-L	75	3.99
7 - 10 years	A-L	75	4.89
10- 15 years	A-L	75	5.69
15 -20 years	A-L	75	5.95
more than 20 years	A-L	75	5.95
Total			in su

As of June 30, 2002, Old Santander-Chile's interest rate gap calculated according to this methodology was 5.15% of capital and reserves.

Trading Portfolio

Local Currency Trading Activities (VaR Model)

The Finance Division managed trading activities following the guidelines set by the Assets and Liabilities Committee and Banco Santander Central Hispano's Global Risk Department. The Market Risk and Control Department's activities consisted of (i) applying VaR techniques (as discussed above) to measure interest rate risk; (ii) marking to market Old Santander-Chile's trading portfolios and measuring daily profit and loss from trading activities; (iii) comparing actual trading VaR and other limits against the established limits; (iv) establishing control procedures for losses in excess of such limits; and (v) providing information about trading activities to the Asset and Liabilities Committee, other members of senior management, the Finance Division and Banco Santander Central Hispano's Global Risk Department.

Under Chilean GAAP, a bank must separate its financial investment portfolio between "trading" and "permanent" investment portfolios. Under Chilean GAAP, the unrealized holding gains (losses) related to investments classified as permanent have been included in equity. The portfolio considered as "trading" were included in operating results. The Asset and Liabilities Committee, in order to be conservative, had limited even further the Finance Division's actual trading portfolio. This portfolio was a sub-set of the portfolio defined as "trading" for accounting purposes and was designated "Trading de Gestion" (Managed Trading Portfolio). The market risk of this portfolio was measured using a VaR technique to measure interest rate risk. The composition of this portfolio mainly consisted of Central Bank bond's, mortgage bonds and low risk Chilean corporate bonds issued locally as can be observed below:

Trading portfolio used for local currency trading VaR calculation	December 31, 2001 Ch$ millions
PRC (Central Bank bond)	11,384
Mortgage Finance Bonds issued by the Bank	13,313
Mortgage Finance Bonds	22,532
Zero coupon Central Bank bonds	5,268
Chilean corporate bonds	78,982

Total	131,479

Local Currency Trading: Quantitative Disclosures about Market Risk: VaR

For Old Santander-Chile's trading portfolio, the average, high and low amounts of the VaR between January 1, 2002 and June 30, 2002 were the following:

Trading Portfolio	Daily VaR in thousands of Ch$
High	731,088
Low	208,882
Average	443,043

The exchange rate used was the average exchange rate for the first half of 2002 defined by the Central Bank of Chile: Ch$665.23 = US$1.00.

For Old Santander-Chile's trading portfolio, the average, high and low amounts of the VaR between January 1, 2001 and December 31, 2001 were the following:

Trading Portfolio	Daily VaR in thousands of Ch$
High	1,168,922
Low	393,761
Average	720,269

The exchange rate used was the average exchange rate for 2001 defined by the Central Bank of Chile: Ch$633.69 = US$1.00.

The average VaR for the trading portfolio in the first six months of 2002 compared to 2001 showed a slight decrease as Old Santander-Chile had reduced its Market Trading Portfolio.

Other than Trading Portfolio: Foreign Currency Position and Non-Trading Activities

Foreign Currency Positions (VaR and Sensitivity Analysis/Scenario Simulations)

Old Santander-Chile's foreign currency position included all of Old Santander-Chile's assets and liabilities in foreign currency, including derivatives that hedged certain foreign currency mismatches. The Finance Division managed Old Santander-Chile's net foreign currency position following the guidelines approved by the Asset and Liabilities Committee and Banco

Santander Central Hispano's Global Risk Department. In carrying out its market risk management, the Finance Division managed the foreign exchange rate risk arising from mismatches between investments and the funding thereof that arose from differences in amounts and currencies. The Market Risk and Control Department used a VaR model to monitor and measure the exchange rate risk of Old Santander-Chile's net foreign currency position, which included trading and non-trading activities. The Market Risk and Control Department used scenario simulations, to measure the interest rate risk of Old Santander-Chile's net foreign currency position.

Foreign Currency Position: Quantitative Disclosures about Market Risk: VaR

For Old Santander-Chile's net foreign currency position, the average, high and low of the VaR between January 1, 2002 and June 30, 2002 were the following:

Foreign Currency Position	Daily VaR in thousands of Ch$
High	802,933
Low	11,974
Average	299,354

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The exchange rate used was the average exchange rate for the first half of 2002 defined by the Central Bank of Chile: Ch$665.23 = US$1.00.

For Old Santander-Chile's net foreign currency position, the average, high and low of the VaR between January 1, 2001 and December 31, 2001 were the following:

Foreign Currency Position	Daily VaR in thousands of Ch$
High	740,094
Low	19,217
Average	190,262

The exchange rate used was the average exchange rate for 2001 defined by the Central Bank of Chile: Ch$633.69 = US$1.00.

The average VaR in the first half of 2002 for the net foreign currency position increased compared to the average VaR for 2001 mainly as a result of the greater volatility of the foreign exchange markets due to the negative impact caused by the economic and political instability in neighboring countries and the sharp reduction in the internal interest rate environment.

Foreign Currency Position: Quantitative Disclosures about Market Risk: Scenario Simulations

For Old Santander-Chile's net foreign currency position, any loss caused by a 100-basis point shift in US dollar interest rates could not be greater than 3.5% of total equity or budgeted net financial income. The 3.5% was an internally imposed limit set by the Asset and Liabilities Committee and was modified in 2002. In 2001 both these limits were 1.5%. Old Santander-Chile increased the limit in order to allow the Finance Division greater flexibility in managing foreign currency gaps as the international rates had fallen at all intervals. The 1.5% limit was also internally imposed and was inferior to the limit of 3.5% allowed by Banco Santander Central Hispano.

	Loss Limit established for 2002	
Scenario Simulation: 100 Basis Point Shift	Capital and Reserves	Budgeted Net Financial Income
US dollar interest rates		
Foreign currency position	3.5%	3.5%

The following table, which contemplates a 100-basis point shift in the relevant interest rate, indicates that Old Santander-Chile was within the limits established for 2001 and 2002.

	Net Foreign Currency Position	
100 Basis Point Shift	Financial Income	Capital and Reserves
As of December 31, 2001	0.45%	1.07%
As of June 30, 2002	0.40	0.03
Loss limit in 2002	3.5	3.5

Local Currency Non-Trading Activities (Sensitivity Analysis/Scenario Simulations)

Old Santander-Chile's local currency non-trading portfolio included all positions in the balance sheet that were not considered to be trading instruments denominated in nominal or inflation-indexed Chilean pesos. This included investments. The Finance Division managed the risk management of non-trading positions under guidelines approved by the Asset and Liabilities Committee and Banco Santander Central Hispano's Global Risk Department. In carrying out its market risk management functions, the Finance Division managed interest rate risk that arose from any mismatches with respect to rates, maturities, repricing periods, notional amounts or other mismatches between Old Santander-Chile's interest earning assets and its interest-bearing liabilities.

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The Market Risk and Control Department: (i) applied scenario simulations (as discussed below) to measure the interest rate risk of the local currency non-trading portfolio and the potential loss of Old Santander-Chile's non-trading activities; (ii) provided the Asset and Liabilities Committee, the Finance Division and Banco Santander Central Hispano's Global Risk Department with risk/return reports; and (iii) consolidated all market positions (trading and non-trading) to measure Old Santander-Chile's total risk profile.

The potential loss in the market value of Old Santander-Chile's local currency non-trading portfolio resulting from a 100-basis point shift in the yield curve was set at 4.5% of total equity in 2001. In November 2001, Old Santander-Chile's Asset and Liabilities Committee together with Banco Santander Central Hispano's Global Risk Department approved an increase in this limit to 6.0%. This indicator was increased in response to the expected increase in growth of long-term loans such as residential mortgage loans, commercial loans with a maturity greater than 1 year and financial investments in order to improve and sustain Old Santander-Chile's net interest margin. At the same time, the variation in net financial income caused by the 100-basis point shift could not be greater than 3.5% of the total net financial income budgeted for the year. This indicator was not modified in 2002. These limits were internally set by the Asset and Liabilities Committee.

	Loss Limit established for 2002	
Scenario Simulation: 100 Basis Point Shift	Capital and Reserves	Budgeted Net Financial Income
Local currency interest rates		
Non-trading portfolio	6.0%	3.5%

Local Currency Non-Trading Activities: Quantitative Disclosures Market Risk: Scenario Simulations

The following table, which contemplates a 100-basis point shift in the relevant interest rate, indicates that Old Santander-Chile was within the limits established in 2001 and 2002.

	Local Currency Non-Trading Portfolio	
100 Basis Point Shift	Financial Income	Capital and Reserves
As of December 31, 2001	0.41%	5.80%
As of June 30, 2002	0.34	3.94
Loss limit in 2002	3.5	6.0

Consolidated Limits

Finally, Old Santander-Chile tracked a consolidated indicator in order to have a notion of the total interest rate risk to which Old Santander-Chile was exposed in terms of capital at risk and financial income at risk. These loss limits were 4.5% of total equity and 3.5% for the budgeted net income until November 2001. For December 2001 and 2002 the consolidated limits were 6.0% of total equity and 3.5% budgeted net income for the year. The consolidated limit was an internally imposed limit set by the Asset and Liabilities Committee and Banco Santander Central Hispano's Global Risk Department.

	Consolidated	
100 Basis Point Shift	Financial Income	Capital and Reserves
As of December 31, 2001	0.61%	5.90%

As of June 30, 2002	0.54	3.94
Loss limit in 2002	3.5	6.0

Disclosures Regarding Derivative Financial Instruments

Old Santander-Chile and its brokerage subsidiary entered into transactions involving derivative instruments, particularly foreign exchange contracts, as part of their asset and liability management and in acting as dealers to satisfy its clients' needs. The notional amount of these contracts were carried off-balance sheet.

Foreign exchange forward contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. These contracts are generally standardized contracts, normally for periods between 1 and 180 days and are not traded in a secondary market; however, in the normal course of business and with the agreement of the original counterparty, they may be terminated or assigned to another counterparty.

When Old Santander-Chile entered into a forward exchange contract, it analyzed and approved the credit risk (the risk that the counterparty might default on its obligations). Subsequently, on an ongoing basis, it monitored the possible losses involved in each contract. To manage the level of credit risk, Old Santander-Chile dealt with counterparties of good credit standing, entered into master netting agreements whenever possible and, when appropriate, obtained collateral.

The Central Bank requires that foreign exchange forward contracts be made only in US dollars and other major foreign currencies. In the case of Old Santander-Chile, most forward contracts were made in US dollars against the Chilean peso or the UF. Occasionally, forward contracts were also made in other currencies, but only when Old Santander-Chile acted as an intermediary.

Unrealized gains, losses, premiums and discounts arising from foreign exchange forward contracts were shown on a net basis under Other Liabilities. This net value as of June 30, 2001 and 2002, were Ch$30,534 million and Ch$20,829 million, respectively.

During 2001 and 2002 Old Santander-Chile entered into interest rate and cross currency swap agreements to manage exposure to fluctuation in currencies and interest rates. The differential between the interest paid or received on a specified notional amount was recognized under "Foreign exchange transactions, net". The fair value of the swap agreement and changes in the fair value as a result of changes in market interest rates were not recognized in the consolidated financial statement.

Old Santander-Chile's foreign currency futures and forward operations and other derivative products outstanding as at June 30, 2001 and 2002 are summarized below:

(a) Foreign currency and interest rate contracts

	Number of contracts	Up to 3 months

	2001	2002	2001	2002
			(thousands of US$)	
Chilean market:				
Future purchase of foreign currency with Chilean pesos	193	189	457,313	229,85
Future sale of foreign currency with Chilean pesos	238	283	906,687	543,45
Foreign currency forwards	30	11	2,053	1,57

	Number of contracts		Up to 3 months		N
	2001	2002	2001	2002	2
			(thousands of US$)		
Foreign markets:					
Foreign currency forwards	39	47	9,057	14,373	2
Interest rate swap	16	67	27,000	246,680	34

The notional amounts refer to the US dollars bought or sold or to the US dollar equivalent of foreign currency bought or sold for future settlement. The contract terms correspond to the duration of the contracts as from the date of the transaction to the date of the settlement.

(b) Contracts expressed in the UF index

	Number of contracts		Up to 3 months		No
					O
	2001	2002	2001	2002	20
			UF	UF	U
Forward in UF/Ch$ sold	3	2	--	--	250

Other Subsidiaries

For VaR measurements and scenario simulations, Old Santander-Chile's trading and non-trading portfolios and the net foreign currency position did not consolidate the asset-liability structure of the Santander Fund Management, Santander Insurance or Santander Securitization. The balance sheets of these subsidiaries were mainly comprised of non-sensitive assets and liabilities, fixed assets and capital and in total only represent 0.3% of Old Santander-Chile's total consolidated assets.

The following table provides summary balance sheets for Santander Fund Management, Santander Insurance and Santander Securitization at June 30, 2002.

Subsidiaries	Participation	Assets as of June 30, 2001	Assets as of June 30, 2002	Shareholders' Equity at June 30, 2001	Shareholders' Equity at June 30, 2002	Net mon
Santander S.A. Administradora de Fondos Mutuos	99.96%	8,981	12,564	8,271	11,887	1
Santander S.A. Sociedad Securitizadora	99.64%	3,226	10,058	1,412	2,079	
Corredora de Seguros Santander Ltda.	99.99%	671	1,389	549	1,242	
Total		12,878	24,011	10,227	15,208	1

Liquidity Management

Liquidity management sought to ensure that, even under adverse conditions, Old Santander-Chile had access to the funds necessary to cover client needs, maturing liabilities and capital requirements. Liquidity risk arose in the general funding for Old Santander-Chile's financing, trading and investment activities. It included 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 Old Santander-Chile would be required to repay liabilities earlier than anticipated.

Old Santander-Chile's general policy was to maintain liquidity adequate to ensure its ability to honor withdrawals of deposits, make repayments at maturity of other liabilities, extend loans and meet its own working

capital needs. The minimum amount of liquidity was determined by the reserve requirements of the Central Bank. Deposits were subject to a reserve requirement of 9% for peso-denominated demand deposits, 3.6% for peso and UF-denominated time deposits and 19% for demand deposits and 13.6% for time deposits for dollar and other foreign currency obligations. The Central Bank has statutory authority to increase these percentages to up to 40% for demand deposits and up to 20% for time deposits, to implement monetary policy. In addition, a 100% special reserve (reserva tecnica) applies to demand deposits, deposits in checking accounts, other demand deposits received 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 other time deposits payable within 10 days to the extent their aggregate amount 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.

In 1999 the Central Bank passed new regulations regarding liquidity which can be summarized as follows:

- The sum of the liabilities with a maturity of less than 30 days cannot exceed the sum of the assets with maturity of 30 days by more than an amount equal to a bank's capital. This limit must be calculated separately for the gap in pesos and the gap in foreign currency. In any case the sum of the gap in local currency and foreign currency cannot be greater than a bank's capital.

- The sum of the liabilities with a maturity of less than 90 days cannot exceed the sum of the assets with a maturity of less than 90 days by more than 2 times a bank's capital. This limit must be calculated in local currency and foreign currencies together as one gap.

Old Santander-Chile also set other internal liquidity limits. The Market Risk Control Department measured two other liquidity indicators:

Net accumulated liquidity ratio

$$\frac{\text{(THE SUM OF) ((Assets with maturity up to 30 days) - (Liabilities with maturity up to 30}}{\text{(THE SUM OF) (Liabilities with maturity up to 30 days)}}$$

As of June 30, 2002, this limit in local currency was 13.6% and 18.8% in foreign currency.

Liquidity coefficient

Liquid assets (at liquidation value) / (Total liabilities - capital + contingent) >= 2%

As of June 30, 2002, this limit in local currency was 20.7% and 18.3% in foreign currency.

Old Santander-Chile also performed scenario simulations in terms of percentage of assets and liabilities that were renewed in order to determine liquidity deficits in hypothetical crisis scenarios.

Selected Statistical Information of Old Santander-Chile

The following information is included for analytical purposes and should be read in conjunction with Santander's Consolidated Financial Statements and Santiago's Interim Unaudited Financial Statements as well as the discussion in "Operating and Financial Review and Prospects of Old Santander--Chile". Pursuant to Chilean GAAP, the financial data in the following tables for all periods through June 30, 2002 have been restated in constant Chilean pesos as of June 30, 2002. The UF is linked to, and is adjusted daily to, reflect changes in the previous month's Chilean Consumer price index.

Average Balance Sheets and Interest Rate Data

For information regarding the method to calculate the nominal interest rate presented in this section see "Selected Statistical Information of Santiago-Average Balance Sheets, Income Earned from Interest Earning Assets and Interest Paid on Interest-bearing Liabilities".

Contingent loans consist of unfunded letters of credit, guarantees, performance bonds and other unfunded commitments. Chilean banks charge their customers a fee on contingent loans as well as interest for the periods of the contingent debt. Fees are considered fee income and interest as interest revenue. Accordingly, contingent loans were treated by Old Santander-Chile as interest earning income assets. As a result of this treatment, the comparatively low rates of interest earned on these assets had 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 Old Santander-Chile did 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.

Accrued interest and UF indexation readjustments from overdue loans are only recognized when they are received. 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 90 or more days overdue, and do not include the installments of such loan 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, 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.

Included in interbank deposits are current accounts maintained in the Central Bank and overseas banks. Such assets have a distorting effect on the average interest rate earned on total interest earning assets because (i) balances maintained in the Central Bank only receive interest on the amounts which are legally required to be held for liquidity purposes and (ii) balances maintained in overseas banks earn interest only for certain accounts in certain countries. Consequently, the average interest earned on such assets is comparatively low. These deposits are maintained by Old Santander-Chile in these accounts to comply with statutory requirements and to facilitate international business, rather than to earn income.

Old Santander-Chile generally funded its residential mortgage loans through the issuance of mortgage finance bonds which are recourse obligations of Old Santander-Chile with payment terms matched to the related mortgage loans, bearing interest at a spread below such mortgage loans. See "Item 4B: Business Overview--Lines of Business--Banca Comercial--Residential Mortgage Lending" in Old Santander-Chile's Form 20-F. Mortgage finance bonds are traditionally placed with institutions, such as pension funds and insurance companies, seeking long-term fixed-income investments. However, Old Santander-Chile also purchased mortgage finance bonds that it had issued for its own account and held them as financial investments. Unlike US GAAP, under which mortgage finance bonds issued by Old Santander-Chile and held for future sale would be offset against the related liability, under Chilean GAAP such mortgage finance bonds and the related liability appear on Old Santander-Chile's balance sheet as "financial investments" and "mortgage finance bonds", respectively. See Notes 23 and 26(i) to Santander Chile's Audited Consolidated Financial Statements. Because the interest "earned" and "paid" on these mortgage finance bonds is the same and hence has no impact on net interest revenue, the effect of not excluding them from average interest earning assets is to reduce Old Santander-Chile's net interest margin (net interest revenue divided by average interest earning assets) from what it would have been under US GAAP. Likewise, any other income analysis or financial ratios based on the size of Old Santander-Chile's consolidated balance sheet on either the asset or liability side would be different than if the consolidated balance sheet had been prepared in accordance with US GAAP. At December 31, 2001, Old Santander-Chile had issued an outstanding Ch$565,455 million of mortgage finance bonds. At that date, Old Santander-Chile held Ch$23,501 million of such mortgage finance bonds as financial investments.

In September 1998, the Superintendency of Banks modified the regulations regarding the valuation of financial investments. Due to this modification, mortgage finance bonds issued by Old Santander-Chile and held in its own investment portfolio that were acquired prior to January 1, 1998 and which had been transferred to the permanent investment account are recorded at their December 31, 1997 carrying values until they reach maturity or are sold. In the case of mortgage finance bonds issued by Old Santander-Chile and held in its own investment portfolio that were acquired during 1998 and which had been transferred to the permanent investment account, such mortgage finance bonds are recorded at cost and are not marked to market when transferred. The market value of mortgage finance bonds issued by Old Santander-Chile and transferred to the permanent investment account could not exceed 10% of Old Santander-Chile's basic capital. See "Item 4B: Business Overview--Chilean Regulation and Supervision," in Old Santander-Chile's Form 20-F.

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 following tables show, by currency of denomination, average balances and, where applicable, interest amounts earned and paid and real and nominal rates for Old Santander-Chile's assets and liabilities and shareholders' equity for the six-month periods ended June 30, 2001 and 2002.

Selected Statistical Information

At June 30, 2002, Old Santander-Chile had issued and outstanding Ch$562,565 million of mortgage finance bonds. At that date, Old Santander-Chile held Ch$16,233 million of such mortgage finance bonds as financial investments.

	Six-month period ended June 30,					
	2001				2002	
	Average Balance	Interest Earned	Average Real Rate	Average Nominal Rate	Average Balance	Interest Earned
	(in millions of constant Ch$ as of June 30, 2002, except for					
ASSETS						
INTEREST EARNING ASSETS						
Interbank deposits						
Ch$	13,646	680	6.9%	10.0%	42,290	1,297

UF	11,055	--	--	--	46,117	--
Foreign currency	--	--	--	--	--	--
Total	24,701	680	3.8	5.5	88,407	1,297
Financial investments						
Ch$	245,700	11,275	6.2	9.2	144,223	4,051
UF	552,142	24,225	5.8	8.8	607,141	23,834
Foreign currency	567,908	33,246	14.2	11.7	692,742	41,926
Total	1,365,750	68,746	9.3	10.1	1,444,106	69,811
Commercial loans						
Ch$	340,436	27,293	12.9	16.0	504,622	32,148

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Six-month period ended June 30,

	2001				2002	
	Average Balance	Interest Earned	Average Real Rate	Average Nominal Rate	Average Balance	Interest Earned
	(in millions of constant Ch$ as of June 30, 2002, except for p					
UF	1,093,169	54,205	6.9%	9.9%	1,030,893	40,666
Foreign currency	118,481	7,300	14.5	12.3	134,435	4,381
Total	1,552,086	88,798	8.8	11.4	1,669,950	77,195
Consumer loans						
Ch$	329,480	51,128	27.7	31.0	330,605	48,407
UF	2,023	73	4.3	7.7	1,700	107
Foreign currency	782	--	--	--	844	--
Total	332,285	51,201	27.5	30.8	333,149	48,514
Mortgage loans						
Ch$	--	--	--	--	--	--
UF	525,052	29,051	8.0	11.1	520,689	24,227
Foreign currency	--	--	--	--	--	--
Total	525,052	29,051	8.0	11.1	520,689	24,227
Foreign trade loans						
Ch$	--	--	--	--	8,587	282
UF	--	--	--	--	1,140	27
Foreign currency	303,482	9,508	11.2	6.3	353,407	5,193
Total	303,482	9,508	11.2	6.3	363,134	5,502
Interbank loans						
Ch$	35,121	1,533	5.7	8.7	60,039	1,402
UF	311	12	4.6	7.7	8,260	247

Foreign currency	--	--	--	--	--	--
Total	35,432	1,545	5.7	8.7	68,299	1,649
Leasing contracts						
Ch$	246	15	9.5	12.5	2,329	134
UF	103,327	6,134	8.8	11.9	116,598	5,469
Foreign currency	11,288	1,534	22.5	27.2	10,857	971
Total	114,861	7,683	10.2	13.4	129,784	6,574
Other outstanding loans						
Ch$	16,821	898	7.6	10.7	53,393	1,566
UF	2,545	234	15.2	18.4	38,567	531
Foreign currency	3,404	701	30.1	41.2	--	--
Total	22,770	1,833	16.3	16.1	91,960	2,097
Contingent loans						
Ch$	26,284	302	(0.6)	2.3	38,336	363
UF	65,909	437	(1.6)	1.3	91,374	464
Foreign currency	185,676	1,150	8.5	1.2	184,670	835
Total	277,869	1,889	10.9	1.4	314,380	1,662
Past due loans						
Ch$	49,959	2,142	5.6	8.6	19,932	1,281
UF	1,063	--	--	--	28,249	--
Foreign currency	--	--	--	--	1,126	--
Total	51,022	2,142	5.5	8.4	49,307	1,281
Total interest earning assets						
Ch$	1,057,693	95,266	14.9	18.0	1,204,356	90,931
UF	2,356,596	114,371	6.7	9.7	2,490,728	95,572
Foreign currency	1,191,021	53,439	12.7	8.9	1,378,081	53,306
Total	4,605,310	263,076	10.1	11.4	5,073,165	239,809

	Six-month period ended June 30,					
	2001					
	Average Balance	Interest Earned	Average Real Rate	Average Nominal Rate	Average Balance	Interest Earned
	(in millions of constant Ch$ as of June 30, 20					
NON-INTEREST EARNING ASSETS						
Cash						
Ch$	465,615	--	--	--	535,869	--

UF	--	--	--	--	--	--
Foreign currency	9,018	--	--	--	16,149	--
Total	474,633	--	--	--	552,018	--
Allowance for loan losses						
Ch$	(72,013)	--	--	--	(65,424)	--
UF	--	--	--	--	--	--
Foreign currency	--	--	--	--	--	--
Total	(72,013)	--	--	--	(65,424)	--
Bank premises and equipment, net assets						
Ch$	112,162	--	--	--	110,379	--
UF	--	--	--	--	--	--
Foreign currency	--	--	--	--	--	--
Total	112,162	--	--	--	110,379	--
Other assets						
Ch$	11,469	--	--	--	17,432	--
UF	382,633	--	--	--	186,670	--
Foreign currency	19,299	--	--	--	13,559	--
Total	413,401	--	--	--	217,661	--
Total non-interest earning assets						
Ch$	517,233	--	--	--	598,256	--
UF	382,633	--	--	--	186,670	--
Foreign currency	28,317	--	--	--	29,708	--
Total	928,183	--	--	--	814,634	--
TOTAL ASSETS						
Ch$	1,574,926	95,266	--	--	1,802,612	90,931
UF	2,739,229	114,371	--	--	2,677,398	95,572
Foreign currency	1,219,338	53,439	--	--	1,407,789	53,306
Total	5,533,493	263,076	--	--	5,887,799	239,809

	Six months ended June 30,					
	2001					
	Average	Interest	Average	Average Nominal	Average	Inter

(in millions of constant Ch$ as of June 30, 20

	Balance	Paid	Real Rate	Rate	Balance	Pa
LIABILITIES AND SHAREHOLDERS' EQUITY						
INTEREST BEARING LIABILITIES						
Savings accounts						
Ch$	--	--	--	--	--	
UF	78,011	2,670	3.9%	6.8%	73,875	
Foreign currency	--	--	--	--	--	
Total	78,011	2,670	3.9	6.8	73,875	
Time deposits						
Ch$	770,452	24,300	3.3	6.3	1,092,553	28,
UF	1,111,432	45,913	5.3	8.3	963,257	24,
Foreign currency	336,742	8,169	20.9	4.9	347,406	2,
Total	2,218,626	78,382	7.0	7.1	2,403,216	55,
Central Bank borrowings						
Ch$	2,416	88	4.3	7.3	2,768	
UF	26,491	1,130	5.5	8.5	20,934	
Foreign currency	--	--	--	--	--	
Total	28,907	1,218	5.4	8.4	23,702	
Repurchase agreements						
Ch$	72,788	2,493	3.9	6.9	133,758	3,
UF	241,110	14,589	9.0	12.1	258,191	11,
Foreign currency	296	43	23.5	29.0	18,897	1,
Total	314,194	17,125	7.9	10.9	410,846	16,
Mortgage finance bonds						
Ch$	--	--	--	--	--	
UF	546,994	25,816	6.4	9.4	546,736	20,
Foreign currency	--	--	--	--	--	
Total	546,994	25,816	6.4	9.4	546,736	20,
Other interest-bearing liabilities						
Ch$	80,678	1,596	1.0	4.0	44,832	
UF	270,755	13,572	7.0	10.0	256,579	10,
Foreign currency	155,592	7,696	26.4	9.9	258,499	7,
Total	507,025	22,864	12.0	9.0	559,910	18,
Total interest-bearing liabilities						
Ch$	926,334	28,477	3.2	6.1	1,273,911	33,

UF	2,274,793	103,690	6.1	9.1	2,119,572	67,
Foreign currency	492,630	15,908	22.7	6.5	624,802	11,
Total	3,693,757	148,075	7.6	8.0	4,018,285	112,
NON-INTEREST BEARING LIABILITIES						
Non-interest-bearing demand deposits						
Ch$	736,863	--	--	--	869,518	
UF	--	--	--	--	--	
Foreign currency	--	--	--	--	--	
Total	736,863	--	--	--	869,518	
Contingent obligations						
Ch$	26,086	--	--	--	38,336	
UF	66,108	--	--	--	91,374	

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	Six months ended June 30,					
	2001				20	
	Average Balance	Interest Paid	Average Real Rate	Average Nominal Rate	Average Balance	Intere Paid
	(in millions of constant Ch$ as of June 30, 20					
Foreign currency	186,145	--	--	--	184,950	
Total	278,339	--	--	--	314,660	
Other non-interest-bearing liabilities						
Ch$	31,777	--	--	--	47,399	
UF	31,268	--	--	--	32,642	
Foreign currency	341,032	--	--	--	159,252	
Total	404,077	--	--	--	239,293	
Shareholders' equity						
Ch$	420,457	--	--	--	446,043	
UF	--	--	--	--	--	
Foreign currency	--	--	--	--	--	
Total	420,457	--	--	--	446,043	
Total non-interest-bearing liabilities and shareholders' equity						
Ch$	1,215,183	--	--	--	1,401,296	

UF	97,376	--	--	--	124,016	
Foreign currency	527,177	--	--	--	344,202	
Total	1,839,736	--	--	--	1,869,514	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY						
Ch$	2,141,517	28,477	--	--	2,675,207	33,4
UF	2,372,169	103,690	--	--	2,243,588	67,9
Foreign currency	1,019,807	15,908	--	--	969,004	11,1
Total	5,533,493	148,075	--	--	5,887,799	112,5

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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 Old Santander-Chile's 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 the six months ended June 30, 2002, compared to the six months ended June 30, 2001. 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 June 30, 2001 to June 30, 2002 due to changes in			Net change from June 2001 to June 2002
	Volume	Rate	Rate and Volume	
	(in millions of constant Ch$ as of June 30, 2002)			
INTEREST EARNING ASSETS				
Interbank deposits				
Ch$	1,428	(262)	(549)	617
UF	--	--	--	--
Foreign currency	--	--	--	--
Total	1,428	(262)	(549)	617
Financial investments				
Ch$	(4,657)	(4,373)	1,806	(7,224)
UF	2,413	(2,549)	(255)	(391)
Foreign currency	7,308	1,125	247	8,680
Total	5,064	(5,797)	1,798	1,065
Commercial loans				
Ch$	13,163	(5,605)	(2,703)	4,855
UF	(3,088)	(11,083)	632	(13,539)
Foreign currency	983	(3,439)	(463)	(2,919)
Total	11,058	(20,127)	(2,534)	(11,603)

Consumer loans				
Ch$	175	(2,886)	(10)	(2,721)
UF	(12)	55	(9)	34
Foreign currency	--	--	--	--
Total	163	(2,831)	(19)	(2,687)
Mortgage loans				
Ch$	--	--	--	--
UF	(241)	(4,621)	38	(4,824)
Foreign currency	0	0	0	0
Total	(241)	(4,621)	38	(4,824)
Foreign trade loans				
Ch$	--	--	282	282
UF	--	--	27	27
Foreign currency	1,564	(5,048)	(831)	(4,315)
Total	1,564	(5,048)	(522)	(4,006)
Interbank loans				
Ch$	1,088	(713)	(506)	(131)
UF	301	(2)	(64)	235
Foreign currency	--	--	--	--
Total	1,389	(715)	(570)	104
Leasing contracts				
Ch$	131	(1)	(11)	119
UF	788	(1,288)	(165)	(665)
Foreign currency	(59)	(524)	20	(563)
Total	860	(1,813)	(156)	(1,109)
Other outstanding loans				
Ch$	1,953	(405)	(880)	668
UF	3,307	(199)	(2,811)	297

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	Increase (Decrease) from June 30, 2001 to June 30, 2002 due to changes in			Net change from June 2001 to June 2002
	Volume	Rate	Rate and Volume	
	(in millions of constant Ch$ as of June 30, 2002)			
Foreign currency	(701)	(701)	701	(701)
Total	4,559	(1,305)	(2,990)	264
Contingent loans				
Ch$	138	(53)	(24)	61
UF	169	(102)	(40)	27
Foreign currency	(6)	(311)	2	(315)

Total	301	(466)	(62)	(227)
Past due loans				
Ch$	(1,287)	1,068	(642)	(861)
UF	--	--	--	--
Foreign currency	--	--	--	--
Total	(1,287)	1,068	(642)	(861)
Total interest earning assets				
Ch$	12,132	(13,230)	(3,237)	(4,335)
UF	3,637	(19,789)	(2,647)	(18,799)
Foreign currency	9,089	(8,898)	(324)	(133)
Total	24,858	(41,917)	(6,208)	(23,267)
INTEREST BEARING LIABILITIES				
Savings accounts				
Ch$	--	--	--	--
UF	(142)	(1,624)	87	(1,679)
Foreign currency	--	--	--	--
Total	(142)	(1,624)	87	(1,679)
Time deposits				
Ch$	10,159	(3,850)	(1,610)	4,699
UF	(6,121)	(18,151)	2,420	(21,852)
Foreign currency	259	(5,952)	(188)	(5,881)
Total	4,297	(27,953)	622	(23,034)
Central Bank borrowings				
Ch$	13	(29)	(3)	(19)
UF	(237)	(284)	60	(461)
Foreign currency	--	--	--	--
Total	(224)	(313)	57	(480)
Repurchase agreements				
Ch$	2,088	(467)	(391)	1,230
UF	1,034	(4,130)	(293)	(3,389)
Foreign currency	2,664	(23)	(1,309)	1,332
Total	5,786	(4,620)	(1,993)	(827)
Mortgage finance bonds				
Ch$	--	--	--	--
UF	(12)	(5,137)	2	(5,147)
Foreign currency	--	--	--	--
Total	(12)	(5,137)	2	(5,147)
Other interest-bearing liabilities				
Ch$	(709)	(470)	209	(970)
UF	(711)	(2,632)	139	(3,204)
Foreign currency	5,089	(3,162)	(2,092)	(165)
Total	3,669	(6,264)	(1,744)	(4,339)
Total interest-bearing liabilities				
Ch$	11,551	(4,816)	(1,795)	4,940

UF	(6,189)	(31,958)	2,415	(35,732)
Foreign currency	8,012	(9,137)	(3,589)	(4,714)
Total	13,374	(45,911)	(2,969)	(35,506)

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 Old Santander-Chile, and illustrates the comparative margins obtained, for each of the periods indicated in the table.

	Six Months ended Ju	
	2001	
	(in millions of constan June 30, 2002	
Total average interest earning assets		
Ch$	1,057,693	1,
UF	2,356,596	2,
Foreign currency	1,191,021	1,
Total	4,605,310	5,
Net interest earned(1)		
Ch$	66,789	
UF	10,681	
Foreign currency	37,531	
Total	115,001	
Net interest margin(2)		
Ch$	6.3%	
UF	0.5	
Foreign currency	3.2	
Total	2.5%	
Net interest margin, excluding contingent loans(2)(3)		
Ch$	6.5%	
UF	0.5	
Foreign currency	3.7	
Total	2.7%	

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(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, Old Santander-Chile also includes contingent loans

as interest earning assets. See "Item 5D: Asset and Liability Management--Loan Portfolio--Contingent Loans" in Old Santander-Chile's Form 20-F.

Return on Equity and Assets; Dividend Payout

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

	Six Months
	2001
	(in millions of consta except fo
Net income	48,475
Average total assets	5,533,493
Average shareholders' equity	420,457
Net income as a percentage of:	
Average total assets	0.88%
Average shareholders' equity	11.53%
Average shareholders' equity as a percentage of Average total assets	7.60%
Declared cash dividend	--
Dividend payout ratio, based on net income	--

Analysis of Old Santander-Chile's Loan Classifications

The following tables provide statistical data regarding the classification of Old Santander-Chile's loans at the end of each of the six-month periods ended June 30, 2001 and June 30, 2002. The loan amounts presented in this table have been classified in accordance with the method pursuant to which the Superintendency of Banks requires Chilean banks to calculate loan loss provisions. Accordingly, such amounts are not directly comparable to the amounts presented in the Old Santander-Chile Form 20-F "Item 5D: Asset and Liability Management--Loan Portfolio", in which the amounts were classified in accordance with the financial statement reporting classifications set forth in Chapter 18-1 of the regulations of the Superintendency of Banks.

To determine the risk category of a customer's commercial loans, Old Santander-Chile determined the risk index of the customer and applied the risk index to all of the customer's commercial loans. To determine the risk category of a customer's consumer loans, Old Santander-Chile applied the risk index of the customer's worst-performing consumer loans to all of the customer's consumer loans. To determine the risk category of a customer's mortgage loans, Old Santander-Chile applied the risk index of the loan itself, unless the customer had commercial loans or consumer loans of a lesser category, in which case Old Santander-Chile applied this index to the customer's residential mortgage loan. Old Santander-Chile's risk analysis system required it to evaluate, for classification purposes, only a portion (but in no event less than 75%) of its total commercial loan portfolio, including past due and contingent loans.

Category	At June 30, 2001			
	Commercial Loans	Consumers Consumers Loans	Residential Mortgage Loans	Total Loans
	(in millions of constant Ch$ as of June 30, 2001, except f			
"A"	1,662,918	278,432	533,582	2,474,
"B"	411,080	38,711	52,760	502,
"B-"	28,426	14,822	15,628	58,
"C"	12,764	11,196	3,133	27,
"D"	11,132	5,553	2	16,
Total of evaluated loans ...	2,126,320	348,714	605,105	3,080,
Total Loans	2,479,929	348,714	605,105	3,433,
Percentage evaluated	85.7%	100.0%	100.0%	89

Category	At June 30, 2002			
	Commercial Loans	Consumers Loans	Residential Mortgage Loans	Total Loans
	(in millions of constant Ch$ as of June 30, 2002, except f			
"A"	1,701,952	290,164	579,306	2,571,4
"B"	427,738	36,024	51,070	514,8
"B-"	22,475	14,101	16,101	52,6
"C"	8,564	10,368	2,794	21,7
"D"	6,559	5,846	2	12,4
Total of evaluated loans ...	2,167,288	356,503	649,273	3,173,0
Total Loans	2,527,541	356,503	649,273	3,533,3
Percentage evaluated	85.7%	100.0%	100.0%	89.8

Classification of Loan Portfolio Based on the Borrower's Payment Performance

Accrued interest and UF indexation readjustments from overdue loans are only recognized when and to the extent received. 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

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non-performing loans. Past due loans include, with respect to any loan, only the portion of principal or interest that is 90 or more days overdue, and do not include the installments of such loan 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, 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.

According to the regulations established by the Superintendency of Banks, Old Santander-Chile was 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 commercial loan (either secured or unsecured) is charged off, Old Santander-Chile had to charge off all installments which are overdue. However, this does not preclude Old Santander-Chile from charging off the entire amount of the loan, if it deems such action to be necessary. Once any amount of a loan is charged off, each subsequent installment must be charged off as it becomes overdue. In the case of past due consumer loans, a similar practice applies, except that after the first installment becomes three months past due, Old Santander-Chile had to charge off the entire remaining part of the loan. Old Santander-Chile could charge off any loan (commercial or consumer) before the first installment becomes overdue, but only in accordance with special procedures established by the Superintendency of Banks and had to charge off an overdue loan (commercial or consumer) before the terms set forth above in certain circumstances. Loans were charged off against the loan loss allowance to the extent of any required reserves already established for such loans. The remainder of such loans was charged off against income.

In general, legal collection proceedings are commenced with respect to consumer loans after 90 days past due and mortgage loans after 150 days past due. Legal collection proceedings were always commenced within one year past due, unless Old Santander-Chile determined that the size of the past due amount did not warrant such proceedings. In addition, the majority of Old Santander-Chile's commercial loans were short term, with single payments at maturity. This practice differs from that normally followed in the United States, where the amount classified as past due would include the total balance on all loans which have any portion of principal or interest overdue by 90 days or more. Past due loans were required to be covered by individual loan loss allowances equivalent to 100% of any unsecured portion thereof, but only if and to the extent that the aggregate of all unsecured past due loans exceeds the global loan loss allowances. See below "-Individual Loan Loss Allowances".

The following table sets forth the portion of loans that are current and the portion of loans that are overdue and past due as to payments of principal and interest for the six-month periods ended June 30, 2001 and June 30, 2002.

	At
	2001
	(in millions of June 30, 2002, ex
Current	3,350,870
Overdue 1-29 days	23,874
Overdue 30-89 days	10,395
Overdue 90 days or more ("past due")	48,609
Total loans	3,433,748
Overdue loans expressed as a percentage of total loans	2.41%

Past due loans expressed as a percentage of total loans	1.42%

The following table sets forth principal balances included in the above table as current and overdue (up to 90 days) loans that have any amount of principal or interest included in the category "past due", as defined in the rules of the Superintendency of Banks at June 30, 2002.

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	At June 30, 2002 (in millions of constant Ch$ as of June 30, 2002)
Mortgage loans	17,091
Commercial loans	20,115
Consumer loans	3,068
Total	40,274
Past due	5,286
Total (including past due)	45,560

Old Santander-Chile suspended the accrual of interest and readjustments on all past due loans. The amount of interest that would have been recorded on our overdue loans if they had been accruing interest was Ch$1,485 million and Ch$1,789 million for the six-month periods ended June 30, 2001 and June 30, 2002.

Loans included in the previous table which have been restructured and that bear no interest are as follows:

	Year ended December 31,					Six Months ended June 30,	
	1997	1998	1999	2000	2001	2001	2002
	(in millions of constant Ch$ as of June 30, 2002)						
Ch$	60	60	60	812	765	752	698
UF	229	215	198	183	164	173	153
Total	289	275	258	995	929	925	851

The amount of interest that would have been recorded on these loans for the six-month period ended June 30, 2002 if these loans had been earning a market interest rate was Ch$7 million.

Loan Loss Allowances

Chilean banks are required to maintain loan loss allowances as determined in accordance with the regulations of the Superintendency of Banks. A bank may also maintain voluntary reserves in excess of the minimum required amount so as to provide additional coverage for potential loan losses. Under these regulations, the minimum amount of required loan loss allowances is the greater of (i) the bank's required global loan loss allowances and (ii) the aggregate amount of its unsecured past due loans.

Global Loan Loss Allowances

The amount of global loan loss allowances required to be maintained by a bank is equal to the aggregate amount of its outstanding loans (which include contingent loans) multiplied by the greater of (i) the bank's risk index and (ii) 0.75%.

A bank's risk index is based on its classified loans, determined as previously described. See "Item 5D: Asset and Liability Management--Classification of Loan Portfolio" in Old Santander-Chile's Form 20-F. More specifically, the index is computed as follows. The aggregate amount (i.e. the outstanding principal, whether or not past due, and accrued and unpaid interest) of all evaluated loans (which does not include contingent loans) in each category from "A" through "D" is multiplied by one plus the corresponding required provision percentage. Such percentages are as follows:

Category	Provision Percentage
"A"	0%
"B"	1%
"B-"	20%
"C"	60%
"D"	90%

The risk index itself is then computed by dividing (i) the aggregate amount so computed by (ii) the aggregate amount (i.e., the outstanding principal, whether or not past due, and accrued and unpaid interest) of all evaluated loans.

Old Santander-Chile's unconsolidated risk index increased from 1.20% at December 1, 1997 to 1.25% at June 30, 2002. The risk index decreased from 1.58% at June 30, 2001 to 1.25% at June 30, 2002.

For the six month ended June 30,	Unconsolidated Risk Index
June 2001	1.58%
June 2002	1.25%

According to the latest available information of the Superintendency of Banks, the average risk index of all financial institutions (i.e., private and public sector banks, both foreign and domestic, and finance companies) was 2.00% at June 30, 2002. A lower risk index indicates less risk. See "Item 5B: Operating Results--Chilean Economy" in Old Santander-Chile's Form 20-F.

Individual Loan Loss Allowances

Banks in Chile are also required to establish individual loan loss allowances for loans that are more than 90 days past due. The amount of the individual loan loss allowances is equal to 100% of the unsecured past due portion of the loan if such amounts in the aggregate exceed the global loan loss allowance.

Additional Reserves for Consumer Lending

Banks in Chile are also required to establish additional reserves for consumer lending pursuant to provisioning requirements for consumer lending. See "Item 4B: Business Overview--Chilean Regulation and Supervision".

Voluntary Loan Loss Allowances

Old Santander-Chile maintained a voluntary loan loss allowance from time to time in excess of the loan loss allowances required by the regulations of the Superintendency of Banks. In the past, the objective of Old Santander-Chile in this regard was to gradually accumulate aggregate loan loss allowances of approximately 2% of its total loans to the extent that earnings permit. Old Santander-Chile adopted this policy in an effort to provide for any losses that could affect its loan portfolio and that might arise from unforeseen circumstances beyond known potential losses and losses inherent in a portfolio of the size and nature of Old Santander-Chile.

The following table sets forth, for the periods indicated, an analysis of Old Santander-Chile's loan loss allowances. For the purposes of this analysis, the minimum reserves required represents the greater of (i) reserves based on Old Santander-Chile's risk index and (ii) reserves based on a 0.75% ratio.

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	Six Months en June 30,
	2001
	(in millions of consta June 30, 2002, except
Reserves based on the requirements of the Superintendency of Banks(1)	64,379
Reserves based on 0.75%	26,307
Individual and global loan loss allowances	64,379
Minimum reserves required	64,379
Voluntary reserves	9,411
Total loan loss allowances	73,790
Total loan loss allowances as a percentage of total loans(2)	2.15%

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(1) Includes reserves based on risk index and additional reserves required by the Superintendency of Banks.

(2) Includes contingent loans.

Analysis of Substandard Loans and Amounts Past Due

The following table analyzes Old Santander-Chile's substandard loans (i.e., all of the loans included in categories "B-", "C" and "D") and past due loans and the reserves for loan losses existing at the dates indicated.

	At June 30
	2001

	(in millions of consta June 30, 2002, except fo
Total loans	3,433,748
Substandard loans	102,656
Substandard loans as a percentage of total loans	2.99%
Amounts past due(1)	48,609
To the extent secured(2)	25,662
To the extent unsecured	22,947
Amounts past due as a percentage of total loans	1.42%
To the extent secured(2)	0.75%
To the extent unsecured	0.67%
Reserves for loan losses as a percentage of:	
Total loans	2.15%
Total loans excluding contingent loans	2.34%
Total amounts past due	151.80%
Total amounts past due-unsecured	321.57%

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(1) In accordance with Chilean regulations, past due loans include, with respect to any loan, the unsecured portion of principal or interest of such loan that is 90 days or more overdue, and do not include the installments of such loan 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. See "Presentation of Financial Information".

(2) Security generally consists of mortgages on real estate, pledges of marketable securities, letters of credit or cash.

Analysis of Loan Loss Allowances

The following table analyzes Old Santander-Chile's loan loss allowances, the changes in the reserves attributable to charge-offs, new allowances, allowances released and the effect of price-level restatement on loan loss allowances.

	At June 30, 20
	2001
	(in millions of consta June 30, 2002, except fo
Loan loss allowance at beginning of period	66,411
Charge-offs(1)	(17,619)

At June 30, 2

	2001	
	(in millions of cons of June 30, 2002, percentage	
Allowances established	26,300	
Allowances released(2)	(708)	
Price-level restatement(3)	(594)	
Loan loss allowances at end of period	73,790	
Ratio of charge-offs to average loans(4)	1.24%	
Loan loss allowances at end of period as a percentage of total loans(4)	2.15%	

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(1) Represents the aggregate amount of required loan loss allowance with respect to loans charged off during the period.

(2) Represents the aggregate amount of loan loss allowance released during the year as a result of recoveries or a determination by management that the level of risk existing in the loan portfolio had been reduced.

(3) Reflects the effect of inflation on the allowance for loan losses at the beginning of each period, adjusted to constant pesos of June 30, 2002.

(4) Includes contingent loans.

In the period between 1997 to June 30, 2002, Old Santander-Chile did not allocate loan loss allowances for loans given abroad as these loans involved companies with solid credit rating and/or were fully guaranteed. For leasing operations, Old Santander-Chile did not set aside provisions for these operations in 1997 and 1998 as Old Santander-Chile was not involved in this line of business. Old Santander-Chile began offering leasing products in 1999 and set aside loan loss allowances for leasing operations from that date.

The following table shows charge-offs by Old Santander-Chile by type of loan:

	At June 30,	
	2001	2002
	(in millions of constant Ch$ as of June 30, 2002)	
Commercial loans	4,529	5,545
Consumer loans	12,556	14,063
Mortgage loans	534	836
Total	17,619	20,444

The following table shows recoveries by Old Santander-Chile by type of loan.

At June 30,

	2001	2002
Commercial recoveries...........	1,167	1,676
Consumer recoveries.............	4,413	4,288
Mortgage recoveries.............	221	305
Total........................	5,801	6,269

Based on information available regarding its debtors Old Santander-Chile's, management believed that its loan loss allowances were sufficient to cover known potential losses and losses inherent in a loan portfolio of the size and nature of Old Santander-Chile.

Old Santander-Chile in the period between 1997 and June 30, 2002 did not recognize charge-offs or recoveries from loans given abroad or for leasing operations.

	June 30, 2001				
	Reserve amount (1)	Reserve amount as a percentage of loans in category	Reserve amount as a percentage of total loans	Loans in category as a percentage of total loans	Reserve amount(1)
Commercial loans	32,949	1.40%	0.96%	72.27%	24,353
Consumer loans	15,066	4.34	0.44	10.11	14,672
Residential mortgage loans ...	5,535	0.91	0.16	17.62	5,409
Total allocated allowance	53,550	1.62	1.56		44,434
Total non-allocated allowance	20,240	0.59	0.59		13,147
Total allowance	73,790	2.15	2.15		57,581

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(1) In millions of constant Chilean pesos as of June 30, 2002.

Regulation and Supervision

For a description of the main material laws, regulations and other elements of the regulatory environment to which we are subject, please refer to "Item 4. Information on the Company-Regulation and Supervision" in Santiago's 20-F and "Item 4B. Information on the Company-Business Overview-Chilean Regulation and Supervision" in Old Santander-Chile's 20-F.

Below is a description of the most significant recent developments relating to banking regulations in Chile.

Accounting for Goodwill

Banks are obligated by regulations of the Superintendency of Banks to deduct from their equity the "goodwill" paid for the acquisition of a new business. Goodwill is defined as any value paid exceeding the proportionate patrimonial value of a company. On September 13, 2002 the Superintendency of Banks issued regulation No. 3,193 authorizing banks to account as an asset (and not as goodwill) the value paid for a new business in excess of its book value, provided that (i) the price is reasonable and corresponds to the future flow of funds expected to be generated by the acquired business; and (ii) the acquisition has been previously authorized by the Superintendency of Banks after considering the report of an independent valuator.

Loan Loss Allowances

General

Chilean banks are required to classify their outstanding exposures on an ongoing basis for the purpose of determining the amount of loan loss allowances. In accordance with recently enacted regulations of the Superintendency of Banks, banks must establish guidelines for such classifications based on the most adequate models and method of assessment of their loan portfolio, following certain principles established by the Superintendency of Banks. Banks are obligated to implement this new loan portfolio assessment method by no later than January 2004. Banks that are currently classified as Category I banks may request to implement the new guidelines in 2003.

The models and methods adopted by each bank must be reviewed annually and the results of the evaluation must be disclosed to the bank's board of directors. In addition, the Superintendency of Banks is entitled to review the models and methods of classification of loan portfolios being applied by each bank as well as the sufficiency of the reserves for each loan.

New Regulations

The Superintendency of Banks presently examines and evaluates each financial institution's credit management process, including its compliance with the loan classification guidelines, and on that basis classifies banks and other financial institutions into three categories: I, II and III. Category I is reserved for institutions that fully comply with the loan classification guidelines. Institutions are rated as Category II if their loan classification system has deficiencies that must be corrected by the bank's management. Category III indicates significant deviations from the Superintendency of Banks' guidelines that clearly reflect inadequacies in the evaluation of the risk and estimated losses associated with loans. We have been classified as a Category I bank since December 1991 (this classification system was established by the Superintendency of Banks in 1990 and has been applied to us since 1991).

In accordance with the new regulation, banks will be classified in categories 1, 2, 3 and 4. The category of each bank will depend on the models and methods used by the bank to classify its loan portfolio, as determined by the Superintendency of Banks. Category 1 banks will be 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 is made aware of the problems detected by the Superintendency of Banks and takes steps to correct them. Finally, banks classified as categories 3 and 4 banks 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.

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For purposes of these new classifications, loans will be 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); (iii) leasing operations (including consumer leasing, commercial leasing and residential leasing); (iv) factoring operations and (v) commercial loans (includes all loans other than consumer loans and residential mortgage loans).

In accordance with the new regulations, which will be 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.

Models based on the individual analysis of borrowers

- Requires the assignment of a risk category level to each borrower and its respective loans.

- Must consider the following risk factors within the analysis: industry or sector of the borrower, owners or managers of the borrower, their financial situation, their payment capacity and payment behavior.

- One of the following risk categories must be assigned to each loan and borrower upon finishing the analysis:

  - Classifications A1, A2 and A3, correspond to borrowers with no apparent credit risk.

  - Classifications B, correspond to borrowers with some credit risk but no apparent deterioration of payment capacity.

  - Classifications C1, C2, C3, C4, D1 and D2 correspond to borrowers whose loans have deteriorated.

For loans classified as A1, A2 and A3, the board of directors of a bank is authorized to determine the levels of required reserves. For loans classified in Categories C1, C2, C3, C4, D1 and D2, the bank must have the following levels of reserves:

Classification	Estimated range of loss	Reserve
C1	Up to 3%	2%
C2	More than 3% up to 19%	10
C3	More than 19% up to 29%	25
C4	More than 29% up to 49%	40
D1	More than 49% up to 79%	65
D2	More than 79%	90

Models based on group analysis

. Suitable for the evaluation of a large number of borrowers whose individual loan amounts are relatively small. These models are intended to be used primarily to analyze loans to individuals and small companies.

. Levels of required reserves are to be determined by the Bank, according to the estimated loss that may result from the loans, by classifying the loan portfolio using one or both of the following models:

. A model based on the characteristics of the borrowers and their outstanding loans. Borrowers and their loans with similar characteristics will be placed into groups and each group will be assigned a risk level.

. A model based on the behavior of a group of loans. Loans with analogous past payment histories and similar characteristics will be placed into groups and each group will be assigned a risk level.

Additional Reserves

Once the regulations become effective, banks will be able to create reserves above the limits described above only to cover specific risks that have been authorized by their board of directors. The concept of voluntary reserves has been eliminated by the new regulation.

Legal Proceedings

As the legal successor of Santiago and Old Santander-Chile, we have assumed all of their actual and potential liabilities of our predecessor banks, including any pending legal claims.

As of the date of this prospectus, we have cases pending before the courts in relation to three claims presented against us by the Chilean Internal Revenue Service totaling Ch$1,839.8 million (nominal value) (US$2.5 million). In our opinion, these claims are not likely to have, in the aggregate, a material adverse effect on our consolidated financial condition or results of operations.

In addition, we are subject to certain claims and are party to certain legal and arbitration proceedings incidental to the normal course of our business, including claims for alleged operational errors. We do not believe that the liabilities related to such claims and proceedings are likely to have, in the aggregate, a material adverse effect on our consolidated financial condition or results of operations.

There are no material proceedings in which any of our directors, any members of our senior management, or any of our affiliates is either a party adverse to us or our subsidiaries or has a material interest adverse to us or our subsidiaries.

For more information see "Item 8: Financial Information-Consolidated Statement and Other Financial Information-Legal Proceedings" in Old Santander-Chile's 20-F and "Item 8: Financial Information-Legal Proceedings" in Santiago's 20-F, both of which are incorporated by reference in this prospectus.

Management

Directors

Administration is conducted by our board of directors, which, in accordance with our by-laws, consists of 11 directors and two alternates who are elected at annual ordinary shareholders' meetings. The current members of the board of directors were elected by the shareholders in the extraordinary shareholders' meeting held on July 18, 2002. Members of the board of directors are elected for three-year terms. The term of each of the current board members expires on April of 2005. Cumulative voting is permitted for the election of directors. The board of directors may appoint replacements to fill any vacancies that occur during periods between elections. If any member of the board of directors resigns before his or her term has ended, and no other alternate director is available to take the position at the next annual ordinary shareholders' meeting a new replacing member will be elected. Our executive officers are appointed by the board of directors and hold office at its discretion. Scheduled meetings of the board of directors are held monthly. Extraordinary meetings can be held when called in one of three ways: by the Chairman of the board of directors, by three directors with the consent of the Chairman of the board of directors or by six directors.

Our current directors are as follows:

Directors	Position	Term Expi
Mauricio Larrain Garces*	Chairman and Director	April 20
Marcial Portela Alvarez**	First Vice Chairman and Director	April 20
Benigno Rodriguez Rodriguez**	Second Vice Chairman and Director	April 20
Victor Arbulu Crousillat**	Director	April 20
Juan Colombo Campbell*	Director	April 20
Vittorio Corbo Lioi*	Director	April 20
Juan Andres Fontaine Talavera**	Director	April 20
Gerardo Jofre Miranda*	Director	April 20
Roberto Mendez Torres*	Director	April 20
Carlos Olivos Marchant**	Director	April 20
Roberto Zahler Mayanz**	Director	April 20
Victor Barallat Lopez**	Alternate Director	April 20
Jose Juan Ruiz Gomez**	Alternate Director	April 20

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*   Former Director of Old Santander-Chile

**   Former Director of Santiago

Mauricio Larrain Garces is our Chairman. He is the former Executive Vice Chairman of the Board of Directors of Old Santander-Chile. He is also First Vice Chairman of Santander Chile Holding S.A. and President of Santander Inversiones S.A. and Universia Chile S.A. He is a Director of the Asociacion de Bancos e Instituciones Financieras de Chile and a Director of the Santiago Stock Exchange. Mr. Larrain began working at Santander Chile in 1989. Previous to that he was Intendente of the Superintendency of Banks, Manager of External Debt at the Banco Central de Chile and a Senior Finance Specialist at the World Bank in Washington. He holds degrees in Economics (Candidate) and in Law from Universidad Catolica de Chile and from Harvard University.

Marcial Portela Alvarez became a Director on May 6, 1999 and Vice Chairman of the board on May 18, 1999. He currently oversees all of Banco Santander Central Hispano's investments in Latin America and was the Director of Marketing at Banco Santander from November 1998 until the formation of Banco Santander Central Hispano. In the past, he was the Vice Chairman of Telefonica Internacional and the Chief Executive Officer of Banco Argentaria and also worked at several other banks, including Banco Exterior, Caja Postal, Banco Hipotecario and BBV. Mr. Portela holds a degree in Sociology from the University of Lovaina and a Political Science degree from the Universidad de Madrid.

Benigno Rodriguez Rodriguez became a Director on March 19, 1996. He served as Vice Chairman of the Board of Santiago from April 17, 2002 through the date the merger was consummated. Before that he served as Santiago's

Director of Management Information Systems. Currently, he is also a director of Teatinos. Mr. Rodriguez holds a degree in Economics from the Universidad Complutense of Madrid.

Victor Arbulu Crousillat became a Director on May 6, 1999. He was a Managing Director of JPMorgan, member of its European management committee and Chief Executive Officer for Spain and Portugal from 1988 until 1998. He has worked for JPMorgan for over 25 years in various positions in Europe, North America and South America. Mr. Arbulu holds a degree in Engineering and a Masters of Business Administration.

Juan Colombo Campbell is Professor of Law at Universidad de Chile and is President of Chile's Constitutional Court. He is a former member of the Board of Old Santander-Chile, to which he was appointed in 1985 and previous to that Mr. Colombo was General Counsel and Chief Executive Officer of Santander-Chile. Mr. Colombo also serves as a Director of AFP Summa Bansander S.A. Mr. Colombo holds a law degree from Universidad de Chile. He did post-graduate work at the University of California, Los Angeles.

Vittorio Corbo Lioi is Professor of Economics at Universidad Catolica de Chile. He is a former member of the Board of Old Santander-Chile, to which he was appointed in July 1996. Mr. Corbo is on the Board of Universia Chile S.A. and is Vice-President of the International Economic Association and member of the Board of the Econometric Society and of the Global Development Network. He holds a business degree from Universidad de Chile and a Ph.D. in Economics from the Massachusetts Institute of Technology.

Juan Andres Fontaine Talavera became a Director on February 26, 1998. He is a senior partner at Juan Andres Fontaine y Asociados, an economic consulting firm in Chile, a board member of several companies and a professor at the Catholic University in Chile. Prior to that he was Chief Economist at the Central Bank of Chile. Mr. Fontaine holds a degree in Economics from the Catholic University of Chile and a Masters degree in Economics from the University of Chicago.

Gerardo Jofre Miranda is a former member of the Board of Old Santander-Chile, to which he was appointed in 1991 and became Second Vice Chairman of its Board of Directors in March 1996. Mr. Jofre is also President of Santander Multimedios S.A., AFP Summa Bansander S.A., Inversiones

Internacionales Bansander S.A., and Servicios Financieros Bandera S.A. He is also Director of Santander Inversiones S.A. and Universia Chile S.A. He holds a degree in Business from Universidad Catolica de Chile.

Roberto Mendez Torres is a former member of the Board of Old Santander-Chile, to which he was appointed in 1996. He is a Professor of Economics at Universidad Catolica de Chile. He has been Advisor to Grupo Santander Chile since 1989. Mr. Mendez is President and Director of Adimark Chile. He graduated with a degree in Business from Universidad Catolica de Chile, and holds an MBA and a Ph.D. from the Graduate School of Business at Stanford University.

Carlos Olivos Marchant became a Director on April 15, 1987. He was Chairman of the Board of Santiago from on May, 1999 until the date of the merger. Prior to that, he was Vice Chairman of the board since March 31, 1998. He is a partner in the law firm Guerrero, Olivos, Novoa y Errazuriz. From 1981 to 1983, Mr. Olivos served as General Counsel of the Central Bank of Chile, and from 1984 to 1986 he served as Chairman of the board of directors of Banco Osorno. Mr. Olivos holds a law degree from the Universidad de Chile and a Masters of Jurisprudence from New York University School of Law.

Roberto Zahler Mayanz became a Director on August 31, 1999. Currently, he is Chairman of Siemens-Chile and Deutsche Bank Americas Bond Fund. He is also a member of the board of directors of the Quota Formula Review Committee and the International Monetary Fund. Mr. Zahler was a member of the board of the Central Bank of Chile from December 1989 to June 1996, where he served as Chairman of the board from December 1991 until June 1996. Mr. Zahler has acted as a visiting professor at several universities in the United States, Europe, Latin America and Chile, and is a member of several committees of the Inter-American Development Bank, World Bank, International Monetary Fund, Ford Foundation and International Labour Organization. Mr. Zahler holds a degree in Business Administration from the Universidad de Chile and a Masters degree in Economics from the University of Chicago.

Victor Barallat Lopez became an Alternate Director on April 17, 2001. He is the Chief Financial Officer and Business Development Director of the Banco Santander Central Hispano Latinamerican Division. Additionally he is a member of the boards of directors of Santander Latinamerican Management in Holland, Teatinos, Banco Santa Cruz in Bolivia, Santander Peru Holding, Banco Santander Mexicano, Santander Bancorp and Banco Santander Puerto Rico. He also worked as Banco Santander's Director of Strategy and Investor Relations from 1997 to 1999.

Mr. Barallat holds a degree in Mining Engineering from the Universidad Politecnica de Madrid and a Masters of Business Administration from the Wharton School of Business.

Jose Juan Ruiz Gomez became an Alternate Director on July 18, 2002. He had been a Director from May 6, 1999. He is currently Director of Research for the Spain and Latin America divisions of Banco Santander Central Hispano. In the past, he has worked at the Spanish Ministry of Finance and was Chairman of the Committee of Economic Policy of the European Union from 1991 until 1993. Mr. Ruiz holds a degree in Economics from the Universidad Autonoma de Madrid.

Senior Management

Our senior managers are as follows:

Senior Manager	Position	D
Fernando Canas**	Chief Executive Officer	J
Raimundo Monge*+	Corporate Director of Strategic Planning	J
Jose Manuel Pascual*+	Corporate Director of Credit Risk	M
Juan Pedro Santa Maria**+	Corporate General Counsel	J
David Turiel+	Corporate Financial Controller	J
Manuel Dato+	Corporate Director of Internal Audit	A
Roberto Jara*	Chief Accounting Officer	J
Oscar Von Chrismar*	Global Banking	J
Alberto Salinas**	Operation and Technology	M
Andres Roccatagliata*	Retail Banking	
Jose Manuel Manzano*+	Corporate Director Human Resources	O
Gonzalo Romero*	General Counsel	J
Juan Fernandez*	Administration and Costs	J
Alejandro Cuevas*	Banefe Consumer Division	J
Carlos Singer**	New York Representative	N

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* Former Senior Manager/Executive Officer of Old Santander-Chile

** Former Senior Manager/Executive Officer of Santiago

\+ Employed by Santander Chile Holding. Not an employee of Santander Chile

Fernando Canas is our Chief Executive Officer, and joined us as Vice Chairman of the board on October 31, 1996. Mr. Canas was a Director of Operations of Banco O'Higgins from 1983 through October 1996 and served as its Chief Executive Officer from 1992 to October 1996. He holds a degree in Business Administration and Accounting from the Universidad de Chile.

Raimundo Monge is the Corporate Director of Strategic Planning for Santander Chile Holding. Mr. Monge is not an employee of Santander Chile and we do not pay any fees to Santander Chile Holding for his services. He is the former Corporate Director of Old Santander-Chile, which he joined in 1991. He is also CEO of Santander Chile Holding S.A., Servicios Financieros Bandera and Soince S.A. and president of Santander S.A. Sociedad Securitizadora, Director of Santander Factoring S.A. and Santander Multimedios S.A. and Alternate Director of Universia Chile S.A. Mr. Monge has a degree in business from the Universidad Catolica de Chile and a MBA from the University of California, Los Angeles.

Jose Manuel Pascual became Director of the Risk Division in March 1997. Mr. Pascual is not an employee of Santander Chile and we do not pay any fees to Santander Chile Holding for his services. Mr. Pascual is also a Director of Santander Factoring S.A. Mr. Pascual has served in various senior positions in Santander Chile and

Banco Santander Central Hispano since 1973. Mr. Pascual is a financial expert, and holds a business degree from the IESE in Barcelona, Spain.

Juan Pedro Santa Maria is the General Counsel of Santander Chile Holding, a position he was appointed to after the merger. Mr. Santa Maria is not an employee of Santander Chile and we do not pay any fees to Santander Chile Holding for his services. Prior to that, Mr. Santa Maria served as General

Counsel of Santiago and Banco O'Higgins beginning in 1976. In addition, he is President of the Legal Committee of Lawyers of the Chilean Banks Association and was President of the Committee of Lawyers of the Latin American Federation of Banks. Mr. Santa Maria holds a law degree from the Universidad Catolica de Chile.

David Turiel is the Corporate Financial Controller of Santander Chile, which is in charge of the Accounting and Financial Control Departments. Mr. Turiel is not an employee of Santander Chile and we do not pay any fees to Santander Chile Holding for his services. He has held this position since December 2001. Previously, Mr. Turiel was Financial Controller of Banco Santander Brazil and Director of Market Risks and Manager of Auditing in Spain. Mr. Turiel has an Economics and Business degree from the Universidad Complutense of Madrid.

Manuel Dato is the Corporate Director of Internal Auditing, a position he has held since May 2002. Mr. Dato is not an employee of Santander Chile and we do not pay any fees to Santander Chile Holding for his services. Previously, Mr. Dato was Director of Internal Auditing in Banco Rio in Argentina and Banco de Venezuela. Mr. Dato has served in various senior positions in Banco Santander Central Hispano since 1973, including Manager of the Branch network in Valencia and Seville. Mr. Dato holds a law degree from the Universidad of Valencia.

Roberto Jara is our Chief Accounting Officer. He is the former Chief Accounting Officer at Old Santander-Chile, a position he held from March 1998 until August 2002, when the merger with Santiago was consummated. He joined Old Santander-Chile in 1978, and held several positions there such as Sub-Manager of Budget and Costs and Chief of Computing Projects. Mr. Jara is a CPA and holds a degree in Tax Management from Universidad Adolfo Ibanez.

Oscar von Chrismar is our Director of Global Banking. He is the former General Manager of Santander Chile, a position to which he was appointed in September 1997, after being General Manager of Banco Santander-Peru since September 1995. Mr. von Chrismar is also President of Santander S.A. Agente de Valores and a Director of Santander Factoring S.A and Universia Chile S.A. Prior to that, Mr. von Chrismar was the manager of the Finance Division of Santander Chile, a position he had held since joining Santander Chile in 1990. Mr. von Chrismar holds an Engineering degree from the Universidad de Santiago de Chile.

Alberto Salinas is our Director of Operations, and joined us on March 8, 1998. Mr. Salinas was Director of Operations of BankBoston in Argentina from 1995 to February 1998, and before that held the same position at Banco O'Higgins, which he joined in 1981. Currently, Mr. Salinas is member of the board of Operations and Technology of the Chilean Banks Association. Mr. Salina holds a degree in Civil Engineering from the Universidad de Chile.

Andres Roccatagliata is our Retail Banking Manager. He is the former manager of Banco Santander Chile's Retail Division, a position he held from 1999 until August 2002, when the merger with Santiago was consummated. Mr. Roccatagliata is also President of Santander S.A. Administradora de Fondos Mutuos and an Alternate Director of Universia Chile S.A. Prior to that he served as Manager of Distribution of Santander Chile in June 1997 and was responsible for the branch network of Santander Chile. From 1993 to 1997, Mr. Roccatagliata was the Commercial Manager of Banefe. Before that, he was a Regional and Branch Manager from 1987 to 1990. Mr. Roccatagliata holds a degree in business from the Universidad de Santiago and an MBA from the Universidad Adolfo Ibanez.

Jose Manuel Manzano was appointed Corporate Director of Human Resources for Banco Santander Chile on October 31, 2002. Previously he served as Manager of Human Resources for Old Santander Chile since 1999. Prior to that he was General Manager of Santander Fund Management and Managing Director of Bancassurance. He was also on the Board of Directors of Compania de Seguros de Vida Santander S.A.

Mr. Manzano holds an MBA and a degree in Business from Universidad Catolica de Chile.

Gonzalo Romero is our General Counsel, a position he has held since July 18, 2002. Mr. Romero, a lawyer, had been General Manager of Banco Concepcion from 1991 to 1996 and General Counsel of Banco Concepcion from 1986 to 1990. He is a graduate of Universidad de Chile.

Juan Fernandez is our manager of Administration and Cost Control. He is the former Manager of Administration and Cost Control of Old Santander-Chile, a position he held since April 1999 until August 2002, when the merger with Santiago was consummated. Mr. Fernandez is also Director of Santander Chile Holding S.A. and Santander S.A. Sociedad Securitizadora and Alternate Director of Soince S.A. Previously Mr. Fernandez served as Manager for Accounting and Administration of Santander Chile since January 1993. Prior to that Mr. Fernandez was at Banchile Agencia de Valores y Subsidiarias, and at JPMorgan in Santiago and Madrid.

Alejandro Cuevas became Manager of the Banefe Division of Santander Chile in January 2000. Prior to that he was the Commercial Manager of Banefe between May 1997 and December 1999 and Marketing Manager of Banefe from March 1995 to May 1997. Mr. Cuevas has a Business degree from Universidad de Chile.

Carlos Singer is our New York Representative, and he joined Santiago in 1992. In the past, he has served as Consultant to the World Bank, Advisor to the General Manager of Banco Morgan Finanza, Economic Advisor for the American Embassy in Santiago, General Manager of America Economia and Minister Counselor for the Chilean Government Trade Bureau. Mr. Singer is currently a professor at the Columbia University Graduate School of Business. He is an Economist with a degree from Boston University

Board Practices

The Directors Committee (formerly the Audit Committee) is comprised of three members of the board of directors (Messrs. Juan Colombo Campbell (Chairman), Benigno Rodriguez Rodriguez and Victor Arbulu Crousillat and, as invited members, the Chief Executive Officer, our General Counsel and the General Auditor. The Directors Committee's primary responsibility is to support the board of directors in the continuous improvement of our system of internal controls, which includes reviewing the work of both the external auditors and the Internal Audit Department. The committee is also responsible for analyzing observations made by regulatory entities of the Chilean financial system about us and for recommending measures to be taken by our management in response. The external auditors are recommended by the Directors Committee to our board of directors and appointed by our shareholders at the annual shareholders' meeting.

Share Ownership by Directors and Senior Management

None of our directors or members of senior management owns 1% or more of our outstanding common stock. The directors and senior managers do not have different or preferential voting rights with respect to those shares they own.

Description of the Notes

The notes will be issued under an indenture dated as of July 17, 1997 between The Bank of New York, as trustee, and us, as amended by a supplemental indenture to be entered into between the trustee and us in connection with the issuance of the notes in this offering and in the exchange offer for our 7% notes due 2007. References to the indenture are to the indenture as amended by the supplemental indenture.

The following is a summary of the indenture and the notes. Because this is only a summary, it is not complete and does not describe every aspect of the notes and indenture. A copy of the indenture is available upon request. We urge you to read the indenture because it, and not this description, defines your rights as a holder of the notes issued under the indenture.

General

The indenture does not limit the aggregate principal amount of debt securities that may be issued under the indenture, and provides that debt securities may be issued under the indenture from time to time in one or more series. A copy of the indenture is filed as an exhibit to the registration statement of which this prospectus is a part. The holders of the notes will be bound by, and be deemed to have notice of, all the provisions of the indenture.

The notes will effectively rank junior to all our other indebtedness except for subordinated indebtedness that, like the notes, is issued pursuant to Article 55 of the Chilean General Banking Law. As of September 30, 2002, we have approximately Ch$470,114 million (approximately US$629 million) aggregate principal amount of indebtedness outstanding that ranked pari passu with the notes, and Ch$10,910,640 million (approximately US$14,594 million) aggregate principal amount outstanding of obligations to creditors (including deposits, short-term borrowings and other liabilities) that effectively ranked senior to the notes. The exchange of new notes for old notes pursuant to this offer will not affect the foregoing amounts. The indenture does not limit the amount of indebtedness or other obligations that we may incur.

The notes will be issued in an aggregate principal amount of US$300 million in this offer if all holders of our old notes accept the exchange offer. No assurances can be given, however, as to the level of acceptances in the exchange offer. Each note and all of our obligations under the notes will constitute our direct, unsecured, subordinated debt obligation. The notes will rank without preference or priority among themselves and pari passu with all of our other unsecured and subordinated indebtedness issued pursuant to Article 55 of the Chilean General Banking Law, except as and to the extent required by law. See "Risk Factors--Risks Relating to our Notes--The new notes rank junior in right of payment with respect to our other indebtedness and may be mandatorily converted into shares". Our obligations under the notes, whether on account of principal, interest or otherwise, are subordinated in the manner provided in the indenture to all of our unsubordinated payment obligations. If and to the extent there is a deficiency in any payment in respect of the notes, the claims of holders of the notes in respect of such deficiency will, in the event of our bankruptcy, a suspension of payments, our dissolution or our winding up, be effectively junior in right of payment to the claims of all of our other creditors including holders of our subordinated indebtedness (other than holders of subordinated indebtedness issued under Article 55 of the Chilean Banking Law, if any) but will rank at least pari passu with the holders of all other subordinated indebtedness issued under Article 55 of the Chilean Banking Law and prior, in certain respects, to the claims of our shareholders. See "--Subordination of the Notes".

The notes will mature on July 18, 2012, and will bear interest at an annual rate to be determined based on the fixed-spread formula described under "The Exchange Offer--Terms of the Offer". Interest will accrue from the date of issuance. Interest on the notes will be payable semi-annually on January 18 and July 18 of each year (we refer to each of these dates as an interest payment date), beginning on July 18, 2003, to the person in whose name a note is registered at the close of business on the preceding January 3 or July 3 (we refer to each of these dates as a record date), as the case may be. If any interest payment date or maturity date for the notes falls on a day that is not a business day, the related payment of principal or interest will be made on the next succeeding business day as if it were made on the date such payment was due, and no interest will accrue on the amount so payable for the period from and after such interest payment date or maturity date, as the case may be. Any interest on any note which is payable, but is not paid or duly provided for, on any interest payment date shall cease to be payable to the noteholder

on the regular record date, and such defaulted interest may be paid by us to the persons in whose name the notes are registered at the close of business on a special record date (as such term is explained in the indenture) fixed by the trustee for such purpose. Interest on the notes will be computed on the basis of a 360-day year of twelve 30-day months. Holders must surrender the notes to the paying agent for the notes to collect principal payments. Except as described in "--Book-Entry System; Delivery and Form," we will pay principal and interest by check and may mail interest checks to a holder's registered address.

The principal of and interest on the notes will be payable in US dollars or in such other coin or currency of the United States of America as is legal tender for the payment of public and private debts at the time of payment.

The notes will be issued in denominations of $1,000 and any integral multiple of $1,000 and only in the form of securities entitlements in respect of one or more global notes registered in the name of Cede & Co., as nominee of the Depositary Trust Company, or DTC. Securities entitlements in respect of the global notes will be held through financial institutions acting on behalf of the beneficial holders of such entitlements as direct or indirect participants in DTC. Except in limited circumstances, owners of interests in the global notes will not be entitled to receive physical delivery of notes in certificated form. See "--Book-Entry System; Delivery and Form". No service charge will be made for any registration of transfer or exchange of notes, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Initially, the trustee will act as paying agent and registrar for the notes. The notes may be presented for registration of transfer and exchange at the offices of the registrar for the notes.

Subordination of the Notes

The notes are our direct, unconditional and unsecured obligations ranking without preference or priority among themselves. Under the terms of the indenture, our obligations under the notes, whether on account of principal, interest or otherwise, are subordinated to all of our unsubordinated payment obligations. Under the indenture, if and to the extent that there is a deficiency in any payment in respect of the notes, the claims of the holders of the notes in respect of such deficiency will, in the event of our bankruptcy, a suspension of payments, our dissolution or our winding up, be junior in right of payment to the claims of the holders of our unsubordinated payment obligations, but will rank at least pari passu with the holders of all of our other subordinated indebtedness.

The term subordinated indebtedness means any indebtedness (including any liability, whether actual or contingent, under any guarantee or indemnity) in respect of any notes, bonds or other debt securities, which is subordinated in right of payment at least to, or the repaying of or payment in respect of which is expressed to be conditional upon, the complete payment of the claims of all unsubordinated and subordinated indebtedness creditors of the obligor of such indebtedness. However, as a matter of Chilean law and by virtue of the mandatory conversion described below, the notes are effectively junior in right of payment to the claims of holders of our subordinated indebtedness (other than holders of subordinated indebtedness issued under Article 55 of the Chilean Banking Law).

Under Chilean General Banking Law, if our financial condition is adversely affected (and our board of directors do not restore our financial condition within 30 days of receipt of the financial statements that reflect such condition), our board of directors must call an extraordinary shareholders meeting to increase our share capital. If the capital increase is not approved, or if approved is not effected within the term fixed at our shareholders' meeting, or if the Superintendency of Banks does not approve the capital increase, we will not be allowed to further increase our loan portfolio and may not make any additional investments other than in instruments issued by the Central Bank. In that case, or if we are unable to pay our obligations as they become due, we may receive a two-year term loan from another bank. The terms and conditions of the loan must be approved by our board of directors, directors of the lending bank and by the Superintendency of Banks. The amount of the loan may not exceed 25% of the lending bank's effective net worth.

Under Chilean law, if we fail to pay any of our debts as they become due, we will be required to immediately notify the Superintendency of Banks of such fact. Any of our unpaid creditors (or a trustee on the creditor's behalf, if applicable) may also notify the Superintendency of Banks. The Superintendency of Banks may determine that we should be liquidated for the benefit of our depositors or other creditors when: (i) we do not have the necessary

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solvency to continue our operations, or (ii) the proposed agreement to avoid bankruptcy declaration has been rejected. The Superintendency of Bank may only revoke our license and order our mandatory liquidation with the agreement of the Central Bank's board of directors. The resolution of the Superintendency of Banks must state the reason for ordering the liquidation and it must appoint a liquidator, unless the Superintendency of Banks itself assumes this role. The Central Bank may lend us the funds necessary to pay our outstanding obligations. Any such Central Bank loans will be preferential to any claims of other creditors of us, including the notes.

If the Superintendency of Banks orders our liquidation, our assets (or the proceeds of sale of our assets) will be distributed, first to holders of our demand obligations, second to our secured creditors and certain classes of creditors which are mandatorily preferred by law, third to holders of all senior and non-subordinated debt, in order of priority, fourth to claims of holders of subordinated indebtedness (other than subordinated indebtedness issued pursuant to Article 55 of the General Banking Law) and lastly to claims of holders of subordinated indebtedness issued pursuant to Article 55 of the General Banking Law, including claims of the holders of the notes. Any assets that are remaining after satisfaction of all claims of debt holders will be distributed on a pro rata basis to holders of our common shares.

If the Superintendency of Banks does not order our liquidation, our board of directors must submit a plan of reorganization to the holders of all of our outstanding debt obligations other than holders of secured obligations, debts mandatorily preferred by law, deposits and our demand obligations. We refer to such debt as our preferred indebtedness. After qualification of the reorganization plan by the Superintendency of Banks, all holders of our outstanding debt obligations, including holders of the notes but excluding holders of preferred indebtedness, will be entitled to vote on such proposed reorganization plan. Each debt holder entitled to vote will have such proportion of the total votes as is equal to the proportion of the aggregate amount of the monetary value of all outstanding debt obligations (including principal, interest and any premium payable on the outstanding debt obligations), other than preferred indebtedness, represented by the debt obligations held by such holder, measured as of the date the reorganization plan is proposed, regardless of seniority or subordination of such holder's debt obligations. Approval of the reorganization plan will require the affirmative vote of a majority of the total number of votes which the holders of the debt obligations are entitled to cast.

If such reorganization plan is rejected by the debt holders entitled to vote, our board of directors must propose a new reorganization plan, which under Chilean law is required to include a proposed reduction of our indebtedness (including deposits and all other obligations) by converting a part or all of our indebtedness into shares (as described below). If such new reorganization plan is not approved by a majority of the votes entitled to be cast, we will be required to be liquidated and our assets will be distributed as described above.

In the event of the approval of a reorganization plan by debt holders, claims must be satisfied in order of priority to the extent demanded. All claims of holders of senior and non-subordinated debt will then be satisfied in accordance with the reorganization plan. Our subordinated obligations issued under Article 55 of the General Banking Law will be mandatorily and proportionally converted into new shares to the extent required to ensure that our net worth is equivalent to 12% or more of our risk-weighted assets.

The new shares are required to be distributed among the holders of the notes (and the holders of any other subordinated indebtedness issued under Article 55 of the General Banking Law) on a pro rata basis in proportion to the monetary value of the subordinated indebtedness held by such debt holders. In the event that our net basic capital (paid-up capital plus reserves) as of the date the reorganization plan is proposed is positive, the number of new shares to be issued in exchange for the converted subordinated indebtedness will be determined based on a value for each new share equal to our net worth as of such date divided by the number of our common shares outstanding on such date. For this purpose, accumulated losses to such date must be deducted. In the event that our net worth on such date is negative, the common shares outstanding on such date will be extinguished, the number of new shares to be issued will be determined pursuant to the provisions of the reorganization plan.

Highly Leveraged Transactions

The indenture does not include any debt covenants or other provisions which afford holders of the notes protection in the event of a highly leveraged transaction.

Periodic Reports

The indenture provides that if we are not required to file with the Securities and Exchange Commission information, documents, or reports pursuant to Section 13 or Section 15(d) of the Exchange Act, we will file with the trustee and the Securities and Exchange Commission the supplementary and periodic information, documents and reports required pursuant to Section 13 of the Exchange Act in respect of a security of a "foreign private issuer" (as defined in Rule 3b-4 under the Exchange Act) listed and registered on a national securities exchange.

Consolidation, Merger, Sale or Conveyance

We may not consolidate with or merge into any other corporation or convey or transfer our properties and assets substantially as an entirety to any person, unless:

(i) the successor corporation shall be a corporation organized and existing under the laws of Chile or the United States of America or any state thereof, and shall expressly assume by a supplemental indenture, delivered to and in a form satisfactory to the trustee, the due and punctual payment of the principal of, premium, if any and interest on all the outstanding notes and the performance of every covenant in the indenture on our part to be performed or observed,

(ii) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both would become an Event of Default, shall have happened and be continuing, and

(iii) we shall have delivered to the trustee an officers' certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance or transfer and such supplemental indenture comply with the foregoing provisions relating to such transaction and all conditions precedent in the indenture relating to such a transaction have been complied with.

In case of any such consolidation, merger, conveyance or transfer such successor corporation will succeed to and be substituted for us as obligor on the notes with the same effect as if it had issued the notes. Upon the assumption of our obligations by any such successor corporation in such circumstances subject to certain exceptions, we will be discharged from all obligations under the notes and the indenture.

Events of Default

An "Event of Default," with respect to the notes is defined in the indenture as:

(i) our default in the payment of any principal of the notes, when due and payable, whether at maturity or otherwise and the continuance of such default for a period of 30 days, or

(ii) our default in the payment of any interest or any additional amounts when due and payable on any note and the continuance of such default for a period of 30 days, or

(iii) our default in the performance or observance of any other term, covenant, warranty, or obligation in the notes or the indenture, not otherwise expressly defined as an Event of Default in (i) or (ii) above, and the continuance of such default for more than 60 days after written notice of such default has been given to us by the trustee or the holders of at least 25% in aggregate principal amount of the notes outstanding specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default," or

(iv) certain events of bankruptcy or insolvency with respect to us, or

(v) any other Event of Default provided in the supplemental indenture between us and the trustee in connection with the issuance of the notes in this offering.

The trustee must give to the holders of notes notice of all uncured defaults known to it with respect to the notes within 90 days after the trustee becomes aware of such a default (the term default includes the events specified

above without notice or grace periods) and such notice shall state that no acceleration of the notes is permitted under Chilean law; provided, however, that, except in the case of default in the payment of principal of or any interest or additional amounts on, any of the notes, the trustee shall be protected in withholding such notice if it in good faith determines that the withholding of such notice is in the interest of the holders of the notes. However, under Chilean law, the trustee will have no right to accelerate payments of principal or interest on the notes upon the occurrence of or following an event of default.

No holder of any notes may institute any action under the indenture unless:

(a) such holder shall have given the trustee written notice of a continuing Event of Default with respect to the notes,

(b) the holders of not less than 25% in aggregate principal amount of the notes then outstanding shall have made written request to the trustee to institute proceedings in the name of the trustee in respect of such Event of Default,

(c) such holder or holders shall have offered the trustee such reasonable indemnity against costs, expenses and liabilities to be incurred in compliance with such request as the trustee may require,

(d) the trustee shall have failed to institute an action for 60 days thereafter, and

(e) no inconsistent direction shall have been given to the trustee during such 60-day period by the holders of a majority in aggregate principal amount of the notes. Such limitations, however, do not apply to any suit instituted by a holder of a note for enforcement of payment of the principal of and any interest on such note on or after the respective due dates expressed in such note, subject to the provisions of Chilean law providing for mandatory conversions of the notes.

The indenture provides that, subject to the duty of the trustee during default to act with the required standard of care, the trustee will be under no obligation to exercise any of its rights or powers under the indenture unless adequate indemnity is reasonably assured to it.

The holders of not less than a majority in aggregate principal amount of the outstanding notes may waive on behalf of the holders of all the notes any past or existing default and its consequences, except a default not theretofore cured in any payment on the notes or any default in respect of certain covenants or provisions in the indenture which may not be modified without the consent of the holder of each outstanding note.

We are required to furnish to the trustee an annual statement as to our performance of certain of our obligations under the indenture and as to any default in such performance.

Dividends, Reserves and Maintenance of Properties

The indenture does not limit our payment of dividends or require us to create or maintain any reserves.

We may not dispose of and must maintain and keep in good condition any tangible property useful in the conduct of our business, unless such disposal or the discontinuance of its maintenance is, in our judgment, desirable in the conduct of our business and not disadvantageous in any material respect to the holders of the notes.

Payment of Additional Amounts

We are required to make all payments in respect of the notes free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, fines, penalties, assessments or other governmental charges (or interest on those taxes, duties fines, penalties, assessments or other governmental charges) imposed, levied, collected, withheld or assessed by, within or on behalf of Chile (or any political subdivision or governmental authority thereof or therein having power to tax), or any other jurisdiction from or through which we make any payment under the notes (or any political subdivision or governmental authority thereof or therein having power to tax), unless such withholding or deduction is required by law. In that event, we will pay to the holders of

such notes, or the trustee, as the case may be, such additional amounts as may be necessary to ensure that the amounts received by the holders of such notes or the trustee after such withholding or deduction shall equal the amounts which would have been receivable in respect of such notes or the trustee in the absence of such withholding or deduction, except that no such additional amounts shall be payable in respect of any notes:

(i) in the case of payments for which presentation of such notes is required, presented for payment more than 30 days after the later of:

(a) the date on which such payment first became due, and

(b) if the full amount payable has not been received in the place of payment by the trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the holders by the trustee, except to the extent that the holder would have been entitled to such additional amounts on presenting such note for payment on the last day of such period of 30 days,

(ii) held by or on behalf of a holder who is liable for taxes, duties, fines, penalties, assessments or other governmental charges imposed in respect of such notes by reason of such holder having some present or former direct or indirect connection with the taxing jurisdiction imposing such tax, other than the mere holding of such note or the receipt of payments in respect thereto, or

(iii) any combination of (i) and (ii).

References to principal, interest, premium or other amounts payable in respect of the notes also refer to any additional amounts which may be payable. Refunds if any, of taxes with respect to which we pay additional amounts are for our account.

We will pay when due any present or future stamp, transfer, court or documentary taxes or any other excise or property taxes, charges or similar levies which arise in any jurisdiction from the initial execution, delivery or registration of the notes or any other document or instrument relating thereto, excluding any such taxes, charges or similar levies imposed by any jurisdiction outside of Chile and except as described in the indenture.

Redemption for Taxation Reasons

We may at our election, subject to applicable Chilean law, redeem the notes in whole, but not in part, upon giving not less than 30 nor more than 60 days' notice to the holders of the notes, at their principal amount together with interest accrued to the date fixed for redemption, if:

(i) we certify to the trustee immediately prior to the giving of such notice that we have or will become obligated to pay additional amounts with respect to such notes (in excess of the additional amounts that would be payable were payments of interest on the notes subject to a 4.0% withholding tax) as a result of any change in or amendment to the laws or regulations of Chile or any political subdivision or governmental authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment occurs after the date of issuance of the notes, and

(ii) such obligation cannot be avoided by us taking reasonable measures available to us,

provided, however, that no such notice of redemption shall be given earlier than 60 days prior to the earliest date on which we would be obligated to pay such additional amounts if a payment in respect of the notes were then due.

We will only exercise such right of redemption if Chilean capital adequacy requirements are changed, in order to permit us to treat the notes as Tier 2 capital notwithstanding such right of redemption. Before giving notice of redemption, we shall deliver to the trustee an officers' certificate stating that we are entitled to effect such redemption in accordance with the terms set forth in the indenture and setting forth in reasonable detail a statement

of the facts relating thereto. The statement will be accompanied by a written opinion of counsel to the effect, among other things, that:

(i) we have become obligated to pay the additional amounts as a result of a change or amendment described above,

(ii) we cannot avoid payment of the additional amounts by taking reasonable measures available to us, and

(iii) all governmental approvals necessary for us to effect the redemption have been obtained and are in full force and effect or specifying any such necessary approvals that as of the date of such opinion have not been obtained.

Modification of the Indenture

We and the trustee may, without the consent of the holders of notes, amend, waive or supplement the indenture or the notes for certain specified purposes, including, among other things, curing ambiguities, defects or inconsistencies, or making any other provisions with respect to matters or questions arising under the indenture or the notes or making any other change as shall not adversely affect the interests of any holder of the notes.

In addition, with certain exceptions, the indenture and the notes may be modified by us and the trustee with the consent of the holders of a majority in aggregate principal amount of the notes then outstanding, but no such modification may be made without the consent of the holder of each outstanding note affected thereby which would:

(i) change the maturity of any payment of principal of or any installment of interest on any note, or reduce the principal amount thereof or the interest or premium payable thereon, or change the method of computing the amount of principal thereof or interest payable thereon any date or change any place of payment where, or the coin or currency in which, any note or interest or premium thereon are payable, or impair the right of holders to institute suit for the enforcement of any such payment on or after the date when due,

(ii) reduce the percentage in aggregate principal amount of the outstanding notes, the consent of whose holders is required for any such modification or the consent of whose holders is required for any waiver of compliance with certain provisions of the indenture or certain defaults thereunder and their consequences provided for in the indenture, or

(iii) modify any of the provisions of certain sections of the indenture, including the provisions summarized in this paragraph, except to increase any such percentage or to provide that certain other provisions of the indenture cannot be modified or waived without the consent of the holder of each outstanding note affected thereby.

The indenture provides that the notes owned by us or any of our affiliates shall be deemed not to be outstanding for, among other purposes, consenting to any such modification.

Without the consent of any holder, we and the trustee may amend the indenture to evidence the assumption by a successor corporation of our covenants contained in the indenture, to add to our covenants, or to surrender any right or power conferred by the indenture upon us, for the benefit of the holders of the notes, to add such provisions as may be expressly permitted by the Trust Indenture Act of 1939, as amended, excluding the provisions in Section 316(a)(2), to establish any form of security as provided for in the indenture and the issuance of and terms thereof, to add to the rights of the holders of the notes, to evidence and provide for the acceptance of a successor trustee and to provide for the issuance of notes in bearer form with coupons as well as fully registered form.

The Trustee

The Bank of New York is the trustee under the indenture and has been appointed by us as registrar and paying agent with respect to the notes. The indenture provides that during the existence of an Event of Default, the trustee will exercise the rights and powers vested in it by the indenture, using the same degree of care and skill as a prudent man would exercise or use under the circumstances in the conduct of his own affairs. In the absence of an Event of

Default, the trustee need only perform the duties specifically set forth in the indenture. The indenture does not contain limitations on the rights of the trustee under the indenture, should it become our creditor, to obtain payment of claims. The trustee is not precluded from engaging in other transactions and, if it acquires any conflicting interest, it is not required to eliminate such conflict or resign. The address of the trustee is The Bank of New York, Global Finance Unit, 101 Barclay Street, Floor 21W, New York, NY 10286.

Governing Law

The indenture provides that it and the notes will be governed by, and be construed in accordance with, the laws of the State of New York, without giving effect to the applicable principles of conflict of laws.

We have consented to the non-exclusive jurisdiction of any court of the State of New York or any United States Federal court sitting, in each case, in the Borough of Manhattan, The City of New York, New York, United States, and any appellate court from any of these courts, and have waived any immunity from the jurisdiction of these courts over any suit, action or proceeding that may be brought by the trustee or a holder based upon the indenture and the notes. We have appointed CT Corporation System, 111 Eighth Avenue, New York, NY 10011 as our initial authorized agent upon which all writs, process and summonses may be served in any suit, action or proceeding brought by the trustee or a holder based upon the indenture or the notes against us in any court of the State of New York or any United States Federal court sitting in the Borough of Manhattan, The City of New York and have agreed that such appointment shall be irrevocable so long as any of the notes remain outstanding or until the irrevocable appointment by us of a successor in The City of New York as its authorized agent for such purpose and the acceptance of such appointment by such successor.

Notices

Notices will be mailed to registered holders of notes at their address as shown in the register maintained by the trustee, as registrar and transfer agent for the notes.

Book-Entry System; Delivery and Form

General

The notes will be issued in the form of one or more registered global securities, which we refer to as global notes. The global notes will be deposited with the trustee as custodian for DTC and registered in the name of Cede & Co. as DTC's nominee. For purposes of this prospectus, the term global note refers to the global note or global notes representing the entire issue of notes offered hereby. Except in the limited circumstances described below, the notes will not be issued in individual certificated form. The global note may be transferred, in whole and not in part, only to another nominee of DTC.

DTC

The descriptions of the operations and procedures of DTC, Euroclear and Clearstream set forth below are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to change by them from time to time. Neither the initial purchaser nor we take any responsibility for these operations or procedures, and investors are urged to contact the relevant system or its participants directly to discuss these matters.

DTC has advised us that it is:

(i) a limited purpose trust company organized under the laws of the State of New York,

(ii) a "banking organization" within the meaning of the New York Banking Law,

(iii) a member of the Federal Reserve System,

(iv) a "clearing corporation" within the meaning of the Uniform Commercial Code, as amended, and

(v) a "clearing agency" registered pursuant to Section 17A of the Exchange Act.

DTC was created to hold securities for its participants and facilitates the clearance and settlement of securities transactions between participants through electronic book-entry changes to the accounts of its participants, thereby eliminating the need for physical transfer and delivery of certificates. DTC's participants include securities brokers and dealers (including the initial purchaser), banks and trust companies, clearing corporations and certain other organizations. Indirect access to DTC's system is also available to other entities such as banks, brokers, dealers, trust companies, and other indirect participants that clear through or maintain a custodial relationship with a participant, either directly or indirectly. Investors who are not participants may beneficially own securities held by or on behalf of DTC only through participants or indirect participants.

We expect that pursuant to procedures established by DTC:

(i) upon deposit of each global note, DTC will credit the accounts of participants designated by the initial purchaser with an interest in the global note, and

(ii) ownership of the notes will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC (with respect to the interests of participants) and the records of participants and the indirect participants (with respect to the interests of persons other than participants).

The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in certificated form. Accordingly, the ability to transfer interests in the notes represented by a global note to such persons may be limited. In addition, because DTC can act only on behalf of its participants, who in turn act on behalf of persons who hold interests through participants, the ability of a person having an interest in notes represented by a global note to pledge or transfer such interest to persons or entities that do not participate in DTC's system, or to otherwise take actions in respect of such interest, may be affected by the lack of a physical definitive security in respect of such interest.

So long as DTC or its nominee is the registered owner of a global note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the notes represented by the global note for all purposes under the indenture. Except as provided below, owners of beneficial interests in a global note will not be entitled to have notes represented by such global note registered in their names, will not receive or be entitled to receive physical delivery of certificated notes, and will not be considered the owners or holders thereof under the indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the trustee thereunder. Accordingly, each holder owning a beneficial interest in a global note must rely on the procedures of DTC and, if such holder is not a participant or an indirect participant, on the procedures of the participant through which such holder owns its interest, to exercise any rights of a holder of notes under the indenture or such global note. We understand that under existing industry practice, in the event that we request any action of holders of notes, or a holder that is an owner of a beneficial interest in a global note desires to take any action that DTC, as the holder of such global note, is entitled to take, DTC would authorize the participants to take such action and the participants would authorize holders owning through such participants to take such action or would otherwise act upon the instruction of such holders. Neither the trustee nor we will have any responsibility or liability for any aspect of the records relating to or payments made on account of notes by DTC, or for maintaining, supervising or reviewing any records of DTC relating to such notes.

Payments with respect to the principal of, premium, if any, liquidated damages, if any, and interest on any notes represented by a global note registered in the name of DTC or its nominee on the applicable record date will be payable by the trustee to or at the direction of DTC or its nominee in its capacity as the registered holder of the global note representing such notes under the indenture. Under the terms of the indenture, we and the trustee may treat the persons in whose names the notes, including the global notes, are registered as the owners thereof for the purpose of receiving payment thereon and for any and all other purposes whatsoever. Accordingly, neither the trustee nor we has or will have any responsibility or liability for the payment of such amounts to owners of beneficial interests in a global note (including principal, premium, if any, liquidated damages, if any, and interest). Payments by the participants and the indirect participants to the owners of beneficial interests in a global note will be governed by standing instructions and customary industry practice and will be the responsibility of the participants or the indirect participants and DTC.

Transfers between participants in DTC will be effected in accordance with DTC's procedures, and will be settled in same-day funds. Transfers between participants in Euroclear or Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the notes, cross-market transfers between the participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary. However, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant global notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositaries for Euroclear or Clearstream.

Due to time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a global note from a participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream, participant, during the securities settlement processing day (which must be a business day for Euroclear) immediately following the settlement date of DTC. Cash received in Euroclear as a result of sales of interest in a global security by or through a Euroclear participant to a participant in DTC will be received with value on the settlement date of DTC, but will be available in the relevant Euroclear cash account only as of the business day for Euroclear following DTC's settlement date.

Although DTC has agreed to the foregoing procedures to facilitate transfers of interests in the global notes among participants it is under no obligation to perform or to continue to perform such procedures, and such

procedures may be discontinued at any time. Neither the trustee nor we will have any responsibility for the performance by DTC or its respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

If an Event of Default has occurred and is continuing and all principal and accrued interest in respect of the notes shall have become immediately due and payable as described under "Description of the Notes -- Events of Default", or if DTC is at any time unwilling, unable or ineligible to continue as depositary for any global note and a successor depositary is not appointed by us within 90 days, we will issue individual certificated notes in definitive form in exchange for such global note. In addition, we may at any time determine not to have the notes represented by global notes, and, in such event, will issue individual certificated notes in definitive form in exchange for the global notes. In any such instance, an owner of a beneficial interest in a global note will be entitled to physical delivery of individual certificated notes in definitive form equal in principal amount to the beneficial interest in the global notes and to have all such certificated notes registered in its name. Individual certificated notes so issued in definitive form will be issued in minimum denominations of $1,000 and integral multiples of $1,000 and will be issued in registered form only, without coupons.

Same-Day Settlement and Payment

Settlement for the notes represented by a global note will be made in immediately available funds. We will make all payments of principal and interest in immediately available funds.

The notes will trade in DTC's SDFS System until maturity, and secondary market trading activity in the notes will therefore be required by DTC to settle in immediately available funds.

Global Clearance and Settlement

Although DTC, Euroclear and Clearstream have agreed to the procedures provided below in order to facilitate transfers of notes among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be modified or discontinued at any time. Neither the trustee nor we will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Euroclear and Clearstream

The Euroclear System

The Euroclear System was created in 1968 to hold securities for participants of the Euroclear System and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thus eliminating the need for physical movement of certificates and risk from lack of simultaneous transfers of securities and cash. Transactions may now be settled in many currencies, including United States dollars and Japanese yen. The Euroclear System provides various other services, including securities lending and borrowing and interfaces with domestic markets in several countries generally similar to the arrangements for cross-market transfers with DTC described below.

The Euroclear System is operated by Euroclear Bank S.A./N.V. (the "Euroclear Operator"), under contract with Euroclear Clearance System plc, a U.K. corporation (the "Euroclear Clearance System"). The Euroclear Operator conducts all operations, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Euroclear Clearance System. The Euroclear Clearance System establishes policy for the Euroclear System on behalf of Euroclear participants. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters for the notes. Indirect access to the Euroclear System is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly. Euroclear is an indirect participant in DTC.

The Euroclear Operator is a Belgian bank. The Belgian Banking Commission and the National Bank of Belgium regulates and examines the Euroclear Operator.

The Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System and applicable Belgian law govern securities clearance accounts and cash accounts with the Euroclear Operator. Specifically, these terms and conditions govern:

- transfers of securities and cash within the Euroclear System,
- withdrawal of securities and cash from the Euroclear System, and
- receipts of payments with respect to securities in the Euroclear System.

All securities in the Euroclear System are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the terms and conditions only on behalf of

Euroclear participants and has no record of or relationship with persons holding securities through Euroclear participants.

Distributions with respect to notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Terms and Conditions Governing Use of Euroclear, to the extent received by the Euroclear Operator and by Euroclear.

Clearstream

Clearstream Banking, societe anonyme, was incorporated as a limited liability company under Luxembourg law. Clearstream is owned by Clearstream International, societe anonyme, and Deutsche Borse AG. The shareholders of these two entities are banks, securities dealers and financial institutions.

Clearstream holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream customers through electronic book-entry changes in accounts of Clearstream customers, thus eliminating the need for physical movement of certificates. Clearstream provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities, securities lending and borrowing and collateral management. Clearstream interfaces with domestic markets in a number of countries. Clearstream has established an electronic bridge with Euroclear Bank S.A./N.V., the operator of the Euroclear System, to facilitate settlement of trades between Clearstream and Euroclear.

As a registered bank in Luxembourg, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector. Clearstream customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. In the United States, Clearstream customers are limited to securities brokers and dealers and banks, and may include the underwriters for the notes. Other institutions that maintain a custodial relationship with a Clearstream customer may obtain indirect access to Clearstream. Clearstream is an indirect participant in DTC.

Distributions with respect to the notes held beneficially through Clearstream will be credited to cash accounts of Clearstream customers in accordance with its rules and procedures, to the extent received by Clearstream.

Taxation

Tax Consequences to US Holders

The following discussion summarizes the material US federal income tax consequences of the disposition of the old notes pursuant to the exchange offer and the ownership of new notes acquired in the exchange offer. This discussion does not describe all of the tax consequences that may be relevant to particular holders in light of their particular circumstances or to holders subject to special rules, such as:

- certain financial institutions;
- insurance companies;
- dealers in securities or foreign currencies;

- persons holding old securities or new notes as part of a "straddle," "hedge" or "conversion transaction";
- US holders (as defined below) whose functional currency is not the US dollar;
- partnerships or other entities classified as partnerships for US federal income tax purposes;
- persons subject to the alternative minimum tax;
- subchapter S corporations; and
- tax exempt entities.

This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, in each case as of the date hereof, changes to any of which subsequent to the date of this offering memorandum may affect the tax consequences described herein.

PERSONS CONSIDERING THE EXCHANGE OFFER ARE URGED TO CONSULT THEIR OWN TAX ADVISERS CONCERNING THE US FEDERAL INCOME TAX CONSEQUENCES OF THE EXCHANGE OFFER IN LIGHT OF THEIR PARTICULAR CIRCUMSTANCES, AS WELL AS ANY CONSEQUENCES ARISING UNDER THE LAWS OF ANY STATE, LOCAL OR FOREIGN TAXING JURISDICTIONS.

As used herein, the term "US holder" means a beneficial owner of an old note or a new note acquired in the exchange offer that is for US federal income tax purposes:

- a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation for US federal income tax purposes, created or organized in or under the laws of the United States or of any political subdivision thereof; or
- an estate or trust the income of which is subject to US federal income taxation regardless of its source.

The Exchange Offer

The tax treatment of a US holder's exchange of old notes for new notes pursuant to the exchange offer will depend on whether that exchange is treated as a recapitalization. The exchange will be treated as a recapitalization only if both the old notes and the new notes constitute "securities" within the meaning of the provisions of the Code governing reorganizations. This, in turn, depends upon the facts and circumstances surrounding the origin and nature of these debt instruments and upon the interpretation of numerous judicial decisions. There is no controlling legal authority clearly addressing whether notes with the terms of the old notes and new notes constitute "securities" for this purpose. Although the matter is not free from doubt because of the absence of authority that is directly on point, the exchange should qualify as a recapitalization for US federal income tax purposes.

Provided that the exchange is treated as a recapitalization under the Code, any cash received in consideration for old notes (including any withholding taxes paid by us with respect thereto) will be considered as taxable "boot". A US holder will not recognize any loss in respect of the exchange, but will recognize any gain realized to the extent of the amount of the boot received. The US holder will realize gain to the extent that the issue price of the new notes (determined as described below) and any cash received in consideration for old notes received exceeds the US holder's adjusted tax basis of the old notes. Any gain recognized upon such exchange generally will be capital gain and would be long-term capital gain if the US holder's holding period exceeds one year.

The holding period for the new notes received will include the period of time during which the US holder held the corresponding old notes, and the initial tax basis of the new notes will equal the adjusted tax basis of the old notes immediately prior to the exchange, decreased by the amount of the boot received and increased by the amount of gain, if any, recognized by the US holder in respect of the exchange.

If the exchange of the old notes for the new notes failed to qualify as a recapitalization under the Code, a US holder would recognize gain or loss equal to the difference, if any, between the amount realized on the exchange (other than accrued but unpaid interest which will be taxable as such) and the US holder's adjusted tax basis in the old notes. Subject to the application of the market discount rules discussed in the paragraph immediately below, any gain or loss will be capital gain or loss, and will be long term capital gain or loss if at the time of the exchange the old notes have been held for more than one year. The deduction of capital losses for US federal income tax purposes is subject to limitations. Any gain or loss recognized on the exchange generally will be treated as US source gain or loss for US foreign tax credit purposes. A US holder's holding period of a new note will not include such holder's holding period of the exchanged old note and the initial tax basis of the new note will be the issue price of such new note, determined as described below.

If a US holder holds old notes acquired at a "market discount," any gain recognized by such holder on the exchange of such old notes for our new notes would be recharacterized as ordinary interest income to the extent of the accrued market discount that had not previously been included in ordinary income.

A US holder will be required to include accrued but unpaid interest on the old notes (including the payment of any additional amounts described under "Description of the Notes - Payment of Additional Amounts") as ordinary interest income in accordance with such holder's method of accounting for US federal income tax purposes.

The New Notes

Regardless of whether the exchange qualifies as a recapitalization, the new notes will be treated as being issued with original issue discount ("OID") for US federal income tax purposes if the stated redemption price at maturity of the new notes exceeds their issue price, subject to a statutory de minimis exception. Because it is expected that a substantial amount of the new notes will be "publicly traded" for US federal income tax purposes, that is "traded on an established market" (generally meaning that the new notes are listed on a major securities exchange, appear on a quotation medium of general circulation or otherwise are readily quotable by dealers, brokers or traders) during the 60-day period ending 30 days after the date of the exchange, the issue price of the new notes should equal their fair market value at the time of the exchange. If the new notes are not considered publicly traded, but the old notes are considered publicly traded, the issue price of the new notes would equal the fair market value of the old notes at the time of the exchange. If neither the new notes nor the old notes are publicly traded, the issue price of the new notes would equal their stated principal amount (which, for this purpose, includes the cash received in consideration for the old notes), and there would not be any OID in respect of the new notes for US federal income tax purposes. The amount of OID is de minimis if it is less than 1/4 of 1 percent of the stated redemption price at maturity multiplied by the number of complete years to maturity from the date of exchange. The stated redemption price at maturity is the sum of all payments provided by the new notes other than qualified stated interest. Qualified stated interest generally is stated interest that is unconditionally payable at least annually at a single fixed rate over the entire term of the new notes.

A US holder will be required to include any qualified stated interest payments (including the payment of any additional amounts described under "Description of the Notes - Payment of Additional Amounts") on the new notes in income in accordance with the holder's method of accounting for federal income tax purposes, and will be

required to include original issue discount, if any, on the new notes in income for federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest, before the receipt of cash payments attributable to this income. The US holder will also increase its tax basis in the new notes by a corresponding amount. A US holder generally will be required to include in income increasingly greater amounts of original issue discount in successive accrual periods.

A US holder should be treated as having "acquisition premium" with respect to the new notes if the adjusted tax basis of the US holder's new notes (determined in the manner described above) is greater than their issue price immediately after the exchange, but is less than or equal to the stated principal amount of the new notes. In such case, the amount of OID includible in the US holder's gross income in any taxable year is reduced by an allocable portion of the acquisition premium (generally determined by multiplying the annual OID accrual by a fraction, the numerator of which is the amount of the acquisition premium, and the denominator of which is the total OID on the new notes).

If immediately after the exchange, a US holder had an adjusted tax basis in the new notes (determined in the manner described above) in excess of the stated principal amount of the new notes, the new notes would be treated as issued with bond premium, and no OID would be required to be included in the gross income of the US holder in respect of the new notes. In addition, a US holder of a new note may elect to amortize the bond premium. US holders should consult their own tax advisors regarding the availability of an election to amortize bond premium for US federal income tax purposes.

If a US holder acquired its old notes for a purchase price that was less than the issue price of the old notes at the time of acquisition, the difference would constitute "market discount" for US federal income tax purposes, subject to a de minimis exception. Assuming that the exchange qualifies as a recapitalization under the Code, any market discount on the old notes would carry over to the new notes received by the US holder in the exchange, although some or all of the market discount could effectively convert into OID under the rules discussed above. In general, gain recognized upon the sale or other disposition of new notes having market discount should be treated as ordinary income to the extent of the market discount that accrued during a US holder's holding period for the new notes, unless the US holder elects to annually include market discount in gross income over time as the market discount accrues.

Upon the sale, exchange or retirement of a new note, a US holder will recognize taxable gain or loss equal to the difference, if any, between the amount realized on the sale, exchange or retirement (other than accrued but unpaid interest, which will be taxable as such), and the US holder's adjusted tax basis in the new note. Subject to the application of the market discount rates described in the immediately preceding paragraph, any such gain or loss will be capital gain or loss, and will be long-term capital gain or loss if the US holder held the new notes for more than one year at the time of sale, exchange or retirement.

Chilean Withholding Taxes

Chilean withholding taxes paid by the Company or on behalf of a US holder will be treated as a foreign income tax eligible (i) for credit against such US holder's US federal income tax liability, subject to generally applicable limitations and conditions, or (ii) at the election of the US holder, for deduction in computing such US holder's taxable income. The characterization for Chilean taxation purposes of payments that are subject to any Chilean withholding taxes will not affect the creditability or deductibility of any Chilean withholding taxes by a US holder, however, the characterization for US federal income tax purposes of such payments will affect the applicability of the foreign tax credit limitation rules to these payments.

The calculation of foreign tax credits involves the application of complex rules that depend on a US holder's particular circumstances. Accordingly, US holders are urged to consult their tax advisors regarding the creditability or deductibility of any Chilean withholding tax paid with respect to the new notes, or the cash received pursuant to the exchange.

Information Reporting and Backup Withholding

Information returns will be filed with the Internal Revenue Service in connection with any payments made to a US holder that participates in the exchange offer, payments on the new notes, and the proceeds from a sale or other disposition of the new notes. A US holder will be subject to US backup withholding tax on these payments if the holder fails to provide its taxpayer identification number to the paying agent and comply with certain certification procedures or otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a US holder will be allowed as a credit against the holder's US federal income tax liability and may entitle the holder to a refund, provided that the required information is furnished to the Internal Revenue Service.

Chilean Taxation

The following is a general summary of the material consequences under Chilean tax law, as currently in effect, of an investment in the notes made by a foreign holder. It is based on the laws of Chile as in effect on the date of this offering memorandum, as well as regulations, ruling and decisions of Chile available on or before such date and now in effect. All of the foregoing are subject to change. Under Chilean law, provisions contained in statutes such as tax rates applicable to foreign investors, the computation of taxable income for Chilean purposes and the manner in which Chilean taxes are imposed and collected may be amended only by another law. In addition, the Chilean tax authorities enact rulings and regulations of either general or specific application and interprets the provisions of Chilean tax law. Chilean tax law may not be assessed retroactively against taxpayers who act in good faith relying on such rulings, regulations or interpretations, but Chilean tax authorities may change their rulings, regulations or interpretations prospectively. For the purposes of this summary, the term foreign holder means either (i) in the case of an individual, a person who is not a resident or domiciliary of Chile (for purposes of Chilean taxation, (a) an individual holder is resident in Chile if he or she has resided in Chile for more than six months in one calendar year, or a total of more than six months in two consecutive fiscal years or (b) an individual is domiciled in Chile if he or she resides in Chile with the purpose of staying (such purpose to be evidenced by circumstances such as the acceptance of employment within Chile or the relocation of the individual's family to Chile); or (ii) in the case of a legal entity, a legal entity that is not organized under the laws of Chile, unless the notes are assigned to a branch or a permanent establishment of such entity in Chile.

Under the Ley de Impuesto a la Renta (the Chilean income tax law), payment of interest or premiums if any, made to a foreign holder in respect of the notes will generally be subject to a 4% Chilean withholding tax.

Under existing Chilean law and regulations, a foreign holder will not be subject to any Chilean taxes in respect of payments of principal made by us with respect to the notes.

The Chilean income tax law establishes that a foreign holder is subject to income tax on his Chilean source income. For this purpose, Chilean source income means earnings from activities performed in Chile or from the sale or disposition of, or other transactions in connection with, assets or goods located in Chile. Any capital gains realized on the sale or other disposition by a foreign holder of the notes generally will not be subject to any Chilean taxes provided that such sales or other dispositions occur outside of Chile to a foreign holder (except that any premium payable on redemption of the notes will be treated as interest and subject to the Chilean interest withholding tax, as described above).

A foreign holder will not be liable for estate, gift, inheritance or similar taxes with respect to its holdings unless notes held by a foreign holder are either located in Chile at the time of such foreign holder's death, or if the notes are not located in Chile at the time of a foreign holder's death, if such notes were purchased or acquired with monies obtained from Chilean sources.

Issuance of securities in Chile are generally subject to a stamp tax. We will pay on your behalf any stamp tax that may be generated by the issue of the new notes.

We have agreed to pay any present or future stamp, court or documentary taxes, charges or levies that arise in Chile from the execution, delivery, enforcement or registration of the notes or any other document or instrument in

relation thereto and have agreed to indemnify holders of the notes for any such taxes, charges or similar levies paid by holders.

EXCHANGE CONTROLS

The Central Bank is responsible for establishing monetary policy and exchange controls in Chile. Chilean issuers have been authorized to offer bonds internationally by Chapter XIV of the compendium of Foreign Exchange Regulations.

Until April 19, 2001, all international bond issuances by Chilean companies required the prior approval of the Central Bank after the filing of an application with the Central Bank. Absent such authorization, issuers were not allowed to offer bonds outside of Chile. The regulations imposed restrictions on the type of companies that were entitled to issue bonds abroad and on the bonds themselves, including certain limitations on the average term of the bonds to be placed internationally.

The compendium of Foreign Exchange Regulations no longer requires the approval of, or registration with, the Central Bank. The proceeds of the international sale of the notes may be brought into Chile or held abroad. In either case, we are required to inform the Central Bank of the financial terms and conditions of the notes, and must file with the Central Bank a schedule of payments on the notes. The Central Bank must be notified within 10 days of any amendment to the information that was filed with the Central Bank, or which refers to the schedule of payments.

The compendium of Foreign Exchange Regulations requires that payments or remittance of funds under the notes either from or to Chile must be carried out through the Formal Exchange Market. Payments under the notes may also be made by us with foreign currency held abroad. The compendium of Foreign Exchange Regulations also provides that any payment as well as any remittance of foreign currency under the notes will be subject to the foreign exchange regulations in force at the time of the corresponding payment or remittance. Although there are no foreign exchange regulations or restrictions other than the ones described in this offering memorandum, there can be no assur