
B. Capitalization and Indebtedness

Not applicable

C. Reasons for the Offer and Use of Proceeds

Not applicable

D. Risk Factors

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

We are subject to market risks that are presented both in this subsection and in “Item 5: Operating and Financial Review and Prospects.”

Risks Associated with the Merger***We may fail to recognize the contemplated benefits of the merger***

The value of our securities 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 our ongoing business and inconsistencies in standards, controls, procedures and policies between the two former banks. 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 half a percentage point (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 liabilities at March 2003. 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 may 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 four 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.

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 December 31, 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 16 to our Audited 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 individuals 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 35.4% of the value of the total loan portfolio as of December 31, 2002) and, to a lesser extent, small companies (those with annual sales of less than US\$1.1 million) which comprised approximately 11.8% of the value of the total loan portfolio as of December 31, 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 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 2002, net interest revenue represented 85.5% of our operating income. 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. Over the period from December 31, 1998 to December 31, 2002, yields on the Chilean government's 90 day note as reported on those dates moved from 13.49% to 2.88%, decreasing every year, with a high of 8.69% and low of 6.14% in the twelve months ended December 31, 2001, and a high of 6.00% and a low of 2.87% in the twelve months ended December 31, 2002.

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

From December 31, 1997 to December 31, 2002, our aggregate loan portfolio (on an unconsolidated combined basis) grew by 19.5% in nominal terms to Ch\$7,731,346 million, while our consumer loan portfolio grew by 18.0% in nominal terms to Ch\$709,522 million, each calculated in accordance with the loan classification system of the Superintendency of Banks. On a historical basis, during the same period, our aggregate loan portfolio grew by 75.0%, while our consumer loan portfolio grew by 137.8% in nominal terms. 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 December 31, 2002, the aggregate amount of loans outstanding in the Chilean banking system (on an unconsolidated basis) grew 41.8% in nominal terms to Ch\$31,674,779 million as of December 31, 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 0.8% in 1999 and grew at a rate of 4.2% in 2000, 3.1% in 2001 and 2.1% in 2002. The lower economic growth prevailing in 1999, 2000, 2001 and 2002 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 February 28, 2003, the latest figure available. Our consolidated risk index as of March 31, 2003 was 1.84%. 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 December 31, 2002, approximately 1.3% and 0.7% 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.

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, or our business. 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. 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, 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. 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, 2002, the value of the Chilean peso relative to the US dollar decreased approximately 62.0%, 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 December 31, 2002 was Ch\$712.38 = US\$1.00, reflecting a depreciation of 8.6% in the year 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 December 31, 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\$11,396 million (US\$16.0 million).

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). There can be no assurance that Chilean inflation will not change significantly from the current level.

Year	Inflation (CPI)
1998	4.7
1999	2.3
2000	4.5
2001	2.6
2002	2.8

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 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.

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

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

access to the Formal Exchange Market, and may have restrictions on their ability to repatriate investments in shares of our common stock and earnings therefrom.

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

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

Risks Relating to our ADSs

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

The ADSs are listed and traded on the NYSE. The common stock is listed and traded on the Santiago Stock Exchange, the Chile Electronic Stock Exchange and the Valparaíso Stock Exchange, which we refer to collectively as the Chilean Stock Exchanges, although the trading market for the common stock is small by international standards. As of December 31, 2002, we had 188,446,126,794 shares of common stock outstanding. The Chilean securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. According to Article 14 of the Ley de Mercado de Valores, Ley No. 18,045, or the Chilean Securities Market Law, the Superintendencia de Valores y Seguros, or the Superintendency of Securities and Insurance, may suspend the offer, quotation or trading of shares of any company listed on one or more Chilean Stock Exchanges for up to 30 days if, in its opinion, such suspension is necessary to protect investors or is justified for reasons of public interest. Such suspension may be extended for up to 120 days. If, at the expiration of the extension, the circumstances giving rise to the original suspension have not changed, the Superintendency of Securities and Insurance will then cancel the relevant listing in the registry of securities. In addition, the Santiago Stock Exchange may inquire as to any movement in the price of any securities in excess of 10.0% and suspend trading in such securities for a day if it deems necessary.

Although the common stock is traded on the Chilean Stock Exchanges, there can be no assurance that a liquid trading market for the common stock will continue. Approximately 15.9% of our outstanding common stock was held by the public (i.e., shareholders other than Banco Santander Central Hispano). A limited trading market in general and our concentrated ownership in particular may impair the ability of an ADS holder to sell in the Chilean market shares of common stock obtained upon withdrawal of such shares from the ADR facility in the amount and at the price and time such holder desires, and could increase the volatility of the price of the ADSs.

You may be unable to exercise preemptive rights.

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

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

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

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