

to have dividends, sale proceeds or other amounts with respect to their shares remitted outside Chile through the Formal Exchange Market. Under the Foreign Investment Contract (as defined herein), the Depositary, on behalf of ADS holders, is granted access to the Formal Exchange Market to convert cash dividends from Chilean pesos to U.S. dollars and to pay such U.S. dollars to ADS holders outside Chile, net of taxes, and no separate registration by ADR holders is required. As of April 19, 2001 the Central Bank deregulated the Exchange Market, eliminating the need to obtain approval from the Central Bank in order to remit dividends, but at the same time eliminating the possibility of guaranteeing access to the Formal Exchange Market. It is important to point out that this does not affect the current Foreign Investment Contract which was signed prior to April 19, 2001 and still permits access to the Formal Exchange Market based on the prior approval of the Central Bank. Therefore the holders of ADRs of Santander-Chile are still subject to the Foreign Investment Contract, its clauses referring to the prior exchange rules including the now extinct Chapter XXVI of the Compendium.

## E. Taxation

### *Chilean Tax Considerations*

The following is a summary of certain Chilean tax consequences of the ownership of shares of Santander-Chile's common stock or of ADSs evidenced by ADRs by Foreign Holders (as defined herein). The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of shares or ADSs and does not purport to deal with the tax consequences applicable to all categories of investors, some of whom may be subject to special rules. Holders of shares or ADSs are advised to consult their own tax advisors concerning the Chilean and other tax consequences of the ownership of shares or of ADSs evidenced by ADRs.

The description of Chilean tax laws set forth below is based on Chilean laws in force as of the date of this Annual Report and is subject to any changes in such laws occurring after the date of this Annual Report. These changes can be made on a retroactive basis.

Chilean tax law provides for the tax rates applicable to foreign investors, the computation of taxable income for Chilean purposes and the manner in which Chilean tax may not be assessed retroactively against taxpayers who act in good faith relying on tax rulings, regulations and interpretations. However, Chilean tax authorities may change said rulings, regulations and interpretations prospectively. Currently, there is no income tax treaty in force between the United States and Chile.

As used herein, the term "Foreign Holder" means (i) in the case of an individual, a person who is neither a resident of Chile (i.e., residing in Chile for more than six months in a calendar year or two consecutive calendar years) nor domiciled in Chile (i.e., residing in Chile with the actual or presumptive intent of staying in Chile); or (ii) in the case of a legal entity, a legal entity that is not organized under the laws of Chile, unless the shares of Santander-Chile's common stock or ADSs are assigned to a branch, agent, representative or permanent establishment of such entity in Chile.

#### *Taxation of Dividends*

Cash dividends paid by Santander-Chile with respect to shares of its common stock, including shares represented by ADSs which are held by a Foreign Holder, will be subject to a 35% Chilean withholding tax, which is withheld and paid over by Santander-Chile (the "Withholding Tax"). If Santander-Chile has paid corporate income tax (the "First Category Tax") on the income from which the dividend is paid, a credit for the First Category Tax effectively reduces the rate of Withholding Tax. When a credit is available, the Withholding Tax is computed by applying the 35% rate to the pre tax amount needed to fund the dividend and then subtracting from the tentative withholding tax so determined the amount of First Category Tax actually paid on the pre tax income. For purposes of determining the rate at which First Category Tax was paid, dividends are treated as paid from Santander-Chile's oldest retained earnings. The effective Withholding Tax rate, after giving effect to the credit for First Category Tax, generally is:

$$\frac{(\text{Withholding Tax rate}) - (\text{First Category Tax effective rate})}{100 - (\text{First Category Tax effective rate})}$$

The effective rate of Withholding Tax to be imposed on dividends paid by Santander-Chile will vary depending upon the amount of First Category Tax paid by Santander-Chile on the earnings underlying the dividends. The effective rate for dividends attributed to earnings generated during the fiscal year 2004 and onwards is generally 21.7%, based on the First Category Tax rate of 17%.

Dividends distributions made in kind would be subject to the same Chilean tax rules as cash dividends. Stock dividends are not subject to Chilean taxation. The distributions of preemptive rights relating to shares of common stock will not be subject to Chilean taxation.

## Taxation of Capital Gains

Gain realized on the sale, exchange or other disposition by a foreign holder of ADSs (or ADRs evidencing ADSs) will not be subject to Chilean taxation, provided that such disposition occurs outside Chile or that it is performed under the rules of Title XXIV of the Chilean Securities Market Law, as amended by Law No. 19,601, dated January 18, 1999. The deposit and withdrawal of shares of common stock in exchange for ADRs will not be subject to any Chilean taxes.

Gain recognized on a sale or exchange of shares of common stock (as distinguished from sales or exchanges of ADSs representing such shares of common stock) by a foreign holder will be subject to both the first category tax and the Chilean withholding tax (the former being creditable against the latter) if (1) the foreign holder has held such shares of common stock for less than one year since exchanging ADSs for the shares of common stock, (2) the foreign holder acquired and disposed of the shares of common stock in the ordinary course of its business or as a regular trader of stock or (3) the sale is made to a company in which the foreign holder holds an interest. In all other cases, gain on the disposition of shares of common stock will be subject only to the first category tax levied as a sole tax.

For income tax purposes, the capital gain is the difference between the sales price and the acquisition cost of the stock.

The tax basis of shares of common stock received in exchange for ADSs will be the acquisition value of such shares. The valuation procedure set forth in the deposit agreement, which values shares of common stock that are being exchanged at the highest price at which they trade on the Santiago Stock Exchange on the date of the exchange, generally will determine the acquisition value for this purpose. Consequently, the conversion of ADSs into shares of common stock and sale of such shares of common stock for the value established under the deposit agreement will not generate a capital gain subject to taxation in Chile.

In the case where the sale of the shares is made on a day that is different than the date on which the exchange is recorded, capital gains subject to taxation in Chile may be generated. Pursuant to Ruling No. 3708, issued by the Chilean Internal Revenue Service on October 1, 1999, Chilean issuers of ADSs which amend the deposit agreements to which they are parties to include a clause that states that, in the case that the exchanged shares are sold by the ADSs' holders on a Chilean Stock Exchange, either on the same day in which the exchange is recorded in the shareholders' registry of the issuer or within the two prior business days to such date, the acquisition price of such exchanged shares shall be deemed to be the price registered in the invoice issued by the stock broker that participated in the sale transaction. Consequently, because we have included this clause in the form of American depository receipts attached to the deposit agreement, capital gain that may be generated if the shares received in exchange for ADSs were sold within the two days prior to the date on which the exchange is recorded will not be subject to taxation. Sales of the stock which do not meet the conditions described in this paragraph will not benefit from the deemed acquisition price.

The distribution and exercise of preemptive rights relating to the shares of common stock will not be subject to Chilean taxation. Cash amounts received in exchange for the shares or assignment of preemptive rights relating to the shares will be subject to both the first category tax and the Chilean withholding tax (the former being creditable against the latter to the extent described above).

The sale and disposition of shares of Chilean public corporations which are significantly traded on stock exchanges, such as Santander-Chile, is exempt from Chilean taxes on capital gains if the sale or disposition was made:

- on a Chilean stock exchange or any other stock exchange authorized by the Superintendency of Securities and Insurance or in a tender offer process according to Title XXV of the Chilean Securities Market Law, so long as the shares were originally purchased in any of the following manners: (a) on a Chilean stock exchange; (b) in a tender offer process pursuant to Title XXV of the Chilean Securities Market Law; (c) in the placement of newly issued shares upon the incorporation of the issuer; (d) in the placement of newly issued shares, originated in a capital increase after the incorporation of the issuer; and (e) in the exchange of convertible bonds (in which case the option price is considered to be the price of the shares). In this case, gains exempted from Chilean taxes shall be calculated using the criteria set forth in the Chilean Income Tax Law; or
- within 90 days after the shares ceased to be significantly traded on stock exchange. In such case, gains in an amount up to the average price per share of the last 90 days will be exempted from Chilean taxes on capital gains. Any gains above the average price will be subject to the first category tax.

Such exemption will not apply to shares received in exchange for ADSs.

Article 18 bis of the Chilean Income Tax Law sets forth an exemption for the payment of income tax by foreign institutional investors, such as mutual funds, pension and other funds, that obtain capital gains in the sales through a Chilean stock exchange, a tender offer or any other system authorized by the Superintendency of Securities and Insurance, of shares of publicly traded corporations that are significantly traded in stock exchanges.

For the purposes of this exemption, foreign institutional investors are those entities that meet the characteristics or conditions set forth in Article 18 bis of the Income Tax Law, or that fulfill the requirements of the Regulations issued for this purpose for each category of investors, with the prior report of the Superintendency of Securities and Insurance and from the Chilean Internal Revenue Service.

For the same purpose, "Other Funds" are those that comply with the requirements of Article 18 bis of the Income Tax Law and that, at the same time, share the essential financial and equity characteristics of mutual funds and pension funds. In order to be entitled to the exemption, foreign institutional investors, during the time in which they operate in Chile, must:

- be organized abroad and not be domiciled in Chile (i.e. not organized in Chile and having no permanent establishment in Chile);
- not participate, directly or indirectly, in the control of the issuers of the securities in which it invests and not hold, directly or indirectly, 10.0% or more of such companies' capital or profits;
- execute an agreement in writing with a Chilean bank or securities broker in which the intermediary is responsible for the execution of purchase and sale orders and for the verification, at the time of the respective remittance, that such remittances relate to capital gains that are exempt from income tax in Chile or, if they are subject to income tax, that the applicable withholdings have been made; and
- register in a special registry with the Chilean Internal Revenue Service.

#### *Other Chilean Taxes*

No Chilean inheritance, gift or succession taxes apply to the transfer or disposition of the ADSs by a Foreign Holder, but such taxes generally will apply to the transfer at death or by gift of shares of Santander-Chile's common stock by a Foreign Holder. No Chilean stamp, issue, registration or similar taxes or duties apply to Foreign Holders of shares or ADSs.

#### *Withholding Tax Certificates*

Upon request, Santander-Chile will provide to foreign holders appropriate documentation evidencing the payment of Chilean withholding taxes.

Dividends payable to holders of ADSs are net of foreign currency conversion expenses of the Depositary and will be subject to the Chilean withholding tax currently at the rate of 35% (subject to credits in certain cases as described above). Owners of the ADSs will not be charged any dividend remittance fees by the Depositary with respect to cash or stock dividends.

## U.S. Federal Income Tax Considerations

The following is a discussion of material U.S. federal income tax consequences of purchasing, owning and disposing of shares or ADSs, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person's decision to acquire such securities. The discussion applies only if you hold shares or ADSs as capital assets for U.S. federal income tax purposes and it does not address special classes of holders, such as:

- certain financial institutions;
- insurance companies;
- dealers and traders in securities or foreign currencies;
- persons holding shares or ADSs as part of a hedge, straddle or conversion transaction;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes;
- persons liable for the alternative minimum tax;
- tax-exempt organizations;
- persons holding shares or ADSs that own or are deemed to own ten percent or more of our voting stock; or
- persons who acquired our ADSs or shares pursuant to the exercise of any employee stock option or otherwise as compensation.

This discussion is based on the Internal Revenue Code of 1986, as amended, administrative pronouncements, judicial decision and final, temporary and proposed Treasury regulations, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. It is also based in part on representations by the depositary and assumes that each obligation under the Deposit Agreement and any related agreement will be performed in accordance with its terms. Please consult your own tax advisers concerning the U.S. federal, state, local and foreign tax consequences of purchasing, owning and disposing of shares or ADSs in your particular circumstances.

The discussion below applies to you only if you are a beneficial owner of shares or ADSs and are, for U.S. federal tax purposes:

- a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any political subdivision thereof; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

In general, if you hold ADSs, you will be treated as the holder of the underlying shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if you exchange ADSs for the underlying shares represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom ADSs are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits for United States holders of ADSs. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the analysis of the creditability of Chilean taxes and the availability of the reduced rate for dividends received by certain non-corporate holders, each described below, could be affected by future actions that may be taken by the parties to whom the ADSs are pre-released.

### *Taxation of Distributions*

Distributions paid on ADSs or shares, other than certain pro rata distributions of common shares, will be treated as dividends to the extent paid out of Santander-Chile's current or accumulated earnings and profits (as determined under United States federal income tax principles). Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, dividends received by certain noncorporate United States Holders of ADSs or shares in taxable years beginning before January 1, 2009, may be subject to U.S. federal income tax at a maximum rate of 15%. You should consult your own tax advisers regarding applicability of this maximum rate in your particular circumstances. The amount of the dividend will include any amounts withheld by us or our paying agent in respect of Chilean taxes at the effective rate as described above under " - Chilean Taxation". The amount of the dividend will be treated as foreign source dividend income to you and will not be eligible for the dividends received deduction generally allowed to U.S. corporations under the Code.