

BANCO SANTANDER CHILE
Form 20-F
June 29, 2004
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

for the fiscal year ended December 31, 2003

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-14554

BANCO SANTANDER-CHILE
(FORMERLY KNOWN AS BANCO SANTIAGO)

(Exact name of Registrant as specified in its charter)

SANTANDER-CHILE BANK

(Translation of Registrant's name into English)

Chile

(Jurisdiction of incorporation)

Bandera 140

Santiago, Chile

Telephone: 011-562 320-2000

(Address of principal executive offices)

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

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

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

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

None

(Title of Class)

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

None

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(Title of Class)

The number of outstanding shares of each class of common stock of Banco Santander-Chile at

December 31, 2003 was:

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

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

Yes No

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

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**CAUTIONARY STATEMENT CONCERNING
FORWARD-LOOKING STATEMENTS**

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

| | |
|---|---|
| asset growth and alternative sources of funding | projected capital expenditures |
| growth of our fee-based business | liquidity |
| financing plans | trends affecting: |
| impact of competition | our financial condition |
| impact of regulation | our results of operation |
| exposure to market risks: | expected synergies from the merger |
| interest rate risk | projected costs savings from the merger |
| foreign exchange risk | merger expenses |
| equity price risk | integration of our computer system |

The sections of this annual report which contain forward-looking statements include, without limitation, Item 3: Key Information Risk Factors, Item 4: Information on the Company Strategy, Item 4: Information on the Company, Item 5: Operating and Financial Review and Prospects, Item 8: Financial Information Legal Proceedings, and Item 11: Quantitative and Qualitative Disclosures About Market Risk. Our forward-looking statements also may be identified by words such as believes, expects, anticipates, projects, intends, should, could, may, seeks, 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 annual report and in the documents which are incorporated by reference, could affect our future results and could cause those results or other outcomes to differ materially from those expressed in our forward-looking statements:

| | |
|---|---|
| changes in capital markets in general that may affect policies or attitudes towards lending to Chile or Chilean companies | increased costs |
| the monetary and interest rate policies of the Central Bank | unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms |
| inflation | changes in, or failure to comply with, banking regulations |
| deflation | |

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| | |
|--|--|
| unemployment | our ability to integrate the businesses of Santiago and Old Santander-Chile successfully after the merger |
| unanticipated turbulence in interest rates | our ability to integrate back-office operations |
| movements in foreign exchange rates | obstacles in the integration of our systems |
| movements in equity prices or other rates or prices | the challenges inherent in diverting management's focus and resources from other strategic opportunities and from operational matters during the integration process |
| changes in Chilean and foreign laws and regulations | conditions imposed in connection with the merger |
| changes in taxes | our ability to successfully market and sell additional services to our existing customers |
| competition, changes in competition and pricing environments | disruptions in client service |
| natural disasters | successful integration of both banks |
| our inability to hedge certain risks economically | an inaccurate or ineffective client segmentation model |
| the adequacy of loss allowances | our ability to carry our anticipated headcount reductions |
| technological changes | |
| changes in consumer spending and saving habits | |
| the success of our post-merger branding strategy | |
| successful implementation of new technologies | |

loss of market share

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You should not place undue reliance on such statements, which speak only as of the date that they were made. Our independent public auditors have neither examined nor compiled the forward-looking statements and, accordingly, do not provide any assurance with respect to such statements. The forward-looking statements contained in this document speak only as of the date of this Annual Report, and we do not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

CERTAIN TERMS AND CONVENTIONS

As used in this annual report, *Santander-Chile*, *the Bank*, *we*, *our* and *us*, we mean Banco Santander-Chile and its consolidated subsidiaries, bank resulting from the merger of Santiago and Old Santander-Chile.

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

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

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

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Santander-Chile is a Chilean bank and maintains its financial books and records in Chilean pesos and prepares its Audited Consolidated Financial Statements in conformity with generally accepted accounting principles in Chile and the rules of the *Superintendencia de Bancos e Instituciones Financieras* (the Superintendency of Banks and Financial Institutions, which is referred to herein as the Superintendency of Banks), which together differ in certain significant respects from generally accepted accounting principles in the United States (U.S. GAAP). References to Chilean GAAP in this Annual Report are to accounting principles generally accepted in Chile, as supplemented by the applicable rules of the Superintendency of Banks. See *Note 26 to the Audited Consolidated Financial Statements* of Santander-Chile as of December 31, 2002 and 2003 and for the years ended December 31, 2001, 2002 and 2003 contained elsewhere in this Annual Report (together with the notes thereto, the Audited Consolidated Financial Statements) for a description of the principal differences between Chilean GAAP and U.S. GAAP, as they relate to Santander-Chile, and a reconciliation to U.S. GAAP of net income and shareholders' equity. Pursuant to Chilean GAAP, amounts expressed in the Audited Consolidated Financial Statements and all other amounts included elsewhere throughout this Annual Report for all periods expressed in Chilean pesos are expressed in constant Chilean pesos as of December 31, 2003. See *Note 1(c) to the Audited Consolidated Financial Statements*.

Loans

Unless otherwise specified, all references herein (except in the Audited Consolidated Financial Statements) to loans are to loans and financial leases before deduction for loan loss allowance, and, except as otherwise specified, all market share data presented herein are based on information published periodically by the Superintendency of Banks. Non-performing loans include loans for which either principal or interest is overdue, and which do not accrue interest. Restructured loans for which no payments are overdue are not ordinarily classified as non-performing loans. Past due loans include, with respect to any loan, only the portion of principal and interest that is 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. See *Item 5D: Asset and Liability Management Selected Statistical Information Loan Portfolio Classification of Loan Portfolio Classification of Loan Portfolio Based on the Borrower's Payment Performance*.

According to the regulations established by the Superintendency of Banks, Santander-Chile is required to charge off corporate loans no later than 24 months after being classified as past due, if unsecured, and if secured, no later than 36 months after being classified as past due. When an installment of a past due corporate loan (whether secured or unsecured) is charged off, Santander-Chile must charge off all installments which are overdue. However, this does not preclude 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, Santander-Chile must charge off the entire remaining part of the loan. Santander-Chile may charge off any loan (whether corporate or consumer) before the first installment becomes overdue, but only in accordance with special procedures established by the Superintendency of Banks and must charge off an overdue loan (whether corporate or consumer) before that time according to the terms set forth above in certain circumstances.

Outstanding loans and the related percentages of Santander-Chile's loan portfolio made up of corporate and consumer loans in the section entitled *Item 4B: Business Overview* are categorized based on the nature of the borrower. Outstanding loans and related percentages of the loan portfolio of Santander-Chile made up of corporate and consumer loans in the section entitled *Item 5D: Asset and Liability Management Selected Statistical*

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

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Shareholder s Equity

Unless otherwise specified, all references to shareholders equity (except in the Audited Consolidated Financial Statements) as of December 31 of any year are to shareholders equity in the Audited Consolidated Financial Statements excluding dividends, if any, paid in respect of such year then ended, such dividends having been paid in the following year. See *Item 8A: Consolidated Statements and Other Financial Information Dividends and Dividend Policy*.

Effect of Rounding

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

Economic and Market Data

In this Annual Report, unless otherwise indicated, all macro-economic data related to the Chilean economy is based on information published by the *Banco Central de Chile* (the 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 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.

Exchange Rates

This Annual Report contains translations of certain Chilean peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Chilean peso amounts actually represent such U.S. dollar amounts, were converted from U.S. dollars at the rate indicated in preparing the audited and interim unaudited consolidated financial statements, could be converted into U.S. dollars at the rate indicated or were converted at all. Unless otherwise indicated, such U.S. dollar amounts, in the case of information concerning Santiago and Old Santander-Chile, have been translated from Chilean pesos based on the observed exchange rate reported by the Central Bank on December 31, 2003, which was Ch\$599.42 per US\$1.00. The observed exchange rate reported by the Central Bank on December 31, 2003 is based upon the actual exchange rate of December 31, 2003 and is the exchange rate specified by the Superintendency of Banks for use by Chilean banks in the preparation of their financial statements for the periods ended December 31, 2003. The observed exchange rate on June 23, 2004 was Ch\$643.42 per US\$1.00, reflecting an accumulated depreciation of 7.3% from December 31, 2003. The Federal Reserve Bank of New York does not report a noon buying rate for the Chilean peso. For more information on the observed exchange rate see *Item 3: Exchange Rates*.

Merger Accounting Treatment

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On August 1, 2002, Old Santander-Chile merged into Santiago. Immediately thereafter, Santiago changed its name to Banco Santander Chile. The merger was 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. As such, for Chilean GAAP purposes, our historical financial statements as of and for the years ended December 31, 1998, 1999, 2000 and 2001 are those of Santiago which is deemed to be the predecessor entity of Santander-Chile.

Under US GAAP, the merger was accounted for as a merger of entities under common control, as Banco Santander Central Hispano S.A (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

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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 and Old Santander-Chile were required to restate their US GAAP historical financial statements previously issued for all periods during which common control existed. *See Item 8A: Consolidated Statements and Other Financial Information.*

Unaudited Combined Financial and Statistical Information

Unless otherwise indicated financial and statistical data included in this Annual Report and identified as combined 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. Tables showing this aggregation are provided in *Item 5G: Operating and Financial Review and Prospects Reconciliation of Combined Financial and Statistical Information*. 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 combined information is provided.

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Not Applicable.

ITEM 3. KEY INFORMATION**A. Selected Financial Data**

The following table presents historical financial information about us as of the dates and for each of the periods indicated. The following table should be read in conjunction with, and is qualified in its entirety by reference to, our Audited Consolidated Financial Statements appearing elsewhere in this Annual Report. Our Audited Consolidated Financial Statements are prepared in accordance with Chilean GAAP and the rules of the Chilean Superintendency of Banks, which together differ in certain significant respects from U.S. GAAP. Note 26 to our Audited Consolidated Financial Statements provides a description of the material differences between Chilean GAAP and U.S. GAAP and a reconciliation to U.S. GAAP of net income for the years ended and as of December 31, 2001, 2002 and 2003 and shareholders' equity at December 31, 2002 and 2003.

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

As of and for the Year Ended December 31,

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2003 |
|---|--|-------------|-------------|-------------|-------------|---------------------------------------|
| | | | | | | (in thousands of U.S.\$)(1)(2) |
| | (in millions of constant Ch\$ as of December 31, 2003)(1) | | | | | |
| CONSOLIDATED INCOME STATEMENT DATA | | | | | | |
| Chilean GAAP: | | | | | | |
| Interest revenue | 591,266 | 650,161 | 602,448 | 1,041,405 | 613,562 | 1,023,593 |
| Interest expense | (372,657) | (407,087) | (339,922) | (517,010) | (310,876) | (518,628) |
| Net interest revenue | 218,608 | 243,074 | 262,526 | 524,395 | 302,686 | 504,965 |
| Allowances for loan losses | (69,621) | (48,042) | (48,403) | (92,076) | (101,340) | (169,064) |
| Total fees and income from services, net | 34,524 | 40,971 | 50,247 | 103,115 | 111,839 | 186,578 |
| Other operating income, net | 22,681 | 17,214 | 13,004 | (13,951) | 159,500 | 266,092 |
| Loan loss recoveries | 8,894 | 9,444 | 11,784 | 25,374 | 33,921 | 56,590 |
| Other income and expenses, net | 9,110 | 3,212 | 10,371 | (32,262) | 35,930 | 59,942 |

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| | | | | | | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Operating expenses | (157,316) | (149,066) | (160,063) | (289,564) | (250,259) | (417,502) |
| Loss from price-level restatement | (7,406) | (12,087) | (7,918) | (13,148) | (7,702) | (12,849) |
| Income before income taxes | 50,581 | 95,276 | 119,764 | 186,509 | 250,654 | 418,162 |
| Income taxes | 6,112 | (428) | 3,680 | (27,695) | (43,679) | (72,869) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net income | 56,694 | 95,848 | 123,444 | 158,814 | 206,975 | 345,293 |
| Net income per share | 0.58 | 0.96 | 1.25 | 0.84 | 1.10 | 0.00183 |
| Net income per American Depositary Share(3) | 595.42 | 996.10 | 1,296.40 | 875.60 | 1,141.13 | 1.90 |
| Dividends per share(4) | 0.79 | 0.58 | 0.96 | 1.25 | 0.84 | 0.00118 |
| Dividends per ADS(4) | 822.66 | 595.42 | 996.06 | 1,296.40 | 875.60 | 1.23 |
| Weighted-average shares outstanding (in millions) | 98,934.2 | 98,934.2 | 98,934.2 | 188,446.1 | 188,446.1 | |
| Weighted-average shares outstanding (in millions) US GAAP | 155,106.7 | 188,446.1 | 188,446.1 | 188,446.1 | 188,446.1 | |

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As of and for the Year Ended December 31,

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2003 |
|--|---|-----------|-----------|-----------|-----------|--------------------------------|
| | (in millions of constant Ch\$ as of December 31, 2003)(1) | | | | | (in thousands of U.S.\$)(1)(2) |
| U.S. GAAP: | | | | | | |
| CONSOLIDATED INCOME STATEMENT DATA | | | | | | |
| Net interest income (5) | 356,849 | 438,460 | 483,866 | 520,620 | 304,477 | 507,953 |
| Provision for loan losses | 86,410 | (57,184) | (72,311) | (66,780) | (86,542) | (144,376) |
| Amortization of goodwill | 29,950 | 40,501 | 50,533 | | | |
| Long-term borrowings | 3,346,707 | 3,091,484 | 3,766,310 | 3,121,630 | 2,397,506 | 3,999,710 |
| Net income | 66,577 | 135,836 | 160,988 | 139,444 | 178,516 | 298,148 |
| Net income per Share(6) | 0.43 | 0.72 | 0.86 | 0.74 | 0.95 | 0.00158 |
| Net income per ADS (6) | 446.00 | 748.90 | 887.58 | 768.86 | 985.35 | 1.64 |
| Weighted-average ADS outstanding (in millions) US GAAP | 149.285 | 181.377 | 181.377 | 181.377 | 181.377 | |
| CONSOLIDATED BALANCE SHEET DATA | | | | | | |
| Chilean GAAP: | | | | | | |
| Cash and due from banks | 375,733 | 536,316 | 577,501 | 987,553 | 984,068 | 1,641,701 |
| Investments (7) | 768,813 | | | | | |