As filed with the Securities and Exchange Commission on June 27, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2001

Commission File Number 001-15266

BANCO DE CHILE

(Exact name of Registrant as specified in its charter)

BANK OF CHILE

(Translation of Registrant's name into English)

Republic of Chile

(Jurisdiction of incorporation or organization)

Banco de Chile
Ahumada 251
Santiago, Chile
(562) 637-1111
(Address of principal executive offices)

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

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing 600 shares of common stock, without normal (par) value ("ADSs")	New York Stock Exchange
Shares of common stock, without nominal (par) value	New York Stock Exchange (for listing purposes only)

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

None

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

None

Indicate the number of outstanding shares of each of the Issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Shares of common stock: **44,932,657,180**

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.

Item 17 ☐ **Item 18** ☒

TABLE OF CONTENTS

PRESENTATION OF FINANCIAL INFORMATION

We prepare our financial statements in Chilean pesos and in accordance with generally accepted accounting principles in Chile, known as Chilean GAAP, and the rules of the *Superintendencia de Bancos e Instituciones Financieras*, known as the Chilean Superintendency of Banks. Together, these requirements differ in certain respects from generally accepted accounting principles in the United States, known as U.S. GAAP. References to "Chilean GAAP" in this annual report are to Chilean GAAP, as supplemented by the applicable rules of the Chilean Superintendency of Banks. See note 30 to our audited financial statements contained elsewhere in this annual report for a description of the material differences between Chilean GAAP and U.S. GAAP, as they relate to us and our consolidated subsidiaries, and a reconciliation to U.S. GAAP of net income and shareholders' equity.

Pursuant to Chilean GAAP, unless otherwise indicated, financial data for all full-year periods through December 31, 2001 included in our audited financial statements and in the other financial information contained elsewhere in this annual report have been restated in constant Chilean pesos of December 31, 2001.

In this annual report, references to "$," "U.S.$," "U.S. 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 *Unidad de Fomento*, or UF, is a unit of account which is linked to, and which is adjusted daily to reflect changes in, the Consumer Price Index. As of December 31, 2001, the UF = U.S.$24.78 and Ch$16,262.66. See note 1(b) to our audited financial statements. Percentages and certain dollar and peso amounts contained herein have been rounded for ease of presentation.

This annual report contains translations of certain Chilean peso amounts into U.S. dollars at specified rates solely for your convenience. 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 our financial statements or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Chilean pesos based on the Observed Exchange Rate (as defined in "Item 3. Key Information—Exchange Rates") reported by the *Banco Central de Chile*, or the Central Bank, for December 31, 2001, which was Ch$656.20 per U.S.$1.00. The Observed Exchange Rate for June 26, 2002 was Ch$694.63 per U.S.$1.00. 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. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

Unless otherwise specified, all references herein to loans are to loans and financial leases before deduction of allowances for loan losses, and all market share data presented herein are based on information published periodically by the Chilean Superintendency of Banks. 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 no payments are overdue are not ordinarily classified as non-performing loans. Past due loans include, with respect to any loan, the portion of principal or interest that is 90 or more days overdue; the entire outstanding balance of any loan is included in past due loans only after legal collection proceedings have been commenced. This practice differs from that normally followed in the United States, where the amount classified as past due would include the total principal and interest on all loans which have any portion overdue. See "Item 4. Information on the Company—Selected Statistical Information—Classification of Loan Portfolio Based on Borrower's Payment Performance."

Unless otherwise specified, all references to "shareholders' equity" as of December 31 of any year are to shareholders' equity after deducting our respective net income for such year, but all references to "average shareholders' equity" for any year are to average shareholders' equity including our respective retained net income.

Certain figures included in this annual report and in our 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, percentage amounts in this annual report may vary from those obtained by performing the same calculations using the figures in our financial statements. Certain other amounts that appear in this annual report may not sum due to rounding.

MACRO-ECONOMIC AND MARKET DATA

In this annual report, all macro-economic data related to the Chilean economy is based on information published by the Central Bank. All market share and other data related to the Chilean financial system as well as data on average return on shareholders' equity are based on information published by the Chilean Superintendency of Banks. Information regarding the consolidated risk index of the Chilean financial system as a whole is not available. The Chilean Superintendency of Banks publishes the unconsolidated risk index for the financial system three times yearly in February, June and October.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

SELECTED FINANCIAL DATA

The following table presents certain historical financial information about us at 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 financial statements appearing elsewhere in this annual report. 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 from U.S. GAAP. Note 30 to our audited financial statements provides a description of the material differences between Chilean GAAP and U.S. GAAP and a reconciliation to U.S. GAAP of net income for the years ended December 31, 1999, 2000 and 2001 and shareholders' equity at December 31, 2000 and 2001.

	At or for the year ended December 31,					
	1997	**1998**	**1999**	**2000**	**2001**	**2001**
	(in million of constant Ch$ as of December 31, 2001, except share data)					(in thousands of U.S.$)
CONSOLIDATED INCOME STATEMENT DATA						
Chilean GAAP:						
Interest revenue	Ch$ 546,204	Ch$ 607,110	Ch$ 507,323	Ch$ 565,595	Ch$ 515,553	US$ 785,665
Interest expense	(332,924)	(403,149)	(305,637)	(355,321)	(300,695)	(458,237)
Net interest revenue	213,280	203,961	201,686	210,274	214,858	327,428
Provisions for loan losses	(31,393)	(37,324)	(50,991)	(39,483)	(45,887)	(69,928)
Total fees and income from services, net	33,721	38,243	41,963	48,624	51,475	78,444
Total other operating income, net	5,109	1,142	17,541	11,269	6,211	9,464
Total other income and expenses, net	17,049	14,346	5,116	10,766	12,989	19,794
Total operating expenses	(138,441)	(138,231)	(138,541)	(145,980)	(148,247)	(225,917)
Loss from price-level restatement	(14,840)	(8,892)	(5,587)	(9,422)	(5,777)	(8,803)
Income before income taxes	84,485	73,245	71,187	86,048	85,622	130,482
Income taxes	(1,747)	(3,204)	(2,002)	(1,550)	1,346	2,051
Net income	82,738	70,041	69,185	84,498	86,968	132,533
Earnings per share[1]	1.84	1.56	1.54	1.88	1.94	—
Dividends per share[2]	1.78	1.80	1.17	1.94	1.88	—
Number of shares (in millions)	44,932.70	44,932.70	44,932.70	44,932.70	44,932.70	—
U.S. GAAP[3]:						
Interest revenue	—	—	524,277	583,215	534,828	815,038
Interest expense	—	—	(309,043)	(361,999)	(303,281)	(462,178)
Net interest revenue	—	—	215,234	221,216	231,574	352,860
Allowance for loan losses	—	—	(42,207)	(26,726)	(34,695)	(52,873)
Net income	—	—	56,895	78,287	74,598	113,681
Earnings per share[1]	—	—	1.27	1.74	1.66	2.53
CONSOLIDATED BALANCE SHEET DATA						
Chilean GAAP:						
Cash and due from banks	245,265	440,971	432,415	495,665	527,949	804,555
Financial investments	1,022,470	1,048,479	1,136,013	1,386,205	1,649,714	2,514,041
Loans, net of allowances	3,543,370	3,574,496	3,525,618	3,736,941	3,726,448	5,678,829
Other assets	131,915	163,867	187,714	185,990	183,341	279,399
Total assets	4,943,020	5,227,813	5,281,760	5,804,801	6,087,452	9,276,824
Deposits	2,298,122	2,778,713	3,023,155	3,560,670	3,705,693	5,647,200
Other interest bearing liabilities	1,817,494	1,716,646	1,525,684	1,501,130	1,593,864	2,428,930
Other liabilities	435,983	363,434	337,446	348,668	389,626	593,762
Total liabilities	4,551,599	4,858,793	4,886,285	5,410,468	5,689,183	8,669,892
Shareholders' equity	Ch$ 391,421	Ch$ 369,020	395,475	394,333	398,269	606,932
U.S. GAAP[3]:						
Financial investments	—	—	969,372	1,162,976	1,330,480	2,028,187
Loans, net	—	—	3,466,046	3,698,863	3,665,322	5,585,678
Total assets	—	—	4,820,475	5,420,463	5,447,369	8,301,385
Total liabilities	—	—	4,389,505	4,821,758	5,037,797	7,677,228
Total shareholders' equity	—	—	Ch$ 430,970	Ch$ 418,705	Ch$ 409,572	US$ 624,157

	At or for the year ended December 31,				
	1997	1998	1999	2000	2001
CONSOLIDATED RATIOS					
Chilean GAAP:					
Profitability and Performance					
Net interest margin[4]	5.04%	4.23%	4.15%	4.22%	3.80%
Return on average total assets[5]	1.76	1.15	1.16	1.35	1.24
Return on average shareholders' equity[6]	23.47	20.60	19.49	23.59	23.75
Capital					
Average shareholders' equity as a percentage of total assets	8.47	6.90	5.93	5.72	5.20
Bank regulatory capital as a percentage of minimum regulatory capital	184.78	235.47	235.44	203.86	197.67
Ratio of liabilities to regulatory capital[7]	14.75	16.25	14.98	17.46	18.28
Credit Quality					
Category B-, C and D loans as a percentage of total loans	2.59	3.65	5.74	5.75	6.28
Past due loans as a percentage of total loans	0.57	0.79	1.11	1.36	1.23
Allowance for loan losses as a percentage of loans category B-, C and D loans	86.14	69.13	52.27	52.52	54.58
Allowance for loan losses as a percentage of past due loans	388.92	317.43	270.08	222.46	278.61
Allowance for loan losses as a percentage of total loans	2.23	2.52	3.00	3.02	3.43
Past due amounts as a percentage of shareholders' equity	6.74	9.74	12.38	16.89	15.26
Consolidated risk index	1.33	1.58	2.03	2.01	2.40
Operating Ratios					
Operating expenses/operating revenue	54.91	56.80	53.04	54.03	54.39
Operating expenses/average total assets	2.94	2.26	2.32	2.33	2.11
U.S. GAAP:					
Profitability and Performance					
Net interest margin[8]	—	—	4.43	4.44	4.09
Return on average total assets[9]	—%	—%	0.95%	1.25%	1.06%

(1) Earnings per share data are calculated by dividing net income by the weighted average of shares outstanding during the year.
(2) Dividends per share data are calculated by dividing the amount of the dividend paid by the weighted average of shares outstanding during the year.
(3) All U.S. GAAP numbers use Article 9 presentation. All U.S. GAAP figures have been calculated taking into account the U.S. GAAP adjustments set forth in note 30 to our audited financial statements.
(4) Net interest revenue divided by average interest earning assets.
(5) Net income (loss) divided by average total assets.
(6) Net income (loss) divided by average shareholders' equity.
(7) Total liabilities divided by bank regulatory capital.
(8) Net interest revenue under US GAAP divided by average interest earning assets.
(9) Net income under US GAAP divided by average total assets.

EXCHANGE RATES

Chile has two currency markets, the *Mercado Cambiario Formal*, or the Formal Exchange Market, and the *Mercado Cambiario Informal*, or the Informal Exchange Market. Under the Central Bank Act the Central Bank determines which purchases and sales of foreign currencies must be carried out in the Formal Exchange Market. The Formal Exchange Market is comprised of the banks and other entities authorized to purchase and sell foreign currencies by the Central Bank. The conversion from pesos to U.S. dollars of all payments and distributions with respect to the ADSs must be carried out at the spot market rate in the Formal Exchange Market.

For purposes of the operation of the Formal Exchange Market, the Central Bank sets a reference exchange rate, or *dolar acuerdo*. The reference exchange rate is reset monthly by the Central Bank, taking internal and external inflation into account, and is adjusted daily to reflect variations in parities between the peso and each of the U.S. dollar, Euro and the Japanese yen. The daily observed exchange rate for a given date is the average exchange rate of the transactions conducted in the Formal Exchange Market on the immediately preceding banking day, as certified by the Central Bank.

Prior to September 1999, authorized transactions by banks were generally transacted within a certain band above or below the reference exchange rate. In order to maintain the average exchange rate within such limits, the Central Bank intervened by selling and buying foreign currencies on the Formal Exchange Market.

On September 2, 1999, the Central Bank resolved to eliminate the exchange rate band as an instrument of exchange rate policy, introducing more flexibility to the exchange market. For this measure, the monetary authority considered the international financial scenario, the domestic inflation rate, the level of the external accounts, and the market development of hedge exchange financial instruments. At the same time, the Central Bank announced that an intervention in the exchange market would take place only in special and qualified cases.

Purchases and sales of foreign currencies which may be done outside the Formal Exchange Market can be carried out in the Informal Exchange Market. The Informal Exchange Market reflects transactions carried out at informal exchange rates by entities not expressly authorized to operate in the Formal Exchange Market, such as certain foreign exchange houses and travel agencies. There are no limits imposed on the extent to which the rate of exchange in the Informal Exchange Market can fluctuate above or below the observed exchange rate. On December 31, 2001, the average exchange rate in the Informal Exchange Market was 0.62% higher than the published observed exchange rate of Ch$656.20 per U.S. $1.00.

The following table sets forth the annual low, high, average and period-end observed exchange rate for U.S. dollars for each year beginning in 1997, as reported by the Central Bank. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

	Daily Observed Exchange Rate Ch$ per U.S.$(1)			
Year	**Low(2)**	**High(2)**	**Average(3)**	**Period End**
1997	Ch$ 411.85	Ch$ 439.81	Ch$ 419.31	Ch$ 439.81
1998	439.18	475.41	460.29	473.77
1999	468.69	550.93	508.78	527.70
2000	501.04	580.37	539.49	572.68
2001	557.13	716.62	634.94	656.20
December	656.20	689.95	669.14	656.20
2002(4)				
January	648.69	683.11	667.28	678.19
February	671.86	688.98	678.84	675.30
March	655.44	672.30	663.26	664.44
April	641.75	662.78	650.82	649.09
May	646.44	659.14	653.91	654.44

Source: Central Bank.
(1) Nominal figures.
(2) Exchange rates are the actual low and high, on a day-by-day basis for each period.
(3) The average of monthly average rates during the year.
(4) Period from January 1, 2002 through May 31, 2002.

The observed exchange rate on June 26, 2002 was Ch$694.63 = U.S.$1.00.

RISK FACTORS

Risks Relating to our Operations and the Banking Industry

The integration and reorganization of our businesses could disrupt our operations and adversely affect our financial condition.

On January 1, 2002, we merged with Banco de A. Edwards, a Chilean bank with total assets of Ch$2,896,470 million as of December 31, 2001. We are currently undergoing a process of integrating our systems, operations, businesses and employees with those of Banco de A. Edwards. Our success will depend to a significant extent on our ability to integrate the operations of the two financial institutions. If the integration process is not successfully completed or leads to significant disruptions in operations or inconvenience to customers, our business and financial condition and results of operations may be adversely affected. These risks could be enhanced if we were to undertake further significant acquisitions in the near future.

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

From December 31, 1996 to December 31, 2001, our aggregate loan portfolio (on an unconsolidated basis) grew by 63.7% in nominal terms and 33.6% in real terms to Ch$3,601,611 million and, during the same period, our consumer loan portfolio grew by 33.6% in nominal terms and 8.9% in real terms to Ch$208,233 million, each calculated in accordance with the loan classification system of the Chilean Superintendency of Banks. (Because the method of aggregation of loans used by the Chilean 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.) Further expansion of our loan portfolio (particularly in the lower-middle to middle income consumer and small- and medium-sized corporate 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 or similar rates in the future. Due to the economic recession in Chile in recent years, loan demand has not been as strong as it was in the mid 1990s. The average rate of growth of loans outstanding has, however, remained significant in the last five years. According to the Chilean Superintendency of Banks, from December 31, 1996 to December 31, 2001, the aggregate amount of loans outstanding in the Chilean banking system (on an unconsolidated basis) grew 65.7% in nominal terms and 35.2% in real terms to Ch$29,851,143 million. 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 allowances for loan losses. See "Item 4. Information on the Company—Selected Statistical Information."

Restrictions imposed by banking regulations may restrict our operations and thereby adversely affect our financial condition and results of operations.

We are subject to regulation by the Chilean 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. See "Item 4. Information on the Company—Supervision and Regulation." During the Chilean financial crisis of 1982 and 1983, the Central Bank and the Chilean Superintendency of Banks strictly controlled the funding, lending and general business matters of the banking industry in Chile.

Pursuant to the General Banking Law, all Chilean banks may engage in additional businesses depending on the risk of the activity and the strength of the bank. The 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 Chilean 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 that are 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. If we decide to pay interest on amounts deposited in checking accounts we may consider charging a fee for checking accounts, which could lead some customers to terminate their accounts, or dissuade others from opening an account. Any such effect could have a material adverse effect on our financial condition or results of operations.

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 most of the regulations that affected foreign investors, although foreign investors still have to provide the Central Bank with information related to equity investments and conduct such operations within the Formal Exchange Market. 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 may be imposed in the future, and we cannot advise you as to the duration or impact of such restrictions if imposed.

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% (subject to credits in certain cases as described under "Item 10. Additional Information—Taxation"). 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 experienced a negative cash flow from operating activities for the years ended December 31, 2000 and 2001, which could have an adverse effect on our ability to operate in the future.

During 2000 and 2001, we experienced a negative cash flow from our operations. During the year, we invested a large amount of cash in government securities in order to meet our technical reserve requirements as a result of higher current account levels, resulting in negative operating cash flow. From time to time, we may need to invest large amounts of cash in order to meet regulatory requirements. Given current low interest rates, our customers tend to maintain deposits in checking accounts, which are included in the technical reserve requirement, which may also result in a need to invest more cash in highly liquid products such as government securities. Either or both of these needs may affect our cash flow from operations. We cannot assure you that we will not experience a negative cash flow from operating activities in the future.

Increased competition and industry consolidation may adversely affect 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 de Chile, a public-sector bank, with a finance company 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. Nevertheless, non-banking competitors, especially department stores, may be able to engage in some types of advertising and promotion in which, by virtue of Chilean banking rules and regulations, we are prohibited from engaging. See "Item 4. Information on the Company—History and Development of the Company—Competition."

The increase in competition within the Chilean banking industry in recent years had led to, among other things, consolidation in the industry. For example, in April 2002, Banco Santiago and Banco Santander – Chile, the second and third largest banks in Chile, respectively, announced their intention to merge. The merger process is underway, and would create Chile's largest bank. 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 further affecting the net interest margins we are able to generate.

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

Although we historically emphasized banking for large and medium-sized businesses, a substantial number of our corporate customers (approximately 9.4% of the value of the total loan portfolio) currently consist of small companies (those with annual sales of less than U.S.$500,000) and, to a lesser extent, individual customers (approximately 1.4% of the value of the total loan portfolio) in the lower-middle to middle income segments (annual income between U.S.$2,000 and U.S.$8,000). Our strategy includes increasing lending and providing other services to attract additional small companies as customers. Small companies and lower-middle to middle income individuals are likely to be more severely affected by adverse developments in the Chilean economy than large corporations and high income individuals. In addition, large scale consumer and mortgage lending is a relatively new business segment in the Chilean banking system, having existed for only 15 years. 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 levels of consumer indebtedness and vulnerability in an economic downtown. There can be no assurance that the levels of past due loans and subsequent charge-offs will not be materially higher in the future. See "Item 4. Information on the Company—History and Development of the Company—Principal Business Activities."

An affiliate of ours may be obligated to sell shares of our stock in the public market if we do not pay sufficient dividends.

Sociedad Administradora de la Obligacion Subordinada SAOS S.A., or SAOS, an affiliate of ours, holds 42.0% of our shares as a consequence of a 1996 reorganization of our company. The reorganization was partially due to our 1989 repurchase from the Central Bank of certain of our non-performing loans that we had previously sold to the Central Bank and later exchanged for subordinated debt. Under the terms of a repayment obligation in favor of the Central Bank that SAOS assumed to replace the Central Bank subordinated debt, SAOS may be required to sell some of our shares to the public. See "Item 4. Information on the Company—History—The 1982-1983 Economic Crisis and the Central Bank Subordinated Debt."

In exchange for assuming the Central Bank indebtedness, SAOS received from SM-Chile S.A., a holding company for Banco de Chile and SAOS, 63.6% of our shares, which serve as collateral for this indebtedness. As a result of our merger with Banco de A. Edwards, the percentage of our shares held by SAOS decreased to 42.0%. Dividends received from us are the sole source of SAOS's revenue, which it must apply to repay this indebtedness. However, under SAOS's agreement with the Central Bank, we have no obligation to distribute dividends to our shareholders. To the extent distributed dividends are not sufficient to pay the amount due on this indebtedness, SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that SAOS commits to pay with future dividends. If the cumulative deficit balance exceeds an amount equal to 20% of our total capital, the Central Bank may require SAOS to sell a sufficient number of shares of our stock owned by SAOS to pay the entire deficit amount accumulated. As of December 31, 2001, SAOS maintained a deficit balance with the Central Bank of Ch$9,970 million, equivalent to 3.2% of our capital and reserves. As of the same date, Ch$62,260 million would have represented 20% of our capital and reserves. In addition, if we distribute stock dividends the Central Bank may require us to pay the portion of the net income corresponding to shares owned by SAOS in cash to SAOS, but if the Central Bank does not require us to pay that portion in cash, the shares received by SAOS must be sold by SAOS within the following 12 months.

We are unable to determine the likelihood that the Central Bank would require SAOS to sell shares of our common stock or that SAOS will otherwise be required to sell any stock dividends distributed by us, nor can we determine the number of such shares SAOS may be required to sell if it is required to do so. If SAOS is required to sell shares of our stock in the public market, that sale could adversely affect the prevailing market price of our stock.

Risks Relating to our ADSs

The significant share ownership of our principal shareholders may have an adverse effect on the future market price of our ADSs and shares.

L.Q. Inversiones Financieras, a holding company beneficially owned by Quiñenco S.A., beneficially owns approximately 52.15% of our outstanding voting rights. Actions by our principal shareholders with respect to the disposition of the shares or ADSs they beneficially own, or the perception that such actions may occur, may adversely affect the trading price of the shares on the Santiago Stock Exchange, the Valparaiso Stock Exchange and the Chilean Electronic Stock Exchange and the market price of the ADSs.

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

We merged with Banco de A. Edwards, a Chilean Bank, effective as of January 1, 2002. Prior to the merger, there was no public market for our shares outside Chile or our ADSs. Although our ADSs were listed on the New York Stock Exchange, or NYSE, in the first quarter of 2002, there can be no assurance that an active trading market for our ADSs will develop or be sustained. Although our shares are traded on the Santiago Stock Exchange, the Valparaiso Stock Exchange and the Chilean Electronic Stock Exchange following the merger, the market for our shares in Chile is small and illiquid. In addition, only approximately 19.3% of our outstanding shares are held by shareholders other than our principal shareholders, including SM-Chile S.A. and SAOS. See "Item 4. Information on the Company—History."

If an ADS holder withdraws the underlying shares from the ADR facility, the small size of the market and its low liquidity in general, and our concentrated ownership in particular, may impair the ability of the ADS holder to sell the shares in the Chilean market in the amount and at the price and time such holder desires, and could increase the volatility of the price of our ADSs.

You may be unable to exercise preemptive rights.

The *Ley Sobre Sociedades Anónimas No. 18,046* and the *Reglamento de Sociedades Anónimas*, which we refer to collectively as the Chilean Companies Law, and its 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 Securities Act were effective with respect to such rights and common stock or an exemption from the registration requirements thereunder were available.

We may elect not to make a registration statement available with respect to such rights and the common stock, in which case you may not be able to exercise your preemptive rights. If a registration statement is not filed, 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.

We may be required to withhold for tax purposes 35% of any dividend we pay to you.

Cash dividends we pay with respect to ADSs or common stock held by a foreign holder are subject to Chilean withholding tax of up to 35% of the dividend, which we will withhold and pay to the Chilean tax authorities. Any dividend distributions made in property (other than common stock) will be subject to the same Chilean tax rules as cash dividends. See "Item 10. Additional Information—Taxation—Chilean Tax Considerations."

Risks Relating to Chile

Currency fluctuations could adversely affect the value of our ADSs and any distributions on the ADSs.

The Chilean government's economic policies and any future changes in the value of the Chilean peso against the U.S. dollar could affect the dollar value of our common stock and our ADSs. 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, 1998 to December 31, 2001, the value of the Chilean peso relative to the U.S. dollar increased approximately 25.5%, as compared to a 9% decrease in value in the period from December 31, 1994 to December 31, 1998. The observed exchange rate on June 26, 2002 was Ch$694.63=U.S.$1.00.

Chilean trading in the shares underlying our ADSs is conducted in pesos. Cash distributions with respect to our shares of common stock are received in Chilean pesos by the depositary, which then converts such amounts to U.S. dollars at the then-prevailing exchange rate for the purpose of making payments in respect of our ADSs. If the value of the Chilean peso falls relative to the U.S. dollar, the dollar value of our ADSs and any distributions to be received from the depositary will be reduced. In addition, the depositary will incur customary currency conversion costs (to be borne by the holders of our ADSs) in connection with the conversion and subsequent distribution of dividends or other payments. See "Item 10. Additional Information—Exchange Controls."

Inflation could adversely affect the value of our ADSs and 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, indirectly, the value of our ADSs. The annual rate of inflation (as measured by changes in the Consumer Price Index and as reported by the *Instituto Nacional de Estadisticas*, or the Chilean National Institute of Statistics) during the last five years ended December 31, 2001 and the first five months of this year was:

Year	**Inflation (CPI)**
1997	6.0%
1998	4.7
1999	2.3
2000	4.5
2001	2.6
2002 (through May 31)	0.9

Source: Chilean National Institute of Statistics

Although we currently benefit from inflation in Chile due to the structure of our assets and liabilities (*i.e.*, we have a significant amount of deposits that are not indexed to the inflation rate and do not accrue interest while a significant portion of our loans are indexed to the inflation rate), our operating results and the value of our ADSs in the future may be adversely affected by changing levels of inflation, and Chilean inflation could change significantly from the current level.

Our growth and profitability depends on the level of economic activity in Chile and elsewhere.

A substantial amount of our loans are to borrowers doing business in Chile. Accordingly, the recoverability of these loans in particular, 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 Argentina, Brazil and other emerging markets, will not materially and adversely affect our business, financial condition or results of operations. Furthermore, although our operations (with the exception of our branch in New York, our agency in Miami and our three representative offices) are currently limited to Chile, we may in the future pursue a strategy of expansion into other Latin American countries. The potential success of such strategy will depend in part on political, social and economic developments in such countries.

According to data published by the Central Bank, the Chilean economy contracted at a rate of 1.0% in 1999, grew at a rate of 4.4% in 2000 and grew at a rate of 2.8% in 2001. The adverse economic conditions prevailing in recent years has adversely affected the overall asset quality of the Chilean banking system. According to information published by the Chilean Superintendency of Banks, the unconsolidated risk index of the Chilean financial system as a whole increased from 1.50% at October 31, 1998 to 1.92% at February 2002 (last figures available for the financial system). 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 with the devaluation of the Baht by the government of Thailand, 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 crisis in Russia, which received a rescue package from the International Monetary Fund and sought to reschedule its foreign debt. In part due to the Asian and Russian crises, the Chilean stock market declined over 30% in 1998 to levels equivalent to 1994.

The economic problems being encountered by Argentina may have an adverse effect on the Chilean economy and on the results of operations of the combined bank and its share price.

We are directly exposed to risks related to the weakness in the Argentine economy, as approximately 1.8% of our loan portfolio is comprised of loans to Argentine companies. While these loans are generally to Argentine subsidiaries of Chilean parent companies, the risk of which is mitigated in part by our policy generally requiring guarantees from the Chilean parent, if the Argentine economic crisis continues, including devaluation of the Argentine peso, it may result in higher allowances for loan losses.

If Argentina's economic crisis 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. We cannot assure that economic growth will continue in the future at similar rates as in the past or at all.

Prices of securities of Chilean companies including banks are, to varying degrees, influenced by economic and market considerations in other emerging market countries and by the U.S. economy. We cannot assure that the Argentine economic crisis will not have an adverse effect on the price of the shares of the bank.

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 U.S. company.

There are also important differences between Chilean and U.S. accounting and financial reporting standards. As a result, Chilean financial statements and reported earnings generally differ from those reported based on U.S. accounting and reporting standards. See note 30 to our financial statements.

As a regulated financial institution, we are required to submit to the Chilean 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 Chilean Superintendency of Banks on a monthly basis. This information is made public by the Chilean Superintendency of Banks within approximately three months of receipt. The Chilean 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 U.S. financial institutions.

Chilean disclosure requirements for publicly listed companies such as us differ from those in the United States in some important respects. In addition, although Chilean law imposes restrictions on insider trading and price manipulation, the Chilean securities markets are not as highly regulated and supervised as the U.S. securities markets.

Chilean law provides for fewer and less well-defined shareholders' rights.

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, our shareholders would not be entitled to appraisal rights in the event of a merger or other business combination undertaken by us.

FORWARD-LOOKING STATEMENTS

This annual report contains statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear throughout this annual report, including, without limitation, under "Item 4. Information on the Company" and "Item 5. Operating and Financial Review and Prospects," and include statements regarding our intent, belief or current expectations, as well as those of our officers or our management with respect to (1) our asset growth and financing plans, (2) trends affecting our financial condition or results of operations and (3) the impact of competition and regulations. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those described in such forward-looking statements included in this annual report as a result of various factors (including, without limitation, the actions of competitors, future global economic conditions, market conditions, foreign exchange rates and operating and financial risks), many of which are beyond our control. The occurrence of any such factors not currently expected by us would significantly alter the results set forth in these statements.

Factors that could cause actual results to differ materially and adversely include, but are not limited to:

- changes in general economic, business or political or other conditions in Chile or changes in general economic or business conditions in Latin America,
- changes in capital markets in general that may affect policies or attitudes towards lending to Chile or Chilean companies,
- increased costs,
- unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms, and
- the factors discussed under "Item 3. Key Information — Risk Factors."

You should not place undue reliance on such statements, which speak only as of the date that they were made. These cautionary statements should be considered in connection with any written or oral forward-looking statements that we may issue in the future. We do not undertake any obligation to release publicly any revisions to such forward-looking statements after the filing of this annual report to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

Item 4. Information on the Company

HISTORY AND DEVELOPMENT OF THE COMPANY

Overview

Founded in 1893, we believe we are one of the largest and most profitable Chilean banks in terms of return on assets and shareholders' equity. We are engaged principally in commercial banking in Chile, providing general banking services to a diverse customer base that includes large corporations, small and mid-sized businesses and individuals. We deliver financial products and services through a nationwide network of 171 branches, 392 ATMs and other electronic distribution channels.

We are a full-service financial institution providing, directly and indirectly through our subsidiaries and affiliates, a wide variety of credit and non-credit products and services to all segments of the Chilean financial market. Our operations are organized in five principal divisions:

- large corporations;
- middle market banking;

- retail banking;
- international banking; and
- treasury and money market operations,

as well as in five non-banking financial service subsidiaries. Our corporate banking services include commercial loans, including working capital facilities and trade finance, foreign exchange, capital market services, cash management and non-credit services such as payroll and payment services. We also provide a wide range of treasury and risk management products to our corporate customers, and we provide our individual customers with credit cards, residential mortgage, auto and consumer loans as well as traditional deposit services such as checking and savings accounts and time deposits.

We offer international banking services through our branch in New York, our agency in Miami, representative offices in Buenos Aires, São Paulo and Mexico City and a worldwide network of approximately 1,000 correspondent banks. In addition to our commercial banking operations, through our subsidiaries, we offer a variety of non-banking financial services including securities brokerage, mutual fund management, financial advisory services, factoring and insurance brokerage.

Business Strategy

Our long-term strategy is to maintain our position as a leading bank in Chile, providing a broad range of financial products and services to large corporations, small and mid-sized companies and individuals nationwide. Our strategy is focused on:

- delivering superior service that responds to the specific needs of our customers in each market segment;
- enhancing profitability by increasing revenues from fee-based services through development of new services and active cross-selling of such services to our customers;
- continuing to focus on measures that control costs and otherwise enhance productivity to improve our existing efficiency standards; and
- further developing our international activities.

The key components of our strategy are described below.

Deliver Superior Customer Service

Our banking strategy is focused on developing long-term relationships with our customers by emphasizing customer service and providing a broad range of financial products and services. As the Chilean economy continues to grow, we expect that our corporate and individual customers will continue to require more comprehensive credit and non-credit financial services than in the past. In the large corporate segment, we are focused on increasing offerings of specialized lending products, treasury and cash management services. In the middle market segment, we intend to increase our lending activities and offerings of fee-based services such as electronic banking, import-export financial services, financial advisory services and cash management services. To expand our high- and middle-income individual customer base, we intend to market actively our broad range of products and services to this segment, to cross-sell products and services, such as mutual funds, lease financing, factoring and securities brokerage services, and to develop new services targeted to the specific needs of these customers.

Expand Fee-Based Services

In recent years, our margins from traditional lending activities have declined significantly and, as a result, we have increasingly shifted our focus to developing other sources of revenue such as fee-based products and services. Our consolidated income from fees and other services has grown from Ch$33,721 million in 1997 to Ch$51,475 million in 2001. We seek to continue to grow fee revenue by developing new services and by cross-selling these services to our base of existing customers. In our corporate business, we intend to market actively fee-based services such as electronic banking, receivables collection, payroll services, supplier payments, investment advisory services and cash management. In our retail banking business, we seek to increase revenues from fee-based services such as telephone and PC banking, ATMs, general checking services, credit cards, mutual funds, securities brokerage and insurance brokerage.

Maintain Focus on Operating Efficiencies

During the year ended December 31, 2001, our consolidated operating expenses represented approximately 54.4% of our operating revenue. As the Chilean banking sector continues to grow, we believe that a low-cost structure will become increasingly important to compete profitably.

We invested approximately Ch$22,790 million in technology during the three-year period ended December 31, 2001, and plan to continue to focus on technology in the future, particularly our automated banking services and information systems, to achieve further improvements in customer service and operating efficiency. In the last three years, our highest growth rates in banking transactions have stemmed from our website, where more than one million operations take place each month. Currently, three-quarters of our clients' transactions are performed through automated systems, telephone or computer channels or other remote service devices.

Pursue International Growth

We intend to strengthen our position and grow further in the international markets. Our primary focus in this respect will be on trade financing, one of our traditional areas of international activity. To implement this strategy, we intend to take advantage of our New York branch and Miami agency to strengthen our relationships with Chilean businesses engaged in international trade and to expand our international activities through our network of representative offices.

We cannot assure you that we will be able to realize our strategic objectives. For a discussion of certain risks applicable to our operations and Chile which may affecting our ability to meet our objectives, see "Item 3. Key Information—Risk Factors."

History

We were established in 1893 as a result of a merger of Banco Nacional de Chile, Banco Agricola and Banco de Valparaiso which created the largest privately held bank in Chile. To the best of our knowledge, we were the largest privately held bank in Chile from our inception until the mid-1990s. Throughout the 20th century, we developed a well-recognized name in Chile and expanded our operations in foreign markets where we developed an extensive network of correspondent banks. In 1906, we established a representative office in London which we maintained until 1985, when our foreign operations were centralized at the New York branch.

Beginning in the early 1970s, the Chilean government assumed control of a majority of Chilean banks then in operation and all but one of the foreign banks operating at the time closed their branches and offices in Chile. Throughout this era, we remained privately owned, with the Chilean government owning participating shares which it sold to private investors in 1975.

The 1982-1983 Economic Crisis and the Central Bank Subordinated Debt

During the 1982-1983 economic crisis, the Chilean banking system experienced significant instability due to, among other things, a recession in most of the world's major economies accompanied by high international interest rates, an overvalued peso, a lack of stringent banking regulation and ineffective credit policies at most Chilean banking organizations. The financial crisis required that the Central Bank and the Chilean government provide assistance to most Chilean private-sector banks (including us).

During this period, we experienced significant financial difficulties, as a result of which the Chilean government assumed administrative control over us. In 1985 and 1986, we increased our capital and sold shares representing 88% of our capital to more than 30,000 new shareholders. As a result, no single shareholder held a controlling stake in the bank. In 1987, the Chilean Superintendency of Banks returned control and administration of the bank to its shareholders.

Subsequent to the 1982-1983 economic crisis, like most major Chilean banks, we sold certain of our non-performing loans to the Central Bank at face value on terms that included a repurchase obligation. The repurchase obligation was later exchanged for subordinated debt of each participating bank issued in favor of the Central Bank. In 1989, pursuant to Law No. 18,818, banks were permitted to repurchase the portfolio of non-performing loans previously sold to the Central Bank for a price equal to the economic value of such loans, provided the bank assumed a subordinated obligation equal to the difference between the face value of the loans and the economic value paid. In November 1989 we repurchased our portfolio of non-performing loans from the Central Bank and assumed the Central Bank subordinated debt.

The repayment terms of our Central Bank subordinated debt, which at June 30, 1989 equaled approximately U.S.$1.75 billion, required that a certain percentage of our income before provisions for the subordinated debt be applied to repay this obligation. The Central Bank subordinated debt did not have a fixed maturity, and payments were made only to the extent that we earned income before provisions for the subordinated debt. In 1993 we applied 72.9% of our income before provisions for the Central Bank subordinated debt to the repayment of such debt. In 1994 we applied 67.6% and in 1995 we applied 65.8% of our income before provisions for the Central Bank subordinated debt to the repayment of such debt.

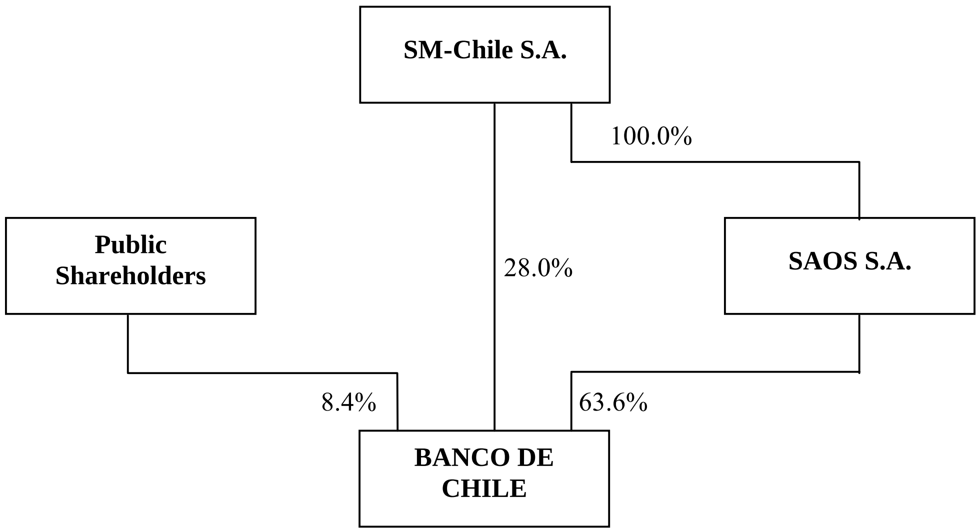
In November 1996, pursuant to Law No. 19,396, our shareholders approved a reorganization by which Banco de Chile was converted to a holding company named SM-Chile S.A. In turn, SM-Chile organized a new wholly-owned banking subsidiary named Banco de Chile to which it contributed all of its assets and liabilities other than the Central Bank subordinated debt. SM-Chile then created SAOS, a second wholly-owned subsidiary that, pursuant to a prior agreement with the Central Bank, assumed a new repayment obligation in favor of the Central Bank which replaced the Central Bank subordinated debt in its entirety.

This Central Bank indebtedness, for which SAOS is solely responsible and for which there is no recourse to us or SM-Chile, was equal to the unpaid principal of the Central Bank subordinated debt that it replaced but had terms that differed in certain respects, the most important of which included a rescheduling of the debt for a term of 40 years providing for equal annual installments and a pledge of our shares as collateral for such debt. The Central Bank indebtedness bears interest at a rate of 5.0% per year and is denominated in UF. See "Item 5. Operating and Financial Review and Prospects—Inflation—UF-denominated Assets and Liabilities" for a further explanation of UF.

In exchange for assuming the Central Bank indebtedness, SAOS received from SM-Chile 63.6% of our shares, which serve as collateral for this indebtedness. As a result of our merger with Banco de A. Edwards, the percentage of our shares held by SAOS decreased to 42%. Dividends received from us are the sole source of SAOS's revenue, which it must apply to repay this indebtedness. However, under SAOS's agreement with the Central Bank regarding this indebtedness, we have no obligation to distribute dividends to our shareholders. To the extent distributed dividends are not sufficient to pay the amount due on this indebtedness, SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that SAOS commits to pay with future dividends. If the cumulative deficit balance exceeds an amount equal to 20% of our capital and reserves, the Central Bank may require SAOS to sell a sufficient number of shares of our stock owned by SAOS to pay the entire deficit amount accumulated. The shareholders of SM-Chile have a right of first refusal with respect to that sale. As of December 31, 2001, SAOS maintained a deficit balance with the Central Bank of Ch$9,970 million, equivalent to 3.2% of our capital and reserves. As of the same date, Ch$62,260 million would have represented 20.0% of our capital and reserves. See "Item 3. Key Information—Risk Factors—An affiliate of ours may be obligated to sell shares of our stock in the public market if we do not pay sufficient dividends."

If from time to time in the future our shareholders decide to retain and capitalize all or part of our annual net income in order to finance our future growth, and to distribute stock dividends among our shareholders, the Central Bank may require us to pay the portion of the net income corresponding to shares owned by SAOS in cash to SAOS. If we distribute stock dividends and the Central Bank does not require us to pay that portion in cash, the shares received by SAOS must be sold by SAOS within the following 12 months. The shareholders of SM-Chile will have a right of first refusal with respect to that sale.

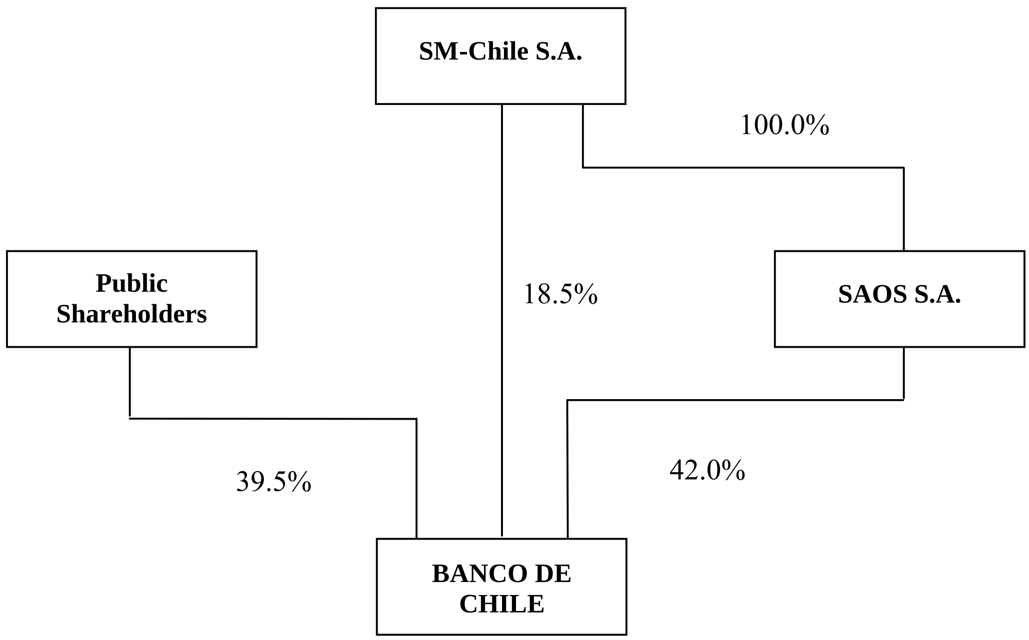
The following diagram presents in summary form our ownership structure as of December 31, 2001, which resulted from the November 1996 reorganization:



Merger with Banco de A. Edwards

Following discussions with Banco de A. Edwards initiated in mid-March of 2001, at special board meetings held on August 7, 2001, our board of directors unanimously approved a preliminary merger agreement, resolved to seek the necessary regulatory approvals and resolved to summon a general extraordinary shareholders meeting to approve the merger once the regulatory approvals had been obtained. At an extraordinary shareholders meeting held on December 6, 2001, our shareholders approved the merger with Banco de A. Edwards, which became effective on January 1, 2002.

The following diagram shows our new ownership structure after the merger:



Banco de A. Edwards

Banco de A. Edwards, which traces its roots to the founding of one of the first Chilean private banks in 1866, was a leading Chilean commercial bank that focused on providing a broad range of financial services to its corporate and individual customers throughout Chile. In addition to offering traditional banking services such as lending and deposit taking, it delivered to its customers a wide variety of credit and non-credit products including financial leasing, mutual funds, securities brokerage, insurance brokerage, corporate advisory, factoring and securitization services.

At December 31, 2001, it had:

- total assets of Ch$2,896,470 million (U.S.$4,414 million);
- loans outstanding of Ch$2,218,508 million (U.S.$3,381 million);
- deposits of Ch$1,713,101 million (U.S.$2,611 million); and
- shareholder's equity of Ch$239,371 million (U.S.$365 million).

As of December 31, 2001, it was the fifth largest Chilean private sector bank in terms of total loans (excluding interbank loans), with a market share of 7.4% at that date, according to the Superintendency of Banks. As of December 31, 2001, its unconsolidated past due loans as a percentage of its total loans was 3.3%, compared to

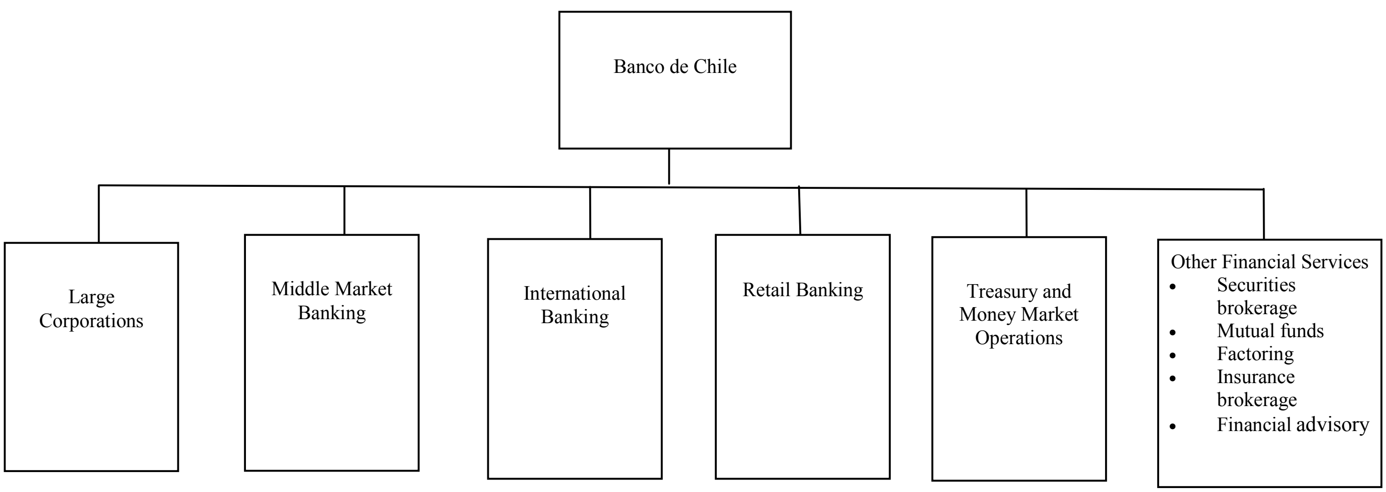
1.6% for the Chilean financial system. In addition, its allowances for loan losses to total loans was 4.22% at December 31, 2001, compared to the 2.68% registered by the Chilean financial system.

Banco de A. Edwards was headquartered in Santiago and at December 31, 2001 had:

- 2,721 employees;
- a network of 86 branches which operated in markets representing over 95% of the national market for banking services, measured in terms of total loans; and
- a network of 290 ATMs owned and operated by it, together with 2,355 ATMs that were owned jointly with a group of 16 other private-sector financial institutions and 142 self-service terminals throughout the Santiago metropolitan area and Chile's other principal business centers.

Principal Business Activities

We are a full-service financial institution providing, directly and indirectly through our subsidiaries and affiliates, a wide variety of credit and non-credit products and services to all segments of the Chilean financial market. The following diagram illustrates, in summary form, our principal divisions, which operate through the Bank or, in the case of "Other Financial Services," through our subsidiaries:



The following table provides information on the composition of our loan portfolio and our consolidated net income before tax for the year ended December 31, 2001, allocated among our principal divisions:

	Loans		Percent of consolidated net income before tax (1)
	(in millions of constant Ch$ as of December 31, 2001, except for percentages)		
Large corporations	Ch$ 1,612,132	41.8%	8.8%
Middle market companies	980,269	25.4	31.9
International banking	275,828	7.2	10.4
Retail banking	958,767	24.8	21.1
Treasury and money market operations	12,357	0.3	35.5
Other financial services (subsidiaries)	19,467	0.5	12.9
Adjustments and eliminations	—	—	(20.6)
Total	Ch$ 3,858,820	100.0%	100.0%

(1) Consolidated net income before tax consists of the sum of net interest revenue and fees and income from services, net, and the deduction for operating expenses and provisions for loan losses. The net income before tax breakdown shown is used for internal reporting, planning and marketing purposes and is based on, among other things, our estimated funding cost allocations and specified cost adjustments and eliminations. This breakdown may differ in some respects from breakdowns of our operating income for financial reporting and regulatory purposes. Separate information on the operations, assets and income of our five financial services subsidiaries is provided below under "—Operations Through Subsidiaries."

Large Corporations

In general, our large corporation division services domestic companies with annual sales in excess of Ch$12,000 million (approximately U.S.$18 million), multinational corporations, financial institutions, governmental entities and companies affiliated with Chile's largest conglomerates (regardless of size). This division offers these companies a broad range of products and services tailored to their specific needs. These services include deposit-taking and lending in both pesos and foreign currency, trade and project financing and various non-credit services, such as collection, supplier payments and payroll management. In addition, our large corporation division offers a broad range of banking products and services including working capital financing, lines of credit, commercial loans, leasing, corporate financial services, foreign trade financing, letters of credit in domestic and foreign currencies, mortgage loans, payment and asset management services, checking accounts and time deposits, and, through our subsidiaries, brokerage, mutual funds and investment fund management services. All of our branches (except the Credichile branches) provide services to our large corporation division customers directly and indirectly. Until December 2001, this division also provided services to any bank customer that was experiencing loan payment difficulties or that needed to have its loans restructured.

Our large corporate customers are engaged in a wide spectrum of industry sectors, including, among others:

- heavy industry (approximately 21.4% of all loans made by the division);
- financial institutions (approximately 12.2% of all loans made by the division);
- trade and commerce (approximately 12.0% of all loans made by the division);
- real estate and construction (approximately 15.6% of loans made by the division); and
- agriculture (approximately 6.9% of all loans made by the division).

See "—Selected Statistical Information."

At December 31, 2001, we had approximately 2,262 large corporate debtors. Loans to large corporations totaled approximately Ch$1,612,132 million at December 31, 2001, representing 41.8% of our total loans at that date. Our large corporations division accounted for 8.8% of our net income before tax for the year ended December 31, 2001.

The following table sets forth the composition of our portfolio of loans to large corporations as of December 31, 2001.

	As of December 31, 2001 (in millions of constant Ch$ as of December 31, 2001, except for percentages)	
Commercial loans	Ch$1,000,440	62.1%
Foreign trade loans	226,336	14.0
Contingent loans	175,739	10.9
Leasing contracts	95,889	5.9
Mortgage loans	59,087	3.7
Consumer loans	781	0.1
Other loans	53,860	3.3
Total	Ch$1,612,132	100.0%

Our large corporation division's loan portfolio consists principally of unsecured loans with maturities between one and six months and of medium- and long-term loans to finance fixed assets, investment projects and infrastructure projects. In addition, our large corporation division issues contingent credit obligations in the form of letters of credit, bank guarantees and similar obligations in support of the operations of our large corporate customers. See "—Selected Statistical Information."

The market for loans to large corporations in Chile in recent years has been characterized by reduced profit margins, due in part to the greater direct access of such customers to domestic and international capital markets and other sources of funds. As a result, we have been increasingly focused on generating fee services, such as payroll processing, dividend payments and billing services as well as computer banking services. This strategy has enabled us to maintain profitable relationships with our large corporate customers while preserving the ability to extend credit when appropriate opportunities arise. In an effort to increase our profitability in this important segment of the corporate market, we are expanding the range of products offered to focus on sophisticated services and fee-based products such as cash management, payment, treasury and other tailored services. For a description of the treasury services we offer, see "—Treasury and Money Market Operations."

We are party to approximately 471 payment service contracts and approximately 217 collection service contracts with large corporate customers. Under these payment contracts, we provide large corporate customers with a system to manage their accounts and make payments to suppliers, pension funds and employees, thereby reducing administrative costs. We believe that cash management and payment service contracts provide a source of low-cost deposits and the opportunity to cross-market our products and fees to payees, many of whom maintain accounts with us. Under our collection contracts, we act as a collection agent for our large corporate customers, providing centralized collection services for their accounts receivables and other similar payments.

Middle Market Banking

We serve the financing needs of small and medium-size companies through our middle market banking division. We generally define medium-size companies as those with annual sales of less than Ch$12 billion (approximately U.S.$18 million) and small or emerging companies as those with annual sales of less than Ch$300 million (approximately U.S.$500,000). Our middle market banking division has approximately 46,000 checking account holders, of which approximately 71.0% are small or emerging companies. In terms of loan amounts, however, 62.8% of the division's total loan portfolio represents loans to medium-size companies.

Our middle market banking division offers its customers a broad range of financial products, including project financing, working capital financing, mortgage loans and debt rescheduling, as well as other alternatives such as leasing operations and factoring (through our Banchile Factoring subsidiary). We also offer our clients full advisory services aimed at facilitating foreign trade, as well as comprehensive financing and service alternatives.

We have developed a set of services designed to facilitate and optimize the operational and financial management of small and medium size companies. These services include payment services (such as employee compensation, taxes and employee benefits), payments to suppliers and automated bill payments. We provide most of these services through remote service channels, such as the internet, to approximately 20,000 customers. We also provide account receipts and instrument collection services through electronic means. All of these products and services are available through our nationwide branch network.

In 2001, we began to offer our customers advanced e-commerce technological platforms through our affiliate Comercio Electronico Artikos Chile S.A. Artikos Chile uses the Commerce One technological platform.

Through other subsidiaries, our middle market banking division offers our customers a full range of financial advisory, stock brokerage, mutual fund management and general and life insurance brokerage services.

The following table sets forth the composition of our portfolio of loans to middle market companies as of December 31, 2001.

	As of December 31, 2001 (in millions of constant Ch$ as of December 31, 2001, except for percentages)	
Commercial loans	Ch$ 458,325	46.8%
Consumer loans(1)	7,048	0.7
Foreign trade loans	61,705	6.3
Contingent loans	52,442	5.3
Mortgage loans	250,544	25.6
Leasing contracts	69,006	7.0
Other loans	81,199	8.3
Total	Ch$ 980,269	100.0%

(1) Certain commercial loans to individuals are classified as consumer loans.

Our middle market banking division's loan portfolio consists primarily of short- and long-term commercial loans and mortgage loans. At December 31, 2001, this division had made loans to customers in:

- trade and commerce (25.6% of loans made by the division),
- industry (17.5% of loans made by the division),
- agriculture (20.3% of loans made by the division), and
- construction (9.2% of loans made by the division).

See "—Selected Statistical Information."

At December 31, 2001, we had Ch$980 billion of outstanding loans to small and medium-size companies, representing 25.4% of our total loan portfolio at that date. Small and medium-size banking clients accounted for approximately 31.9% of our net income before tax for the year ended December 31, 2001.

Commercial Loans. Our middle market banking division's commercial loans, which mainly consist of project financing and working capital loans, are denominated in pesos, UF or U.S. dollars. Commercial loans may have fixed or variable rates of interest and generally mature between one and three months from the date of the loan. At December 31, 2001, our middle market banking division had outstanding commercial loans of Ch$458,325 million, representing 46.8% of the division's total loans and 11.9% of our total loans at that date.

Mortgage Loans. Our middle market banking division's commercial mortgage loans are denominated in UF and generally have maturities of between five and 30 years. At December 31, 2001, this division had granted mortgage loans outstanding of approximately Ch$250,544 million, representing 25.6% of the division's total loans and 6.5% of our total loans at such date.

International Banking

Through our international banking division, we offer a range of international services, principally import and export financing, letters of credit, guarantees and other forms of credit support, as well as currency swaps, banking services and treasury services for our corporate clients in Chile and abroad.

Our international banking division has two main lines of business: foreign currency products and management of our international network. This division deals with all banking products that involve foreign currency, including those related to foreign trade. Our international banking division designs foreign currency products, educates our account officer sales force throughout the bank about our foreign currency products, monitors our market share participation and promotes the use of our foreign currency products. Included in this line of business is our *Centro Integral de Comercio Exterior*, a group of foreign trade specialists that advises our customers about our services related to insurance, shipping and customs, with the objective of obtaining the most desirable conditions for the non-banking stages of our customers' foreign trade transactions.

Our international banking division does not, however, have credit granting authority for these purposes. Instead, the division participates in a team effort with the account officers who establish credit limits, and our international banking trade specialists interact directly with our customers, ensuring that the price they pay for our services are adequate and that the quality of the services provided meets pre-established levels we define.

As of December 31, 2001, we had approximately Ch$377,125 million in foreign trade loans, representing 9.8% of our loan portfolio, and Ch$45,438 million in letters of credit and other contingent obligations related to foreign trade operations, representing 1.2% of our loan portfolio.

Our international banking division also manages our international network. This network is made up of a branch in New York and an agency in Miami, three representative offices (located in Mexico City, São Paulo and Buenos Aires) and 942 correspondent banks (of which we have established credit relations with 90 correspondent banks and an account relationship with more than 42 correspondent banks).

We use our international network in order to:

- obtain all our foreign currency funding for either trade or general purposes (short- or medium-term) for our Santiago head office and our foreign branches;
- supply additional savings alternatives to our customers;
- provide banking services to our corporate customers who operate outside of Chile;
- provide treasury and cash management services and lending alternatives to our corporate customers on an international basis;
- diversify our loan and investment portfolio by identifying, mainly through our representative offices, opportunities in dealing with selected customers in pre-approved countries; and
- obtain commercial information on foreign companies that do business in Chile and business opportunities for our Chilean customers seeking to expand to new markets abroad.

The following table sets forth the composition of our portfolio of loans originated through our New York branch and Miami agency, in each case as of December 31, 2001.

	As of December 31, 2001	
	New York Branch	Miami Agency
	(in millions of constant Ch$ as of December 31, 2001)	
Commercial loans	Ch$ 82,679	Ch$ 32,789
Foreign trade loans	64,055	21,877
Interbank loans	4,010	7,374
Contingent loans	14,031	11,506
Other loans	583	498
Total	Ch$ 165,358	Ch$ 74,044

The following table sets forth, as of December 31, 2001, the sources of funding for our New York branch and for the Miami agency:

	As of December 31, 2001			
	New York Branch		Miami Agency	
	(in millions of constant Ch$ as of December 31, 2001, except for percentages)			
Demand deposits	Ch$ 40,294	8.5%	Ch$ 9,793	8.2%
Certificates of deposits and time deposits	202,948	43.1	96,621	80.4
Other demand deposits	51,318	10.9	1,241	1.0
Contingent liabilities	14,031	3.0	11,506	9.6
Foreign borrowings	146,794	31.2	52	0.0
Other liabilities	15,848	3.3	906	0.8
Total	Ch$ 471,233	100.0%	Ch$ 120,119	100.0%

New York Branch. Our wholly-owned New York branch was established in 1982 and provides a range of general banking services, including the taking of deposits, mainly to non-residents of the United States. At December 31, 2001, the New York branch had total assets of Ch$499,275 million, including a loan portfolio of Ch$165,358 million, representing 4.3% of our total loan portfolio. Of the New York branch's loans, Ch$82,679 million were commercial loans, mostly to large private corporations in Chile and in other Latin American countries. The remaining Ch$82,679 million were principally foreign trade loans, amounting to Ch$64,055 million, and contingent loans (letters of credit and stand-by letters of credit), amounting to Ch$14,031 million. Investments in bonds and foreign securities were Ch$258,651 million, most of which consisted of private sector bonds. The New York branch's allowances for loan losses totaled Ch$1,861 million, which represented 1.1% of the branch's loan portfolio at December 31, 2001. In addition, our New York branch had Ch$808 million in country risk allowances.

Funding sources for the New York branch include demand deposits, money market accounts and deposits for less than 30 days of Ch$163,126 million, time deposits of Ch$131,433 million and foreign borrowings of Ch$146,794 million, which is also the outstanding balance of the branch's long-term syndicated bank loans.

Our New York branch's financial statements reflect a paid in capital of Ch$4,026 million and allocated surplus of Ch$16,132 million (including a negative mark-to-market amount of Ch$7,340 million). Our New York branch had net income for the year ended December 31, 2001 of Ch$6,953 million, representing 8.0% of our consolidated net income for 2001.

At December 31, 2001, the New York branch had Ch$572 million in past due loans. Although the New York branch manages its assets and liabilities locally, all credit decisions are made by officers of the bank in Santiago, Chile.

Miami Agency. Our Miami agency was opened in 1995. Its principal activities consist of traditional commercial banking services, including deposit taking of mainly non-residents of the United States, providing credit to finance foreign trade and making loans to individuals or Chilean companies involved in foreign trade. Additionally, our Miami agency provides correspondent banking services to financial institutions, including working capital loans, letters of credit and bankers' acceptances. At December 31, 2001, our Miami agency had total assets of Ch$134,773 million, a loan portfolio of Ch$74,044 million representing 1.9% of our total portfolio, and an investment portfolio of Ch$51,138 million. Our Miami agency's loan portfolio at December 31, 2001 consisted primarily of Ch$32,789 million of commercial loans to Latin American private sector companies, including Chilean companies with operations in other Latin American countries, and Ch$21,877 million of foreign trade loans. The agency's funding sources include demand deposits, money market accounts and deposits for less than 30 days (Ch$36,828 million), time deposits (Ch$70,827 million) and contingent liabilities (Ch$11,506 million). The net income of the Miami agency for the year ended December 31, 2001 was Ch$2,123 million, representing 2.4% of our consolidated net income for 2001. We have a 100% ownership interest in the Miami agency.

At December 31, 2001, the Miami agency had Ch$323 million in past due loans. Allowances for loan losses amounted to Ch$802 million, not including the Ch$543 million in country risk allowances. Although the Miami agency manages its assets and liabilities locally, all credit decisions are made by officers of the bank in Santiago, Chile.

Retail Banking

Our retail banking division serves the needs of retail customers from high-income to lower-middle income individuals, with service being segmented according to our client's income. At December 31, 2001, loans made by this division represented 24.8% of our total loan portfolio. Approximately 21.1% of our net income before tax for the year ended December 31, 2001 was accounted for by our retail banking division.

The following table sets forth information on the composition of our portfolio in loans of our retail banking division for the year ended December 31, 2001.

	As of December 31, 2001 (in millions of constant Ch$ as of December 31, 2001, except for percentages)	
Commercial loans	Ch$ 44,718	4.7%
Consumer loans	200,404	20.9
Foreign trade loans	86	0.0
Contingent loans	938	0.1
Mortgage loans	498,312	52.0
Leasing contracts	2,262	0.2
Other loans	212,047	22.1
Total	Ch$ 958,767	100.0%

High- and Middle-Income Individuals. We serve the needs of high- and middle-income individuals in Chile. We define high- and middle-income individuals as those with annual income in excess of Ch$5.2 million (approximately U.S.$8,000) (in 2001, per capita annual income in Chile was approximately U.S.$4,287).

Our high- and middle-income individuals division offers our customers a broad range of retail banking products, including residential mortgage loans, lines of credit and other consumer loans, credit cards, checking accounts, savings accounts and time deposits. We also offer mutual funds and brokerage services to individuals as described under "—Operations Through Subsidiaries" below. At December 31, 2001, we had outstanding extensions of credit to approximately 162,716 high- and middle-income individuals, including approximately 21,820 residential loans, 139,710 lines of credit, 56,790 other consumer loans and 155,760 credit card accounts. At the same date, this subdivision maintained 192,829 checking accounts, 28,964 savings accounts and 16,667 time deposits.

We provide service to high- and middle-income individual customers through a network of 116 branches, 15 specialized transaction centers, three specialized "Private Banking" centers, 392 ATMs that we own and operate as well as approximately 2,645 ATMs located throughout Chile that form part of a network operated by Redbanc, a company owned by us and 16 other private sector financial institutions. Since 1994, we have offered a nationwide phone-banking, or "Fonobank," service that permits our customers to receive balances and other account-related information, transfer funds between accounts and effect a wide variety of credit transactions. In 1997, we launched a full 24-hour banking service under the brand "TodaHora" and our homepage on the internet to better serve these customers.

Mortgage Loans. At December 31, 2001, this subdivision had outstanding mortgage loans of Ch$493,621 million, which represented 51.5% of the division's total loans to individuals and 12.8% of our total loans. A feature of our mortgage loans to individuals is that mortgaged property typically secures all of a mortgagor's credit with us, including credit card and other loans.

Our residential mortgage loans generally have maturities between five and 30 years and are denominated in UF. To reduce our exposure to interest rate fluctuations and inflation with respect to our residential loan portfolio, a majority of these residential loans are currently funded through the issuance of mortgage finance bonds, which are recourse obligations with payment terms that are matched to the residential loans and which bear a real market interest rate plus a fixed spread over the rate of change in the UF. Chilean banking regulations limit the amount of a residential mortgage loan that may be financed with a mortgage finance bond to the lesser of 75% of the purchase price of the property securing the loan or the appraised value of such property. In addition, we generally require that the monthly payments on a residential mortgage loan not exceed 25% of the borrower's monthly household after-tax income.

We have promoted the expansion of a mortgage-lending product which we call "Mutuos Hipotecarios" as an alternative form to traditional financing of mortgage loans with mortgage bonds. Whereas our traditional mortgage loans are financed by means of mortgage finance bonds, Mutuos Hipotecarios are financed with our general funds, especially long-term subordinated bonds. Mutuos Hipotecarios is a product that is tradable among banks and investment funds. Mutuos Hipotecarios offer the opportunity to finance 80% of the lower of the purchase price or the appraised value of the property, as opposed to the 75% that a standard mortgage would allow.

At December 31, 2001, we were Chile's second largest private sector bank in terms of mortgage loans and, based on information prepared by the Chilean Superintendency of Banks, accounted for approximately 13.3% of the residential mortgage loans in the Chilean banking system and approximately 17.1% of such loans made by Chilean private-sector banks.

Credit Cards. We issue both Visa and MasterCard credit cards, and out product portfolio includes both personal and corporate cards. In addition to traditional cards, our credit card portfolio also includes co-branded cards (Travel Club, Global Pass and *Club de Beneficios*), 16 affinity card groups (of which seven are associated with our co-branded programs and e-cards under the brand name NetCard.

As of December 31, 2001, we had 176,598 valid accounts, with 280,888 cards. Total charges on our cards during 2001 amounted to Ch$200,502 million, with Ch$174,385 million corresponding to purchases and service payments in Chile and abroad and Ch$26,117 million corresponding to cash advances (both within Chile and abroad). These charge volumes represent a 16.2% market share in terms of volume of use of bank credit cards issued in Chile.

As of December 31, 2001, our credit card loans amounted to Ch$32,913 million and represented a 9.4% market share and 16.4% of our division's consumer loans.

Credit card processing services are provided to us by two related Chilean companies, Transbank S.A. and Nexus S.A. As of December 31, 2001, Transbank had 20 shareholders and Nexus had eight shareholders, all of which are banks. As of December 31, 2001, our equity ownership in Transbank was 8.7% and our equity interest in Nexus was 12.9%.

We believe that the Chilean market for credit cards has a high potential for growth, especially among consumers in the middle-income segment, and that average merchant fees will continue to decline due to the incorporation of stores which still do not accept credit cards. We also believe that, in addition to the other banks that operate in Chile, our main competitors are department store cards and other non-banking businesses involved in the issuance of credit cards.

Debit Cards. We have different types of cards with debit options. Depending on their specifications, these cards can be used for banking transactions on the ATMs that operate on the local network, Redbanc S.A., the Visa International PLUS network, the local network of merchants participating in the local Recompra debit program or the international network of merchants associated with the Electron program. We have given these debit cards different names (*Chilecard Normal*, *Chilecard Plus*, *Chilecard Electron, Chilecard Empresas, Banjoven* and *Cheque Electronico*) based on their specific functions and the relevant target market to which they are oriented. In order to promote the use of debit cards in Chile, in October 2000 we and other banks associated with Transbank launched a promotional campaign to encourage the use of Redcompra debit cards as a means of payment at local stores. We have attained a 19.6% market share of debit card transactions, with more than 418,281 transactions performed in December 2001.

Installment Loans. Our consumer installment loans to individuals are generally incurred, up to a customer's approved credit limit, to finance the cost of goods or services, such as cars, travel and household furnishings. Consumer loans are denominated in both pesos and UF, bear interest at fixed or variable rates of interest and generally are repayable in installments of up to 36 months.

At December 31, 2001, we had Ch$122,251 million in installment loans, which accounted for 61.0% of this division's consumer loans. A majority of installment loans are denominated in pesos and are payable monthly. Auto loans have maturities of between 12 and 60 months at fixed or floating rates of interest. Our auto loans generate interest income and fee income attributable to auto insurance policies.

Lines of Credit. We had 142,682 approved lines of credit to customers in our high- and middle-income individuals division at December 31, 2001 and outstanding advances to 112,233 individuals.

Our individual lines of credit are generally available on a revolving basis, up to an approved credit limit, and may be used for any purpose. Advances under lines of credit are denominated in pesos and bear interest at a rate that is set monthly. At the customer's option, such loan may be renewed and re-priced for successive monthly periods, in each case subject to minimum monthly payments.

Deposit Products. We seek to increase our deposit-taking activities as a means of diversifying our sources of funding. We believe that the deposits of our individual customers provide us with a relatively low cost, stable funding source, as well as the opportunity to cross-market our other products and services. We offer a broad range of checking accounts, time deposits and savings accounts to our individual customers. Checking accounts are peso-denominated and non-interest bearing, and savings accounts are denominated in UF and bear interest at a fixed rate of interest. Time deposits are denominated in pesos, UF and U.S. dollars and most bear interest at a fixed rate with a term of 30 to 360 days.

At December 31, 2001, this division administered 184,822 checking accounts for approximately 191,356 customers with an aggregate balance of Ch$158,446 million. At such date, our checking account balances totaled approximately Ch$655,791 million and represented 11.5% of our total liabilities.

Consumer Banking: Credichile. We offer products and services to the lower-middle to middle income segments of the Chilean population through Credichile, which we established specifically to serve the needs of customers in this market sector. Credichile represents a distinct delivery channel for our products and services in this market segment, maintaining a separate network of 29 Credichile branches and 13 other credit centers.

Improved economic conditions in Chile over the last decade and the growth of the Chilean middle class has resulted in increased demand for consumer credit by lower-middle income individuals, whom we classify as persons with annual income between Ch$1.2 million (approximately U.S.$2,000) and Ch$5.2 million (approximately U.S.$8,000). Many of these individuals have not had prior exposure to banking products or services. We estimate that this sector consists of approximately two million households. To respond to the unique credit needs of lower-middle income customers, we established Credichile in 1995. Credichile focuses on developing and marketing innovative segment-oriented products to satisfy the needs of individuals in this sector while introducing them to the banking system and complements the services offered in our other divisions, especially our large corporations division, by offering services to employers such as direct deposit capabilities that engender the use of our services by employees.

Credichile offers our customers a range of products, including consumer loans, credit cards, auto loans and residential mortgage loans and a special demand deposit account (see "—*Bancuenta*" below) targeted at low-income customers. At December 31, 2001, Credichile had 98,074 debtors and total loans outstanding of Ch$52,227 million.

The Chilean Superintendency of Banks requires a greater allowance for loan losses with lower credit classifications, such as those of Credichile. Credichile employs its own credit scoring system and other criteria to evaluate and monitor credit risk. Credichile seeks to ensure the quality of our loan portfolio through adherence to our loan origination procedures, particularly the use of our credit scoring system and credit management policies including the use of credit bureaus and the services of the Chilean Superintendency of Banks. Credichile also has rigorous procedures for collection of past due loans. Procobro, an independent, specialized collection agency, over whose procedures we exercise a substantial amount of oversight, provides collection services. We believe that we have the necessary procedures and infrastructure in place to manage the exposure to a higher degree of credit risk that Credichile presents. These procedures allow us to take advantage of the higher growth and earnings potential of this segment of the banking industry while helping to manage the exposure to higher risk.

<u>Consumer Lending</u>. Credichile provides short- to medium-term consumer loans and credit card services. As of December 31, 2001, Credichile had approximately 63,812 consumer loans that totaled Ch$42,429 million outstanding at December 31, 2001. As of the same date, Credichile customers had 22,181 valid credit card accounts, with loans of Ch$2,771 million and total charges of Ch$3,903 million.

<u>Bancuenta</u>. Credichile introduced Bancuenta as a basic deposit product that provides consumers flexibility and ease of use while at the same time allowing us to tap a segment of the consumer market that previously was not part of the banking system. The Bancuenta account is a non-interest bearing demand deposit account without checking privileges targeted at customers who want a secure and comfortable means of managing and accessing their money. The customer may use the ATM card linked to the Bancuenta account (which may include a revolving line of credit) to make deposits or automatic payments to other Credichile accounts through a network of ATMs available through the Redbanc system.

At December 31, 2001, Credichile had 448,416 Bancuenta accounts, under which the account holder pays an annual fee, a fee each time the account holder draws on the Bancuenta line of credit and interest on any outstanding balance under the line of credit. All fees and interest due on a Bancuenta account are withdrawn automatically on a monthly basis from funds available in the account. Bancuenta allows us to offer our large corporate customers the ability to pay their employees by direct deposit of funds into the individual employee's account at Credichile. We believe this product can lead to stronger long-term relationships with our large and middle market corporate customers and with the employees of such customers.

Treasury and Money Market Operations

Our financial division offers a wide range of financial services to our customers. Among these financial services are currency intermediation, instruments developed for currency and interest rate risk hedging, transactions under repurchase agreements and investment products based on bonds, mortgage notes and deposits. Also available through our delivery channels are investments in mutual funds and stock brokerage services.

In addition to providing services, our financial division is focused on managing currency, interest rate and maturity gaps, ensuring adequate liquidity levels and managing our investment portfolio. This division also performs the intermediation of fixed-income instruments, currencies and derivatives. Interest rate gap management is aimed at generating an adequate funding structure, prioritizing the bank's capitalization and asset and liability cost structure and funding source diversification.

The financial division is also in charge of monitoring compliance with regulatory deposit limits, technical reserves and maturity and rate matches. This division monitors our adherence to the security margins defined by regulatory limits, as well as risk limits for rate, currency and investment gaps. The financial division continually monitors the funding costs of the local financial system, comparing them with our costs. On average, we have maintained costs lower than those incurred by the competition. We believe our funding sources are more diversified and less concentrated on institutional investors than those of our main competitors.

Our portfolio as of December 31, 2001, amounted to Ch$1,649,714 million, of which 63.3% corresponded to instruments issued by the Central Bank, 22.4% corresponded to securities from foreign issuers and 8.4% corresponded to mortgage notes issued by us. Our investment strategy is designed with a view to supplementing our expected profitability, risks and economic variable projections. Our investment strategy is kept within regulatory limits as well as internal limits defined by our financial committee and our Asset and Liability Management Committee, or ALCO.

Operations through Subsidiaries

We have made several strategic long-term investments in financial services companies, which are engaged in activities complementary to our commercial banking activities. Our principal goal in making these investments is to develop a full service financial services group capable of meeting the diverse financial needs of our current and potential clients.

Chile's General Banking Law, which took effect in 1981, restricted the ability of Chilean banks to provide non-banking financial services, although prior thereto we had established a leasing subsidiary in 1977 and a mutual fund subsidiary in 1980. In 1987, the law was amended and banks were permitted to offer, through subsidiaries, certain services considered complementary to commercial banking activities. During the period from 1987 to 1989, we established two additional subsidiaries to provide the full range of financial products and services that could be offered indirectly by Chilean banks under Chilean law. These products and services include financial leasing, financial advisory services, mutual funds and securities brokerage services. The General Banking Law was again amended in 1997 and now extends the scope of permissible activities of banks to include factoring, securitization and insurance brokerage. Among these new activities, we incorporated factoring and insurance brokerage businesses.

On April 23, 1999, we increased our 65% interest in Leasing Andino by acquiring, together with Banchile Asesoria Financiera, all of the shares of Leasing Andino owned by Orix Corporation. On July 1, 1999, we acquired the 6,380 shares outstanding in the company and, consequently, held 100% of Leasing Andino's share capital. Leasing Andino was then dissolved and we assumed all of its rights and obligations. We are continuing the financing lease activities developed by Leasing Andino, and we have maintained the Leasing Andino trademark.

The following table sets forth information with respect to our financial services subsidiaries at December 31, 2001:

	As of or for the year ended December 31, 2001		
	Assets	Capital	Net Income
	(in millions of constant Ch$ as of December 31, 2001)		
Banchile Corredores de Bolsa S.A.	Ch$ 161,547	Ch$ 8,928	Ch$ 4,442
Administradora Banchile de Fondos Mutuos S.A.	8,972	4,928	3,075
Banchile Factoring S.A.	17,354	1,374	466
Banchile Asesoria Financiera S.A.	92	61	3
Banchile Corredores de Seguros Ltda	1,185	163	259

The following table sets out our ownership interest in our financial services subsidiaries at December 31, 2001:

	Ownership	
	Direct	Indirect
Banchile Corredores de Bolsa S.A.	99.98%	—
Administradora Banchile de Fondos Mutuos S.A.	99.99	—
Banchile Factoring S.A.	99.99	—
Banchile Asesoria Financiera S.A.	99.00	1.00%
Banchile Corredores de Seguros Ltda.	99.99	—

Each of these subsidiaries is incorporated under the laws of Chile.

Securities Brokerage Services. We provide securities brokerage services through Banchile Corredores de Bolsa S.A. Banchile Corredores is registered with the *Superintendencia de Valores y Seguros*, or the SVS, the regulator of Chilean open-stock corporations, as a securities broker and is a member of the Santiago Stock Exchange and the Chilean Electronic Stock Exchange. Since it was founded in 1989, Banchile Corredores has provided stock brokerage services, fixed income investments and foreign exchange products to individuals and businesses through our branch network. During the year ended December 31, 2001, Banchile Corredores had an aggregate trading volume on the Santiago Stock Exchange and the Chilean Electronic Stock Exchange of approximately Ch$1,072,303 million. At December 31, 2001, Banchile Corredores had a net worth of Ch$13,371 million, and for the year ended December 31, 2001, had net income of Ch$4,442 million, which represented 5.1% of our consolidated net income for such period.

Mutual Fund Management. Since 1980, we have provided mutual fund management services through Administradora Banchile de Fondos Mutuos which, according to data prepared by the SVS, was the largest mutual fund manager in Chile, managing 20.27% of all Chilean mutual funds assets at December 31, 2001. At December 31, 2001, Administradora Banchile de Fondos Mutuos operated 19 funds and managed Ch$678,128 million in assets on behalf of 50,375 corporate and individual customers.

The following table sets forth information regarding the various funds managed by Administradora Banchile de Fondos Mutuos at December 31, 2001:

Name of Fund	Type of Fund	Net Asset Value As of December 31, 2001 (in millions of constant Ch$ as of December 31, 2001)
Liquidez 2000	Fixed income (short term)	Ch$ 232,791
Patrimonial	Fixed income (short term)	88,900
Deposito XXI	Fixed income (medium/long term)	133,036
Horizonte	Fixed income (medium/long term)	51,759
Crecimiento	Fixed income (short term)	16,892
Ahorro	Fixed income (medium/long term)	29,857
Operacional	Fixed income (short term)	26,140
Estrategico	Fixed income (medium/long term)	12,308
Inversion	Fixed income (medium/long term)	4,298
Alianza	Debt/Equity (medium/long term)	9,428
Global	Debt/Equity	4,647
Banchile Acciones	Debt/Equity	5,416
Utilidades	Fixed income (medium/long term)	44,237
Mercados Emergentes	Debt/Equity	3,637
Capitalisa Accionario	Debt/Equity	2,997
Medical & Health-Care Fund	Debt/Equity	2,574
Cobertura	Fixed income	6,699
Technology & Internet Fund	Debt/Equity	1,680
Economias Desarrolladas	Debt/Equity	832
Total		Ch$ 678,128

At December 31, 2001, Administradora Banchile de Fondos Mutuos had net worth of Ch$8,003 million and for the year ended December 31, 2001, had net income of Ch$3,075 million, which represented 3.5% of our consolidated net income for such period.

Factoring Services. This subsidiary, incorporated in May 1999, provides factoring services to our customers. Through this service, we purchase our customers' outstanding debt portfolios, such as bills, notes, promissory notes or contracts, advancing them the cash flows involved and performing the collection of the related instruments. As of December 31, 2001, Banchile Factoring S.A. had generated a profit of Ch$466 million, with a 25.32% return on shareholders' equity and an estimated 7.0% market share in Chile's factoring industry.

Financial Advisory Services. We provide financial advisory and other investment banking services to our customers through Banchile Asesoria Financiera. The services offered by Banchile Asesoria Financiera are directed primarily to our corporate customers and include advisory services regarding merger and acquisition restructuring, project financing and strategic alliances. At December 31, 2001, Banchile Asesoria Financiera had a net worth of Ch$64 million, and for the year ended December 31, 2001, had net income of Ch$3 million.

Insurance Brokerage. We provide insurance brokerage services to our customers through Banchile Corredores de Seguros Ltda. At the beginning of 2000 we began to offer life insurance policies associated with consumer loans and non-credit related insurance to our individual clients and the general public. At December 31, 2001, Banchile Corredores de Seguros had net income of Ch$259 million.

Distribution Channels and Electronic Banking

Our distribution network provides integrated financial services and products to our customers through a wide range of channels. This network includes branches, ATMs and home-banking and phone-banking devices. We own and operate 392 ATMs, and we are connected to the nationwide Redbanc ATM network of approximately 2,645 ATMs. These ATMs allow customers to conduct self-service banking transactions during banking and non-banking hours.

As of December 31, 2001, we had a network of 171 retail branches throughout Chile. The branch system serves as a distribution network for all of the products and services offered to our customers. Our full-service branches accept deposits, disburse cash, offer the full range of our retail banking products such as consumer loans, automobile financing, credit cards and checking accounts, lend to small- and medium-size companies and provide information to current and potential customers.

We offer electronic banking services to our customers 24 hours a day through our internet website, which has homepages that are segmented by market. Our retail homepage offers a wide variety of services, including the payment of bills, electronic fund transfers, stop payment and non-charge orders, as well as a wide variety of account inquiries. Our middle market banking homepage offers services including our office banking service, *Banconexión*, which enables our middle market banking customers to perform all of their banking transactions from their offices. Both homepages offer our customers the sale of third-party products with exclusive benefits. We also have a homepage designed for our investor customers, through which they can perform transactions such as stock trading, time deposit taking and savings account opening. Our foreign trade customers can rely on our international business homepage, which enables them to inquire about the status of their foreign trade transactions and will eventually enable them to perform transactions such as letter of credit opening, import collection recording and instructions and letter of credit hedging. As of December 31, 2001, approximately 60,056 individual customers and 10,420 corporate customers performed close to 1.8 million monthly transactions on our website.

In addition, through the electronic banking options, we offer 24-hour phone-banking call center service to our customers that grants them access to account information and allows them to effect fund transfers and certain payments. This service through which we receive an average of 600,000 calls per month, has enabled us to develop customer loyalty campaigns, sell financial services and products, answer specialized inquiries about our remote services and receive and resolve complaints by customers and non-customers.

We are, in conjunction with a number of other Chilean banks, a shareholder of *Sociedad Interbancaria de Transferencias Electronicas S.A.*, a corporation that executes electronic transfer services and provides support to operations performed by banks through the installation, operation, maintenance and development of equipment and systems for the automatic and electronic transfer of funds. The availability of this transfer capability facilitates our ability to service our customers efficiently.

In the first quarter of 2001, in association with Banco de Credito e Inversiones, we created a company called Comercio Electronico Artikos Chile S.A. with the purpose of providing Chilean companies with the opportunity to trade their products and services on an electronic basis through the internet. We supplement this service with a wide range of financial services and electronic payment means. Artikos Chile uses the Commerce One platform, which is a world leader in business to business technological solutions.

Competition

Overview

The Chilean market for banking and other financial services is highly competitive, and we face significant competition in each of our principal areas of operation. The Chilean financial services market consists of a number of distinct sectors. The most important sector, commercial banking, includes 25 privately owned banks and one public-sector bank, Banco del Estado. The privately owned banks have traditionally been divided between those that are principally Chilean-owned, of which there are nine, and those that are principally foreign-owned, of which there are 16. At December 31, 2001, three private-sector banks, Banco Santiago (16.1%), Banco Santander–Chile (11.7%) and ourselves (12.1%) and the public-sector bank, Banco del Estado (11.9%), together accounted for 51.8% of all outstanding loans by Chilean financial institutions, net of interbank loans. All of the Chilean-owned banks together accounted for 54.4% of total loans outstanding while foreign-owned banks accounted for 45.0% of total loans outstanding. The sole finance company accounted for 0.6% of total loans outstanding.

We consider other private sector banks to be our primary competitors. Nevertheless, we face competition to a lesser extent from Banco del Estado, which has a larger distribution network and larger customer base than us. Banco del Estado, which operates under the same regulatory regime as Chilean private-sector banks, was the third largest bank in Chile at December 31, 2001, with outstanding loans, net of interbank loans, of Ch$3,554,215 million, representing a 11.9% market share, according to data published by the Chilean Superintendency of Banks.

As a commercial bank offering a range of services to all types of businesses and individual customers, we face a variety of competitors, ranging from other large, privately-owned commercial banks to more specialized entities like finance companies and “niche” banks. The principal commercial banks in Chile include Banco Santiago, Banco Santander, Banco de Credito e Inversiones, BBVA Banco BHIF, Corpbanca and Citibank.

In the large corporations sector, we consider our strongest competitors to be Banco Santiago, Banco Santander and Banco de Credito e Inversiones. We also consider these banks to be our most significant competitors in the small- and medium-sized corporate segments.

In the retail banking business, we compete with other private sector Chilean banks, as well as with BancoEstado and with finance companies. Among private Chilean banks, we consider our strongest competitors in the consumer retail market sector to be Banco Santiago, Banco Santander and Banco de Credito e Inversiones, as each of these banks has also developed business strategies that focus on the lower-middle to middle income segments of the Chilean population. In the individual banking sector, particularly with respect to high-income individuals, we compete with both private Chilean and foreign-owned banks and consider our strongest competitors in this market to be Banco Santiago and Citibank.

Commercial banks in Chile face growing competition from several sources: consolidation, economic conditions in Latin America, finance companies and department stores. The Chilean banking industry has experienced increased levels of competition in recent years, including from foreign banks, which has led to, among other things, consolidation in the industry. Strategies have, on an overall basis, been aimed at reducing costs and achieving internationally satisfactory efficiency standards. Moreover, disintermediation has been a factor for the banking sector. We believe that in the near future, small and medium-size companies will see the benefits from the recent capital market reform, which opens new financing alternatives for emerging companies. As a result of this competitive environment, our income may decrease due to the extent and intensity of competition.

We expect the trend of increased competition and consolidation to continue, particularly in connection with the formation of new large financial groups. In this regard, in mid-1996 Banco Santander of Spain took control of Banco Osorno and merged it into its Chilean operations, changing its name to Banco Santander. In addition, Banco O’ Higgins and Banco de Santiago merged in January 1997, forming Banco Santiago. In 1999, Banco Santander of Spain took control of Banco Santiago. In April 2002, Banco Santiago and Banco Santander–Chile, the second and fourth largest banks in Chile, respectively, according to data reported by the Superintendency of Banks, announced their intention to merge. The merger would create Chile’s largest bank. In May 2002 the Chilean Superintendency of Banks granted its authorization for the merger. Although we believe that we are currently large enough to compete effectively in our target market segments, any further consolidation of participants in the Chilean financial system may adversely affect our competitive position in the Chilean financial services industry.

Traditionally, commercial banks in Chile have competed in the retail market against each other, with finance companies and with department stores, the latter two having traditionally been focused on consumer loans to middle- and low-income segments. However, finance companies have gradually disappeared as they have been merged into the largest banks. At December 31, 2001 there was only one finance company in the market, with a market share of consumer loans of approximately 7.6%.

Non-bank competition from large department stores has become increasingly significant, with estimates indicating that such financing activity represents approximately 35% of the banking system's consumer loans.

Recently, one new consumer-oriented bank has been established, and others have received permission from the Superintendency of Banks to begin operations. Although this new bank has a market share of less than 1% as of December 31, 2002, according to the Chilean Superintendency of Banks, the opening of these other banks should bring increased competition into the consumer banking business.

The following table provides certain statistical information on the Chilean financial system as of December 31, 2001:

	As of December 31, 2001							
	Assets		Loans(1)		Deposits		Shareholders' Equity(2)	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
	(in millions of constant Ch$ as of December 31, 2001, except percentages)							
Domestic private-sector banks	Ch$17,815,890	39.7%	Ch$12,693,863	42.5%	Ch$ 10,976,261	41.2%	Ch$ 1,380,815	36.5%
Foreign-owned banks	21,110,361	47.0	13,416,885	45.0	12,046,061	45.3	2,024,418	53.5
Private-sector total	38,926,251	86.7	26,110,748	87.5	23,022,322	86.5	3,405,233	90.0
Banco del Estado	5,729,501	12.8	3,554,215	11.9	3,398,194	12.8	351,874	9.3
Total banking system	44,655,752	99.5	29,664,963	99.4	26,420,516	99.3	3,757,107	99.3
Finance company	218,817	0.5	186,178	0.6	186,399	0.7	23,988	0.7
Financial system total	Ch$44,874,569	100.0%	Ch$29,851,141	100.0%	Ch$ 26,606,915	100.0%	Ch$ 3,781,095	100.0%

Source: Chilean Superintendency of Banks
(1) Net of interbank loans.
(2) Shareholders' equity includes net income for purposes of this table.

Loans

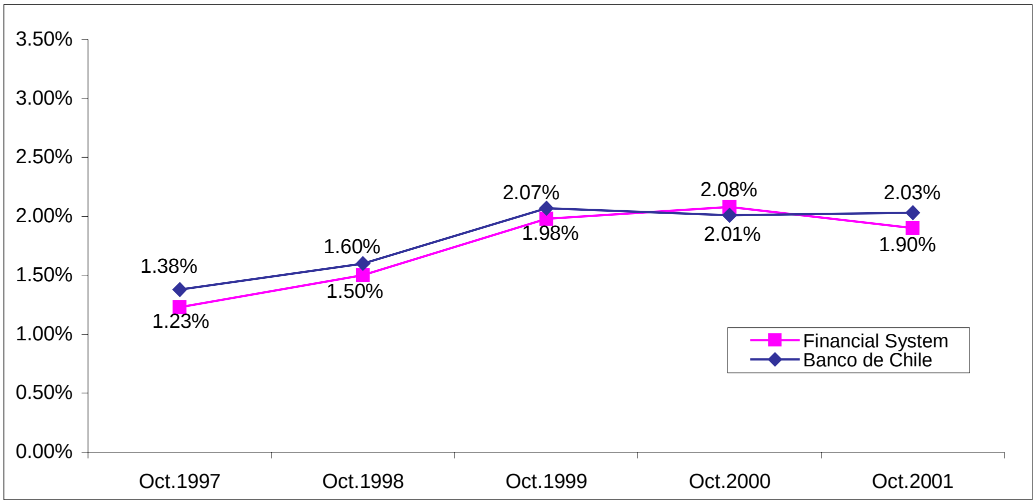
The following table sets forth our market share in terms of loans (excluding interbank loans), our principal private-sector competitors and the Chilean financial system, as of the dates indicated:

	Bank Loans(1)				
	As of December 31,				
	1997	1998	1999	2000	2001
Banco Santiago	17.2%	17.3%	16.1%	15.8%	16.1%
Banco de Chile	12.0	11.7	12.4	12.7	12.1
Banco Santander–Chile	12.3	11.7	12.3	11.5	11.7
Banco de Credito e Inversiones	7.9	7.8	8.1	7.9	9.0
Banco de A. Edwards(2)	7.5	7.9	7.7	8.3	7.4
BBVA Banco BHIF	5.0	4.8	5.3	5.8	6.0
Total for six banks	61.9%	61.2%	61.9%	62.0%	62.3%

Source: Chilean Superintendency of Banks
(1) For ease of comparison, interbank loans have been eliminated.
(2) Banco de A. Edwards merged with us on January 1, 2002.

Risk Index

At October 31, 2001, our unconsolidated risk index of 2.03% was higher than the financial system's 1.90%. For a discussion of "risk index," see "—Selected Statistical Information." The following graph illustrates the five-year history of our unconsolidated loan portfolio risk index compared to the risk index of total loans in the Chilean financial system as of October 31 for each of the years indicated:



Our unconsolidated risk index for February 28, 2002 was 2.85%, compared with an average of 1.92% for the financial system as a whole. However, our February 28, 2002 information is not comparable to the indices from prior periods, due to our merger with Banco Edwards on January 1, 2001.

The following table sets forth the unconsolidated risk index of the six largest private-sector banks and that of the financial system as a whole (including such six banks) at October 31 in each of the last five years and February 28, 2002:

	Unconsolidated Risk Index					
	As of October 31,					February
	1997	1998	1999	2000	2001	2002
Banco Santiago	0.78%	0.93%	1.39%	1.34%	1.26%	1.35%
Banco Santander–Chile	1.19	1.16	1.23	1.42	1.38	1.35
Banco de Credito e Inversiones	0.80	0.91	1.57	1.95	1.63	1.45
BBVA Banco BHIF	0.96	1.55	2.11	2.18	1.81	1.92
Banco de Chile	1.38	1.60	2.07	2.01	2.03	2.85
Banco de A. Edwards(1)	1.16	1.32	2.79	2.90	3.23	–
Financial system	1.23%	1.50%	1.98%	2.08%	1.90%	1.92%

Source: Chilean Superintendency of Banks
(1) Banco de A. Edwards merged with us on January 1, 2002.

Credit Quality

At December 31, 2001, according to information published by the Chilean Superintendency of Banks, we had the lowest unconsolidated ratio of past due loans to total loans of the six largest private sector banks in Chile. The following table sets forth the ratio of past due loans to total loans for the six largest private-sector banks at December 31 in each of the last three years:

	Past Due Loans to Total Loans		
	As of December 31,		
	1999	2000	2001
Banco de Chile	1.21%	1.19%	1.29%
Banco Santander–Chile	1.68	1.61	1.36
Banco Santiago	1.41	1.42	1.37
Banco Credito e Inversiones	1.10	1.68	1.37
BBVA Banco BHIF	1.72	1.78	2.10
Banco de A. Edwards(1)	2.82	2.83	3.31
Total for six banks	1.58%	1.66%	1.65%

Source: Chilean Superintendency of Banks
(1) Banco de A. Edwards merged with us on January 1, 2002.

Deposits

We had deposits of Ch$3,306,373 million at December 31, 2001. In unconsolidated terms, our 12.4% of the market share for deposits, including borrowings from domestic financial institutions, placed us in third place among private-sector banks. The following table sets forth the market shares in terms of deposits for the six private-sector banks with the largest market share as of December 31 in each of the last three years:

	Deposits		
	As of December 31,		
	1999	2000	2001
Banco Santiago	13.6%	12.6%	13.6%
Banco Santander–Chile	13.6	12.5	13.2
Banco de Chile	11.4	12.2	12.4
Banco de Credito e Inversiones	8.1	8.4	9.1
Banco de A. Edwards(1)	6.7	6.8	6.5
BBVA Banco BHIF	4.8	4.8	5.4
Total for six banks	58.2%	57.3%	60.2%

Source: Chilean Superintendency of Banks
(1) Banco de A. Edwards merged with us on January 1, 2002.

Shareholders' Equity

With Ch$311,301 million in shareholders' equity (not including net income), according to information published by the Chilean Superintendency of Banks, at December 31, 2001, we were the third largest private-sector commercial bank in Chile in terms of shareholders' equity (not including net income). The following table sets forth the level of shareholders' equity for the six largest private-sector banks in Chile as of December 31 in each of the last three years:

	Shareholders' Equity		
	As of December 31,		
	1999	2000	2001
	(in millions of constant Ch$ as of December 31, 2001)		
Banco Santiago	Ch$ 415,570	Ch$ 419,103	Ch$ 420,225
Banco Santander–Chile	307,550	327,835	361,777
Banco de Chile	326,151	309,835	311,301
Banco de A. Edwards (1)	234,729	227,673	229,268
BBVA Banco BHIF	164,994	228,625	227,946
Banco de Credito e Inversiones	Ch$ 172,472	Ch$ 188,747	Ch$ 219,969

Source: Chilean Superintendency of Banks
(1) Banco de A. Edwards merged with us on January 1, 2002.

Return on Average Shareholders' Equity

Our return on average shareholders' equity (including net income for the year) for the year ended December 31, 2001 was 23.7%, ranking us second among the six largest private-sector banks in Chile according to information published by the Chilean Superintendency of Banks. The following table sets forth our return on average shareholders' equity and the returns of our principal competitors and the Chilean financial system, in each case as of December 31 in each of the last five years:

	Return on Average Shareholder's Equity [(1)] Year Ended December 31,				
	1997	**1998**	**1999**	**2000**	**2001**
Banco Santiago	18.2%	16.6%	12.3%	20.2%	24.6%
Banco de Chile	23.5	20.6	19.5	23.6	23.7
Banco Santander–Chile	11.1	13.4	16.8	22.3	22.3
Banco de Crédito e Inversiones	25.9	23.1	14.1	19.2	22.0
Banco de A. Edwards [(2)]	18.3	13.0	(4.2)	1.5	4.3
Principal competition	16.9	16.0	11.5	17.3	20.0
Rest of financial system	7.8	5.5	5.2	6.6	11.3
Total financial system	13.4%	11.4%	9.2%	12.6%	15.9%

Source: Chilean Superintendency of Banks

(1) For each of the periods shown, the percentages shown for Banco Santiago include net income and shareholder's equity of Banco O'Higgins (which merged with Banco Santiago in January 1997).

(2) Banco de A. Edwards merged with us on January 1, 2002.

Efficiency

For the year ended December 31, 2001, our operating expenses as a percentage of our operating revenues was fourth of the six largest private-sector banks. Despite the non-recurring charges related to the merger process incurred during 2001, our efficiency ratio improved from 57.3% in 2000 to 56.3% in 2001, but remains above the 1999 level of 55.6%. The following table sets forth the efficiency ratios of the six largest private-sector Chilean banks at December 31 in each of the last three years:

	Efficiency Ratio[(1)] As of December 31,		
	1999	**2000**	**2001**
Banco Santander	54.4%	50.4%	46.6%
Banco Santiago	58.7	50.4	50.3
Banco de Crédito e Inversiones	64.0	62.6	55.5
Banco de Chile	55.6	57.3	56.3
BBVA Banco BHIF	60.0	65.2	64.1
Banco de A. Edwards [(2)]	53.9	65.9	65.3
Average for six banks	57.5%	56.5%	54.4 %

Source: Chilean Superintendency of Banks

(1) Calculated by dividing operating expense by operating revenue.

(2) Banco de A. Edwards merged with us on January 1, 2002.

REGULATION AND SUPERVISION

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

The modern Chilean banking system dates from 1925 and has been characterized by periods of substantial regulation and state intervention, as well as periods of deregulation. The most recent period of deregulation commenced in 1975 and culminated in adoption of a series of amendments to the General Banking Law. That law, amended most recently in 2001, granted additional powers to banks, including general underwriting powers for new issues of certain debt and equity securities and the power to create subsidiaries to engage in activities related to banking, such as brokerage, investment advisory, mutual fund services, administration of investment funds, factoring, securitization products and financial leasing services. Following the Chilean banking crisis during 1982 and 1983, the Chilean Superintendency of Banks assumed control of 19 financial institutions representing approximately 51% of the total loans in the banking system. As part of the resolution of this crisis, the Central Bank permitted financial institutions to sell to it a certain portion of their problem loan portfolios, at the loan portfolio's book value. Each institution then repurchased such loans at their economic value (which, in most cases, was much lower than the book value at which the Central Bank had acquired the loans), with the difference to be repaid to the Central Bank out of future income. Pursuant to Law No. 18,818, which was passed in 1989, this difference was converted into a subordinated obligation with no fixed term, known as "*deuda subordinada*" or subordinated debt.

The Central Bank

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

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

The Chilean Superintendency of Banks

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

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

Any person wishing to acquire, directly or indirectly, 10.0% or more of the share capital of a bank must obtain the prior approval of the Chilean Superintendency of Banks. Without this approval the holder of the acquired shares will not have the right to vote such shares. The Chilean Superintendency of Banks may refuse to grant its approval, based on specific grounds set forth in the General Banking Law.

The prior authorization of the Chilean Superintendency of Banks is required for:

- the merger of two or more banks;

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

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

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

Pursuant to the regulations of the Chilean Superintendency of Banks, ownership must be disclosed in the following situations:

- banks are required to inform the Chilean Superintendency of Banks of the identity of any person owning, directly or indirectly, 5.0% or more of such banks' shares;
- holders of ADSs must disclose to the depositary the identity of beneficial owners of ADSs registered under such holders' names; and
- the depositary is required to notify the bank as to the identity of beneficial owners of ADSs which such depositary has registered and the bank, in turn, is required to notify the Chilean Superintendency of Banks of the identity of the beneficial owners of the ADSs representing 5.0% or more of such bank's shares.

In addition, regulations require bank shareholders who individually hold 10% or more of the bank's capital stock to periodically inform the Chilean Superintendency of Banks of their financial condition.

Limitations on Types of Activities

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

Relevant Amendments to the Banking Regulations

Pursuant to a recent circular issued by the Central Bank which took effect in June 2002, banks are permitted to pay interest on available checking account balances, with the client's prior written approval, and subject to prior announcement to all customers. The Central Bank also authorized insurance and reinsurance corporations to issue credit cards through affiliates established under the supervision of the Chilean Superintendency of Banks.

Deposit Insurance

In Chile, the State guarantees up to 90.0% of the principal amount of certain time and demand deposits held by individuals. The State guarantee covers those obligations with a maximum value of UF120 per person (Ch$1,951,519 or U.S.$2,974 as of December 31, 2001) for each calendar year, with respect to applicable time and demand deposits held by such person at any one Chilean bank.

Reserve Requirements

Deposits are subject to a reserve requirement, of 9.0% for peso-denominated demand deposits, 3.6% for UF- and peso-denominated time deposits, 19.0% for dollar-denominated and other foreign currency denominated demand deposits and 13.6% for dollar-denominated and other foreign currency denominated time deposits (with terms of less than one year). Banks may deduct daily the balance in foreign currency of certain loans and financial investments held outside of Chile from their foreign currency denominated liabilities subject to reserve requirement. The deductions should be done as follows:

- first, term liabilities denominated in foreign currency and subject to reserve requirements;

- second, if there is any positive difference, demand liabilities denominated in foreign currency and subject to reserve requirements; and

- finally, foreign loans subject to reserve requirements. The total amount deductible cannot exceed 70.0% of a bank's effective equity.

The Central Bank has statutory authority to increase reserve requirements up to an average of 40.0% for demand deposits (of any denomination) and up to 20.0% for time deposits (of any denomination) to implement monetary policy. In addition, a 100.0% technical reserve applies to demand deposits, deposits in checking accounts, or obligations payable on sight incurred in the ordinary course of business, other deposits unconditionally payable immediately or within a term of less than 30 days and time deposits payable within 10 days prior to maturity, to the extent their aggregate amount exceeds 2.5 times the amount of a bank's paid-in capital and reserves.

Minimum Capital

Under the General Banking Law, a bank must have a minimum paid-in capital and reserves of UF800,000 (approximately Ch$13,000 million or U.S.$20 million as of December 31, 2001). However, a bank may begin its operations with 50.0% of such amount, provided that it has a total capital ratio (defined as effective equity as a percentage of risk weighted assets) of not less than 12.0%. When such a bank's paid-in capital reaches UF600,000 (approximately Ch$9,800 million or U.S.$15 million as of December 31, 2001) the total capital ratio required is reduced to 10.0%.

Capital Adequacy Requirements

According to the General Banking Law, each bank should have an effective equity of at least 8.0% of its risk weighted assets, net of required allowances. Effective equity is defined as the aggregate of:

- a bank's paid-in capital and reserves, excluding capital attributable to subsidiaries and foreign branches;

- its subordinated bonds, considered at the issuing price (but decreasing 20.0% for each year during the period commencing six years prior to maturity), but not exceeding 50.0% of its Net Capital Base; and

- its voluntary allowances for loan losses, up to 1.25% of risk weighted assets.

Banks should also have *capital básico*, or Net Capital Base, of at least 3.0% of its total assets, net of allowances. Net Capital Base is defined as a bank's paid-in capital and reserves and is similar to Tier 1 capital except that it does not include net income for the period. An amendment to the General Banking Law enacted on November 7, 2001 eliminated the exclusion of the investment in subsidiaries and foreign branches from the calculation of Net Capital Base.

The calculation of risk weighted assets is based on a five category risk classification system to be applied to a bank asset that is based on the Basle Committee recommendations.

Lending Limits

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

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

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

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

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

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

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

Allowance for Loan Losses

Chilean banks are required to provide to the Chilean Superintendency of Banks detailed information regarding their loan portfolio on a monthly basis. Each bank is also required to maintain a global allowance for loan losses, the amount of which must at least equal the aggregate amount of its outstanding loans multiplied by the greater of (1) its "risk index" or (2) 0.75%. See "—Selected Statistical Information" for an explanation of the "risk index" and other information regarding allowance for loan losses. As of February 28, 2002, our unconsolidated risk index was 2.85% compared with an average for the Chilean financial system as a whole (*i.e.*, all banks and finance companies) of 1.92%, as of February 2002 (the latest available information).

Banks in Chile are also required to maintain an individual allowance for loans on which any payment of principal or interest is 90 days or more overdue. An individual allowance for loan losses equal to 100.0% of the past due portion of such past due loan is required to the extent that the loan is unsecured. In the event that non-payment of a portion of a loan permits a bank to accelerate the loan, and the bank commences legal proceedings against the debtor to collect the full amount of the loan, the individual loan loss reserve must be equal to 100.0% of the loan within 90 days as of the filing of the lawsuit. The Chilean Superintendency of Banks has ruled that in the case of past due loans, individual allowances for loan losses should be made only for the difference between 100.0% of the past due portion of a past due loan (or the full amount of the loan if the preceding sentence applies) and the reserve made for such loan when calculating the global loan loss reserve. As of December 31, 2001, the aggregate amount of our individual allowance for loan losses was 53.8% of our minimum allowances required. A bank may also voluntarily maintain additional allowances for loan losses in excess of the minimum amounts required as global and individual allowances. See "—Selected Statistical Information."

Obligations Denominated in Foreign Currencies

Foreign currency denominated obligations of Chilean banks are subject to four requirements:

- there is a reserve requirement of 19.0% for dollar-denominated and other foreign currency denominated demand deposits and obligations and 13.6% in respect of dollar-denominated and other foreign currency denominated time deposits and obligations, excluding foreign currency denominated obligations with a maturity of more than one year, see "—Reserve Requirements;"

- a bank's risk adjusted net asset (liability) foreign currency position cannot exceed 20.0% of its Net Capital Base;

- under Central Bank regulations applicable since August 31, 1999, (1) the aggregate amount of our net foreign currency liabilities having an original maturity of less than 30 days cannot exceed our Net Capital Base and (2) the aggregate amount of our net foreign currency liabilities having an original maturity of less than 90 days cannot exceed twice our Net Capital Base; and

- the interest rate mismatches of our foreign currency liabilities may not exceed 8.0% of our Net Capital Base.

Capital Markets

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

Legal Provisions Regarding Banking Institutions with Economic Difficulties

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

Dissolution and Liquidation of Banks

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

Investments in Foreign Securities

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

Rating Agency	Short Term	Long Term
Moody's	P2	Baa3
Standard & Poor's	A3	BBB-
Fitch IBCA	F2	BBB-

However, a Chilean bank may invest up to 20.0% of its effective equity in securities having a minimum rating as follows:

Rating Agency	Short Term	Long Term
Moody's	P2	Ba3
Standard & Poor's	A3	BB-
Fitch IBCA	F2	BB-

Additionally, a Chilean bank may invest up to 70.0% of its effective equity in securities having a minimum rating as follows:

Rating Agency	Short Term	Long Term
Moody's	P1	Aa3
Standard & Poor's	A1+	AA-
Fitch IBCA	F1+	AA-

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

In the event that the sum of the investments of a bank in foreign currency and of the commercial and foreign trade loans granted to foreign individuals and entities exceeds 70.0% of the effective equity of such bank, the excess is subject to a mandatory reserve of 100.0%.

Allowance Requirements for Consumer Lending

In July 1997, the Chilean Superintendency of Banks established new allowance requirements for consumer lending. Pursuant to these requirements, a bank must revise the credit rating of all loans made to a particular borrower if the bank renegotiates any loan with that borrower. In addition, a bank must now classify all consumer loans of a single borrower according to the borrower's worst-rated loan, whereas previously, each loan was rated independently. Finally, a bank must establish and abide by more stringent follow-up procedures relating to a borrower's consumer loans with other financial institutions. A bank, for example, must now automatically review a borrower's rating when the borrower's records display a non-performing loan or other kind of negative credit behavior in the databases of the Chilean Superintendency of Banks or a private information service, even if the borrower is not in default vis-à-vis the bank.

PROPERTY, PLANTS AND EQUIPMENT

We own the 76,000 square meter building and the underlying land of our executive offices located at 251 Ahumada, Santiago, Chile. At December 31, 2001, we owned 116 properties in Chile, principally full service branches. As of the same date, we leased 72 properties and had 19 branches that offer limited services located at headquarters of our large corporate customers. We lease office space for the New York branch and the Miami agency. We also own properties at various locations in Chile for the storage of documents and for back office and administrative operations.

SELECTED STATISTICAL INFORMATION

The following information is included for analytical purposes and should be read in conjunction with our audited financial statements as well as "Item 5. Operating and Financial Review and Prospects."

Average Balance Sheets, Interest Earned on 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 our basis of daily balances and on the basis of monthly balances for our subsidiaries. Such average balances are presented in Chilean pesos (Ch$), in UF and in foreign currencies (principally U.S. dollar). The UF is a unit of account which is linked to, and which is adjusted daily to reflect changes in, the Consumer Price Index. See note 1(b) to our audited financial statements.

The nominal interest rate has been calculated by dividing the amount of interest and principal readjustment 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:

$$\mathrm{Rp} = \frac{1+\mathrm{Np}}{1+\mathrm{I}} - 1$$

and

$$\mathrm{Rd} = \frac{(1+\mathrm{Nd})(1+\mathrm{D})}{1+\mathrm{I}} - 1$$

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 dollar for the period; and

I = inflation rate in Chile for the period (based on the variation of the 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 U.S. dollar asset bearing a nominal annual interest rate of 10% (Nd = 0.10), assuming a 5% annual devaluation rate (D = 0.05) and a 12% 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%, using the same numbers, the real rate in Chilean pesos would be 12.9%, which is higher than the nominal rate in 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 bearing assets. Although the nature of the income derived from such assets is similar to a fee, Chilean banking regulations require that such income be accounted for as interest revenue. As a result of this treatment, the comparatively low rates of interest earned on these assets have a distorting effect on the average interest rate earned on total interest earning assets.

The real rate for contingent loans has been stated as the nominal rate, since we do not have an effective funding obligation for these loans. The foreign exchange gains or losses on foreign currency denominated assets and liabilities have not been included in interest revenue or expense. Similarly, interest on financial investments does not include trading gains or losses on these investments.

Nonperforming 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. Nonperforming loans consist of loans as to which either principal or interest is overdue (*i.e.,* non accrual loans) and restructured loans earning no interest. Nonperforming 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 loans during the periods are included as interest revenue.

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:

- balances maintained in the Central Bank, only the portion which is legally required to be held for liquidity purposes earns interest; and
- balances maintained in overseas banks only earn interest on certain accounts in certain countries.

Consequently, the average interest earned on such assets is comparatively low. These deposits are maintained by us 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, nominal and real rates for our assets and liabilities for the years ended December 31, 1999, 2000 and 2001:

Assets	1999 Average balance	1999 Interest earned	1999 Average nominal rate	1999 Average real rate	2000 Average balance	2000 Interest earned	2000 Average nominal rate	2000 Average real rate	2001 Average balance	2001 Interest earned	2001 Average nominal rate	2001 Average real rate
	Year Ended December 31,											
	(in millions of constant Ch$ as of December 31, 2001, except percentages)											
Interest earning assets												
Interbank deposits												
Ch$	Ch$ 43,095	Ch$ 1,835	4.26%	1.90%	Ch$ 37,889	Ch$ 1,301	3.43%	(1.05)%	Ch$ 21,938	Ch$ 1,172	5.34%	2.63%
UF	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency	41,345	2,931	7.09	16.58	37,525	2,506	6.68	10.75	41,061	1,991	4.85	17.05
Total	84,440	4,766	5.64	9.09	75,414	3,807	5.05	4.82	62,999	3,163	5.02	12.03
Financial investments												
Ch$	65,192	6,230	9.56	7.08	65,470	7,843	11.98	7.13	186,204	14,248	7.65	4.88
UF	653,329	60,876	9.32	6.85	663,843	70,816	10.67	5.87	874,020	61,797	7.07	4.32
Foreign currency	404,749	26,992	6.67	16.13	484,415	37,606	7.76	11.88	545,607	34,635	6.35	18.72
Total	1,123,270	94,098	8.38	10.21	1,213,728	116,265	9.58	8.34	1,605,831	110,680	6.89	9.28
Commercial loans												
Ch$	377,661	64,509	17.08	14.44	343,410	64,580	18.81	13.66	404,428	61,695	15.25	12.29
UF	1,121,706	128,196	11.43	8.91	1,266,778	149,952	11.84	6.99	1,375,032	128,706	9.36	6.55
Foreign currency	320,173	22,790	7.12	16.61	260,021	21,949	8.44	12.58	230,356	17,419	7.56	20.07
Total	1,819,540	215,495	11.84	11.41	1,870,209	236,481	12.64	8.99	2,009,816	207,820	10.34	9.25
Consumer loans												
Ch$	158,882	43,131	27.15	24.28	162,837	44,278	27.19	21.68	178,159	45,921	25.78	22.54
UF	27,382	3,961	14.47	11.88	22,258	2,984	13.41	8.49	20,048	2,240	11.17	8.31
Foreign currency	—	—	—	—	—	—	—	—	—	—	—	—
Total	186,264	47,092	25.28	22.45	185,095	47,262	25.53	20.09	198,207	48,161	24.30	21.10
Interbank loans												
Ch$	16,877	1,601	9.49	7.01	13,530	1,403	10.37	5.59	61,205	2,581	4.22	1.54
UF	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency	121,711	8,528	7.01	16.49	88,127	6,265	7.11	11.20	75,161	4,063	5.41	17.67
Total	138,588	10,129	7.31	15.34	101,657	7,668	7.54	10.45	136,366	6,644	4.87	10.43
Leasing contracts												
Ch$	1,631	311	19.07	16.38	1,349	252	18.68	13.54	1,504	398	26.46	23.21
UF	147,663	21,173	14.34	11.76	124,030	18,847	15.20	10.20	115,381	18,792	16.29	13.30
Foreign currency	54,822	15,826	28.87	40.29	46,664	8,965	19.21	23.76	52,521	7,574	14.42	27.73
Total	204,116	37,310	18.28	19.46	172,043	28,064	16.31	13.91	169,406	26,764	15.80	17.86
Foreign trade loans												
Ch$	—	—	—	—	—	—	—	—	—	—	—	—
UF	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency	282,371	22,316	7.90	17.47	310,309	24,376	7.86	11.97	341,619	18,774	5.50	17.77
Total	282,371	22,316	7.90	17.47	310,309	24,376	7.86	11.97	341,619	18,774	5.50	17.77
Mortgage loans												
Ch$	—	—	—	—	—	—	—	—	—	—	—	—
UF	703,373	71,843	10.21	7.73	749,976	96,812	12.91	8.02	787,281	88,529	11.24	8.38
Foreign currency	—	—	—	—	—	—	—	—	—	—	—	—
Total	703,373	71,843	10.21	7.73	749,976	96,812	12.91	8.02	787,281	88,529	11.24	8.38
Contingent loans												
Ch$	25,512	792	3.10	3.10	28,459	827	2.91	2.91	36,311	1,050	2.89	2.89
UF	88,235	1,285	1.46	1.46	75,608	1,183	1.56	1.56	69,362	1,158	1.67	1.67
Foreign currency	174,316	1,107	0.64	0.64	162,101	1,021	0.63	0.63	185,632	738	0.40	0.40
Total	288,063	3,184	1.11	1.11	266,168	3,031	1.14	1.14	291,305	2,946	1.01	1.01
Past due loans												
Ch$	12,263	474	3.87	1.52	11,782	470	3.99	(0.52)	11,951	786	6.58	3.84
UF	20,787	616	2.96	0.64	27,206	1,359	5.00	0.45	36,814	1,286	3.49	0.83
Foreign currency	—	—	—	—	850	—	—	—	3,285	—	—	—
Total	33,050	1,090	3.30	0.97	39,838	1,829	4.59	0.15	52,050	2,072	3.98	1.47
Total interest earning assets												
Ch$	701,113	118,883	16.96	14.32	664,726	120,954	18.20	13.07	901,700	127,851	14.18	11.24
UF	2,762,475	287,950	10.42	7.93	2,929,699	341,953	11.67	6.83	3,277,938	302,508	9.23	6.42
Foreign currency	1,399,487	100,490	7.18	16.68	1,390,012	102,688	7.39	11.49	1,475,242	85,194	5.77	18.08
Total	Ch$4,863,075	Ch$ 507,323	10.43%	11.37%	Ch$4,984,437	Ch$ 565,595	11.35%	8.96%	Ch$5,654,880	Ch$ 515,553	9.12%	10.23%

	Year Ended December 31,											
	1999				2000				2001			
	Average balance	Interest earned	Average nominal rate	Average real rate	Average balance	Interest earned	Average nominal rate	Average real rate	Average balance	Interest earned	Average nominal rate	Average real rate
	(in millions of constant Ch$ as of December 31, 2001, except percentages)											
Assets												
Non–interest earning assets												
Cash and due from banks												
Ch$	Ch$ 315,766	Ch$ —	—%	—%	Ch$ 325,549	Ch$ —	—%	—%	Ch$ 323,226	Ch$ —	—%	—%
UF	–	—	—	—	—	—	—	—	—	—	—	—
Foreign currency	52,395	—	—	—	51,259	—	—	—	9,950	—	—	—
Total	368,161	—	—	—	376,808	—	—	—	333,176	—	—	—
Allowance for loan losses						—						
Ch$	(100,677)	—	—	—	(111,917)	—	—	—	(121,841)	—	—	—
UF	–	—	—	—	—	—	—	—	—	—	—	—
Foreign currency	(4,572)	—	—	—	(2,629)	—	—	—	(3,260)	—	—	—
Total	(105,249)	—	—	—	(114,546)	—	—	—	(125,101)	—	—	—
Fixed assets												
Ch$	84,527	—	—	—	82,741	—	—	—	82,457	—	—	—
UF	–	—	—	—	—	—	—	—	—	—	—	—
Foreign currency	2,310	—	—	—	1,253	—	—	—	1,316	—	—	—
Total	86,837	—	—	—	83,994	—	—	—	83,773	—	—	—
Other assets												
Ch$	351,666	—	—	—	394,802	—	—	—	420,852	—	—	—
UF	1,238	—	—	—	1,878	—	—	—	1,874	—	—	—
Foreign currency	417,129	—	—	—	535,662	—	—	—	664,317	—	—	—
Total	770,033	—	—	—	932,342	—	—	—	1,087,043	—	—	—
Total non–interest earning assets												
Ch$	651,282	—	—	—	691,175	—	—	—	704,694	—	—	—
UF	1,238	—	—	—	1,878	—	—	—	1,874	—	—	—
Foreign currency	467,262	—	—	—	585,545	—	—	—	672,323	—	—	—
Total	1,119,782	—	—	—	1,278,598	—	—	—	1,378,891	—	—	—
Total assets												
Ch$	1,352,395	118,883	—	—	1,355,901	120,954	—	—	1,606,394	127,851	—	—
UF	2,763,713	287,950	—	—	2,931,577	341,953	—	—	3,279,812	302,508	—	—
Foreign currency	1,866,749	100,490	—	—	1,975,557	102,688	—	—	2,147,565	85,194	—	—
Total	Ch$5,982,857	Ch$ 507,323	—%	—%	Ch$6,263,035	Ch$ 565,595	—%	—%	Ch$7,033,771	Ch$ 515,553	—%	—%

	Year Ended December 31,											
	1999				2000				2001			
	Average balance	Interest paid	Average nominal rate	Average real rate	Average balance	Interest paid	Average nominal rate	Average real rate	Average balance	Interest paid	Average nominal rate	Average real rate
	(in millions of constant Ch$ as of December 31, 2001, except percentages)											
Liabilities												
Interest bearing liabilities												
Interest bearing demand deposits												
Ch$	Ch$ 76	Ch$ 2	2.63%	0.31%	Ch$ 509	Ch$ 12	2.36%	(2.08)%	Ch$ 594	Ch$ 6	1.01%	(1.59)%
UF	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency	—	—	—	—	—	—	—	—	213	—	—	—
Total	76	2	2.63	0.31	509	12	2.36	(2.08)%	807	6	0.74	(1.17)
Savings accounts												
Ch$	—	—	—	—	—	—	—	—	—	—	—	—
UF	72,684	5,032	6.92	4.51	79,460	7,216	9.08	4.35	90,954	5,821	6.40	3.66
Foreign currency	59,654	1,923	3.22	12.37	65,325	2,132	3.26	7.21	80,557	1,983	2.46	14.38
Total	132,338	6,955	5.26	8.05	144,785	9,348	6.46	5.64	171,511	7,804	4.55	8.70
Time deposits												
Ch$	664,260	49,485	7.45	5.02	723,794	65,971	9.11	4.39	822,076	48,176	5.86	3.14
UF	956,287	86,893	9.09	6.62	1,055,042	107,122	10.15	5.38	1,278,042	92,812	7.26	4.50
Foreign currency	356,507	22,802	6.40	15.83	441,756	25,581	5.79	9.83	537,151	25,354	4.72	16.90
Total	1,977,054	159,180	8.05	7.75	2,220,592	198,674	8.95	5.94	2,637,269	166,342	6.31	6.60
Central Bank borrowings												
Ch$	3,023	196	6.48	4.08	1,740	148	8.51	3.80	31,193	1,414	4.53	1.84
UF	3,768	215	5.71	3.32	3,028	228	7.53	2.87	2,807	157	5.59	2.88
Foreign currency	—	—	—	—	—	—	—	—	—	—	—	—
Total	6,791	411	6.05	3.66	4,768	376	7.89	3.21	34,000	1,571	4.62	1.93
Repurchase agreements												
Ch$	109,960	8,236	7.49	5.06	113,219	11,569	10.22	5.44	127,018	7,980	6.28	3.55
UF	5,450	1,042	19.12	16.43	19,638	1,925	9.80	5.04	9,297	576	6.20	3.46
Foreign currency	25,353	1,821	7.18	16.68	30,734	3,073	10.00	14.20	36,254	2,226	6.14	18.49
Total	140,763	11,099	7.88	7.60	163,591	16,567	10.13	7.04	172,569	10,782	6.25	6.68
Mortgage finance bonds												
Ch$	—	—	—	—	—	—	—	—	—	—	—	—
UF	724,873	64,095	8.84	6.38	777,367	84,837	10.91	6.11	824,131	77,378	9.39	6.58
Foreign currency	—	—	—	—	—	—	—	—	—	—	—	—
Total	724,873	64,095	8.84	6.38	777,367	84,837	10.91	6.11	824,131	77,378	9.39	6.58
Other interest bearing liabilities												
Ch$	27,717	822	2.97	0.64	33,782	1,508	4.46	(0.06)	25,234	219	0.87	(1.73)
UF	129,317	18,262	14.12	11.55	140,163	15,905	11.35	6.52	174,098	16,946	9.73	6.91
Foreign currency	624,429	44,811	7.18	16.68	457,373	28,094	6.14	10.19	417,906	19,647	4.70	16.88
Total	781,463	63,895	8.18	15.26	631,318	45,507	7.21	8.83	617,238	36,812	5.96	13.31
Total interest bearing liabilities												
Ch$	805,036	58,741	7.30	4.87	873,044	79,208	9.07	4.35	1,006,115	57,795	5.74	3.02
UF	1,892,379	175,539	9.28	6.81	2,074,698	217,233	10.47	5.68	2,379,329	193,690	8.14	5.36
Foreign currency	1,065,943	71,357	6.69	16.15	995,188	58,880	5.92	9.96	1,072,081	49,210	4.59	16.76
Total	Ch$3,763,358	Ch$ 305,637	8.12%	9.04%	Ch$3,942,930	Ch$ 355,321	9.01%	6.47%	Ch$4,457,525	Ch$ 300,695	6.75%	7.57%

	Year Ended December 31,											
	1999				2000				2001			
	Average balance	Interest paid	Average nominal rate	Average real rate	Average balance	Interest paid	Average nominal rate	Average real rate	Average balance	Interest paid	Average nominal rate	Average real rate
	(in millions of constant Ch$ as of December 31, 2001, except percentages)											
Liabilities												
Non–interest bearing liabilities												
Non–interest bearing demand deposits												
Ch$	Ch$ 626,328	Ch$ —	—%	—%	Ch$ 679,782	Ch$ —	—%	—%	Ch$ 788,250	Ch$ —	—%	—%
UF	—	—	—	—	—	—	—	—		—	—	—
Foreign currency	96,195	—	—	—	93,547	—	—	—	121,480	—	—	—
Total	722,523	—	—	—	773,329	—	—	—	909,730	—	—	—
Contingent obligation										—		
Ch$	25,719	—	—	—	28,611	—	—	—	36,371	—	—	—
UF	88,369	—	—	—	75,698	—	—	—	69,466	—	—	—
Foreign currency	174,591	—	—	—	163,218	—	—	—	185,867	—	—	—
Total	288,679	—	—	—	267,527	—	—	—	291,704	—	—	—
Other non–interest bearing										—		
Ch$	408,644	—	—	—	400,137	—	—	—	286,803	—	—	—
UF	3,229	—	—	—	2,331	—	—	—	2,602	—	—	—
Foreign currency	441,407	—	—	—	518,527	—	—	—	719,302	—	—	—
Total	853,280	—	—	—	920,995	—	—	—	1,008,707	—	—	—
Shareholders' equity		—				—						
Ch$	321,923	—	—	—	324,525	—	—	—	329,634	—	—	—
UF	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency	33,094	—	—	—	33,729	—	—	—	36,471	—	—	—
Total	355,017	—	—	—	358,254	—	—	—	366,105	—	—	—
Total non–interest bearing liabilities and shareholders' equity												
Ch$	1,382,614	—	—	—	1,433,055	—	—	—	1,441,058	—	—	—
UF	91,598	—	—	—	78,029	—	—	—	72,068	—	—	—
Foreign currency	745,287	—	—	—	809,021	—	—	—	1,063,120	—	—	—
Total	2,219,499	—	—	—	2,320,105	—	—	—	2,576,246	—	—	—
Total liabilities and shareholders' equity												
Ch$	2,187,650	58,741	—	—	2,306,099	79,208	—	—	2,447,173	57,795	—	—
UF	1,983,977	175,539	—	—	2,152,727	217,233	—	—	2,451,397	193,690	—	—
Foreign currency	1,811,230	71,357	—	—	1,804,209	58,880	—	—	2,135,201	49,210	—	—
Total	Ch$5,982,857	Ch$ 305,637	—%	—%	Ch$6,263,035	Ch$ 355,321	—%	—%	Ch$7,033,771	Ch$ 300,695	—%	—%

Interest Earning Assets and Net Interest Margin

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

	Year Ended December 31,					
	1999		2000		2001	
	(in millions of constant Ch$ as of December 31, 2001, except for percentages)					
Total average interest earning assets						
Ch$	Ch$	701,113	Ch$	664,726	Ch$	901,700
UF		2,762,475		2,929,699		3,277,938
Foreign currency		1,399,487		1,390,012		1,475,242
Total		4,863,075		4,984,437		5,654,880
Net interest earned(1)						
Ch$		60,142		41,746		70,056
UF		112,411		124,720		108,818
Foreign currency		29,133		43,808		35,984
Total	Ch$	201,686	Ch$	210,274	Ch$	214,858
Net interest margin, nominal basis(2)						
Ch$		8.58%		6.28%		7.77%
UF		4.07		4.26		3.32
Foreign currency		2.08		3.15		2.44
Total		4.15%		4.22%		3.80%

(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 our 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 for 2001 compared to 2000 and for 2000 compared to 1999. Volume and rate variances have been calculated based on movements in average balances over the period and changes in nominal interest rate, 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.

Assets	Increase (Decrease) from 1999 to 2000 due to changes in Volume	Rate	Net change from 1999 to 2000	Increase (Decrease) from 2000 to 2001 due to changes in Volume	Rate	Net change from 2000 to 2001
	(in millions of constant Ch$ as of December 31, 2001)					
Interest earning assets						
Interbank deposits						
Ch$	(205)	(329)	(534)	(679)	550	(129)
UF	—	—	—	—	—	—
Foreign currency	(261)	(164)	(425)	220	(735)	(515)
Total	(466)	(493)	(959)	(459)	(185)	(644)
Financial investments						
Ch$	27	1,586	1,613	10,095	(3,690)	6,405
UF	994	8,946	9,940	18,760	(27,779)	(9,019)
Foreign currency	5,788	4,826	10,614	4,396	(7,367)	(2,971)
Total	6,809	15,358	22,167	33,251	(38,836)	(5,585)
Commercial loans						
Ch$	(6,130)	6,201	71	10,424	(13,309)	(2,885)
UF	17,044	4,712	21,756	12,037	(33,283)	(21,246)
Foreign currency	(4,682)	3,841	(841)	(2,368)	(2,162)	(4,530)
Total	6,232	14,754	20,986	20,093	(48,754)	(28,661)
Consumer loans						
Ch$	1,075	72	1,147	4,027	(2,384)	1,643
UF	(702)	(275)	(977)	(278)	(466)	(744)
Foreign currency	—	—	—	—	—	—
Total	373	(203)	170	3,749	(2,850)	899
Interbank loans						
Ch$	(338)	140	(198)	2,433	(1,255)	1,178
UF	—	—	—	—	—	—
Foreign currency	(2,386)	123	(2,263)	(838)	(1,364)	(2,202)
Total	(2,724)	263	(2,461)	1,595	(2,619)	(1,024)
Leasing contracts						
Ch$	(53)	(6)	(59)	32	114	146
UF	(3,536)	1,210	(2,326)	(1,361)	1,306	(55)
Foreign currency	(2,113)	(4,748)	(6,861)	1,031	(2,422)	(1,391)
Total	(5,702)	(3,544)	(9,246)	(298)	(1,002)	(1,300)
Foreign trade loans						
Ch$	—	—	—	—	—	—
UF	—	—	—	—	—	—
Foreign currency	2,195	(135)	2,060	2,274	(7,876)	(5,602)
Total	2,195	(135)	2,060	2,274	(7,876)	(5,602)
Mortgage loans						
Ch$	—	—	—	—	—	—
UF	5,012	19,957	24,969	4,643	(12,926)	(8,283)
Foreign currency	—	—	—	—	—	—
Total	5,012	19,957	24,969	4,643	(12,926)	(8,283)
Contingent loans						
Ch$	88	(53)	35	227	(4)	223
UF	(193)	91	(102)	(101)	76	(25)
Foreign currency	(77)	(9)	(86)	133	(416)	(283)
Total	(182)	29	(153)	259	(344)	(85)
Past due loans						
Ch$	(19)	15	(4)	7	309	316
UF	231	512	743	402	(475)	(73)
Foreign currency	—	—	—	—	—	—
Total	212	527	739	409	(166)	243
Total interest earning assets						
Ch$	(5,555)	7,626	2,071	26,566	(19,669)	6,897
UF	18,850	35,153	54,003	34,102	(73,547)	(39,445)
Foreign currency	(1,536)	3,734	2,198	4,848	(22,342)	(17,494)
Total	11,759	46,513	58,272	65,516	(115,558)	(50,042)

	Increase (Decrease) from 1999 to 2000 due to changes in		Net change from	Increase (Decrease) from 2000 to 2001 due to changes in		Net change from
	Volume	Rate	1999 to 2000	Volume	Rate	2000 to 2001
	(in millions of constant Ch$ as of December 31, 2001)					
Liabilities						
Interest bearing liabilities						
Interest bearing demand deposits						
Ch$	10	—	10	2	(8)	(6)
UF	—	—	—	—	—	—
Foreign currency	—	—	—	—	—	—
Total	10	—	10	2	(8)	(6)
Savings accounts						
Ch$	—	—	—	—	—	—
UF	503	1,681	2,184	942	(2,337)	(1,395)
Foreign currency	185	24	209	438	(587)	(149)
Total	688	1,705	2,393	1,380	(2,924)	(1,544)
Time deposits						
Ch$	4,719	11,767	16,486	8,077	(25,872)	(17,795)
UF	9,466	10,763	20,229	19,895	(34,205)	(14,310)
Foreign currency	5,083	(2,304)	2,779	4,974	(5,201)	(227)
Total	19,268	20,226	39,494	32,946	(65,278)	(32,332)
Central Bank borrowings						
Ch$	(98)	50	(48)	1,367	(101)	1,266
UF	(47)	60	13	(16)	(55)	(71)
Foreign currency	—	—	—	—	—	—
Total	(145)	110	(35)	1,351	(156)	1,195
Repurchase agreements						
Ch$	251	3,082	3,333	1,279	(4,868)	(3,589)
UF	1,599	(716)	883	(794)	(555)	(1,349)
Foreign currency	440	812	1,252	484	(1,331)	(847)
Total	2,290	3,178	5,468	969	(6,754)	(5,785)
Mortgage finance bonds						
Ch$	—	—	—	—	—	—
UF	4,898	15,844	20,742	4,889	(12,348)	(7,459)
Foreign currency	—	—	—	—	—	—
Total	4,898	15,844	20,742	4,889	(12,348)	(7,459)
Other interest bearing liabilities						
Ch$	207	479	686	(308)	(981)	(1,289)
UF	1,442	(3,799)	(2,357)	3,506	(2,465)	1,041
Foreign currency	(10,866)	(5,851)	(16,717)	(2,271)	(6,176)	(8,447)
Total	(9,217)	(9,171)	(18,388)	927	(9,622)	(8,695)
Total interest bearing liabilities						
Ch$	5,089	15,378	20,467	10,417	(31,830)	(21,413)
UF	17,861	23,833	41,694	28,422	(51,965)	(23,543)
Foreign currency	(5,158)	(7,319)	(12,477)	3,625	(13,295)	(9,670)
Total	17,792	31,892	49,684	42,464	(97,090)	(54,626)

Investment Portfolio

The following table sets forth our investment in Chilean government and corporate securities and certain other financial investments as of December 31, 1999, 2000 and 2001. Financial investments traded on a secondary market are shown adjusted to market value, following specific instructions from the Chilean Superintendency of Banks. These instructions provide for the recognition of such adjustments against income except in the case of a permanent portfolio, where an equity account, "Unrealized gains (losses) on permanent financial investments," may be directly adjusted, subject to certain restrictions.

	December 31,						Weighted Average Nominal Rate
	1999		2000		2001		at December 31, 2001
	(in millions of constant Ch$ as of December 31, 2001, except for rate data)						
Central Bank and Government Securities							
Marketable debt securities	Ch$	169,582	Ch$	274,831	Ch$	526,022	5.63%
Marketable debt securities with limited secondary market		375,760		382,325		385,343	3.04
Chilean government securities		2,797		1,926		26,163	6.75
Investments purchased under agreements to resell		2,328		10,023		29,623	5.57
Investments collateral under agreements to repurchase		114,077		88,638		76,731	8.15
Subtotal		664,544		757,743		1,043,882	4.89
Corporate Securities and Other Financial Investments							
Investments in Chilean financial institutions		21,531		4,727		6,241	6.70
Mortgage finance bonds issued by the Bank		54,720		75,440		138,605	6.94
Foreign government notes		87,075		65,947		244,127	2.61
Other financial investments		258,014		438,487		153,266	6.11
Investments collateral under agreements to repurchase		50,128		43,861		63,593	5.10
Subtotal		471,468		628,462		605,832	4.79
Total	Ch$	1,136,012	Ch$	1,386,205	Ch$	1,649,714	4.85%

At December 31, 2001, financial instruments issued by the Central Bank were the only financial instruments we held whose aggregate book value exceeded 10% of our shareholders' equity. These financial instruments are accounted for in the financial statements at market value (see note 1 to our audited financial statements). The value of such investments at December 31, 2001 is as follows:

Issuer	Carrying Value	Market Value
	(in millions of constant Ch$ as of December 31, 2001)	
Central Bank	988,096	988,096

The following table sets forth an analysis of our investments, by time remaining to maturity and the weighted average nominal rates of such investments:

	Within one year		Rate	After one year but within five years		Rate	After five years		Rate	Total	
	(in millions of constant Ch$ as of December 31, 2001, except for rate data)										
Central Bank and Government Securities											
Marketable debt securities	Ch$	426,479	5.59%	Ch$	90,309	5.84%	Ch$	9,234	5.40%	Ch$	526,022
Marketable debt securities with limited secondary market		—	—		385,343	3.04		—	—		385,343
Chilean government securities		—	—		—	—		26,163	6.75		26,163
Investments purchased under agreements to resell		29,623	5.57		—	—		—	—		29,623
Investments collateral under agreements to repurchase		33,434	8.25		41,707	7.93		1,590	11.69		76,731
Subtotal		489,536	5.77		517,359	3.92		36,987	6.62		1,043,882
Corporate Securities and Other Financial Investments											
Investments in Chilean financial institutions		2,933	6.26		634	7.39		2,674	7.03		6,241
Mortgage finance bonds issued by the Bank		12,537	6.94		46,330	6.95		79,738	6.94		138,605
Foreign government notes		185,420	1.51		36,398	4.32		22,309	8.96		244,127
Other financial investments		84,406	2.88		51,670	9.92		17,190	10.51		153,266
Investments collateral under agreements to repurchase		50,413	5.10		6,472	5.10		6,708	5.10		63,593
Subtotal		335,709	2.64		141,504	7.28		128,619	7.67		605,832
Total	Ch$	825,245	4.50%	Ch$	658,863	4.64%	Ch$	165,606	7.44%	Ch$	1,649,714

The following table sets forth an analysis under US GAAP of investments and deposits held to maturity by type:

Instruments	December 31, 2001 Carrying Value	Unrealized Gains (Losses)	Estimated Fair Value
	(in millions of constant Ch$ as of December 31, 2001)		
Foreign private sector debt securities	Ch$ 7,871	Ch$ —	Ch$ 7,871
Foreign financial institution debt securities	1,788	37	1,825
U.S. government debt securities	35,948	70	36,018
Government securities	392,535	(7,191)	385,344
Total	Ch$ 438,142	Ch$ (7,084)	Ch$ 431,058

Loan Portfolio

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

	December 31, 1997	1998	1999	2000	2001
	(in millions of constant Ch$ as of December 31, 2001)				
Commercial loans:					
General commercial loans	Ch$ 1,497,459	Ch$ 1,557,489	Ch$ 1,534,183	Ch$ 1,640,149	Ch$ 1,618,951
Foreign trade loans	282,457	361,638	384,538	379,400	377,125
Interbank loans	62,380	43,334	18,419	27,934	23,741
Leasing contracts	294,060	261,019	191,906	173,460	167,157
Other outstanding loans	153,501	206,237	274,381	353,469	320,166
Subtotal commercial loans	2,289,857	2,429,717	2,403,427	2,574,412	2,507,140
Mortgage loans:					
Residential	291,368	311,914	333,224	365,754	416,146
Commercial	423,494	397,728	402,665	406,649	391,797
Subtotal mortgage loans	714,862	709,642	735,889	772,403	807,943
Consumer loans	204,382	194,178	185,304	195,249	208,233
Past due loans:					
Commercial loans	17,738	25,123	31,106	44,146	38,038
Residential mortgage loans	795	1,643	3,378	4,517	6,302
Consumer loans	2,267	2,354	2,681	2,922	2,731
Leasing contracts	—	—	3,243	755	440
Subtotal past due loans	20,800	29,120	40,408	52,340	47,511
Contingent loans	394,365	304,276	269,722	258,974	287,993
Total loans	Ch$ 3,624,266	Ch$ 3,666,933	Ch$ 3,634,750	Ch$3,853,378	Ch$ 3,858,820

The loan categories are as follows:

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

Consumer loans are loans to individuals, made in Chilean pesos, generally on a fixed rate basis, to finance the purchase of consumer goods or to pay for services. They also include credit card balances subject to interest charges.

Mortgage loans are inflation-indexed, fixed rate, long-term loans with monthly payments of principal and interest secured by a real property mortgage. They are financed in two ways: On one hand, traditional mortgages are financed by mortgage finance bonds. Alternatively, new flexible mortgages are financed by our own funds. At present, the amount of a mortgage loan cannot be more than 75% of the value of the mortgaged property if it is financed by mortgage finance bonds and 80% of the value of the mortgaged property in the case of flexible mortgages.

Foreign trade loans are fixed rate, short-term loans made in foreign currencies (principally U.S. dollars) to finance imports and exports.

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

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

Other outstanding loans include checking account overdrafts, bills of exchange and mortgage loans which are financed by our general borrowings.

Past due loans are loans that are overdue as to any payment of principal or interest by 90 days or more.

Contingent loans consist of guarantees granted by us in Chilean pesos, UF and foreign currencies (principally U.S. dollars), as well as open and unused letters of credit. (Unlike U.S. GAAP, Chilean GAAP requires such loans to be included on a bank's balance sheet).

Any collateral provided generally consists of a mortgage on real estate, a pledge of marketable securities, a letter of credit or cash. The existence and amount of collateral generally varies from loan to loan.

Maturity and Interest Rate Sensitivity of Loans as of December 31, 2001

The following table sets forth an analysis by type and time remaining to maturity of our loans at December 31, 2001.

	Balance as of December 31, 2001	Due within 1 month	Due after 1 month but within 6 months	Due after 6 months but within 12 months	Due after 1 year but within 3 years	Due after 3 years but within 5 years	Due after 5 years
	(in millions of constant Ch$ as of December 31, 2001)						
Commercial loans	Ch$1,618,951	Ch$ 376,801	Ch$ 427,521	Ch$ 191,111	Ch$ 307,139	Ch$ 189,794	Ch$ 126,585
Consumer loans	208,233	50,201	28,719	29,462	73,846	20,613	5,392
Mortgage loans	807,943	7,943	28,791	34,951	138,303	133,595	464,360
Foreign trade loans	377,125	86,445	213,302	20,824	48,519	6,674	1,361
Interbank loans	23,741	6,225	12,979	1,559	2,319	659	—
Leasing contracts	167,157	5,099	16,352	18,762	53,783	27,019	46,142
Other outstanding loans	320,166	147,561	4,399	20,257	12,679	14,804	120,466
Past due loans	47,511	47,511	—	—	—	—	—
Subtotal	3,570,827	727,786	732,063	316,926	636,588	393,158	764,306
Contingent loans	287,993	43,872	112,223	50,744	56,823	22,244	2,087
Total loans	Ch$ 3,858,820	Ch$ 771,658	Ch$ 844,286	Ch$ 367,670	Ch$ 693,411	Ch$ 415,402	Ch$ 766,393

The following table presents the interest rate sensitivity of our outstanding loans due after one year as of December 31, 2001 (not including contingent loans).

	As of December 31, 2001 (in millions of constant Ch$ as of December 31, 2001)
Variable rate	
Ch$	Ch$ 4,087
UF	393,932
Foreign currency	177,213
Total	575,232
Fixed rate	
Ch$	126,183
UF	1,056,666
Foreign currency	35,971
Total	1,218,820
Total	Ch$ 1,794,052

Loans by Economic Activity

The following table sets forth at the dates indicated an analysis of our 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 December 31,					
	1999		2000		2001	
	Loan Portfolio	% of loan Portfolio	Loan Portfolio	% of loan Portfolio	Loan Portfolio	% of loan Portfolio
	(in millions of constant Ch$ as of December 31, 2001, except for percentages)					
Agriculture, Livestock, Forestry, Agribusiness, Fishing						
Agriculture and livestock	Ch$ 153,697	4.57%	Ch$ 160,691	4.47%	Ch$ 159,266	4.46%
Fruit	131,799	3.92	142,322	3.96	136,742	3.83
Forestry and wood extraction	20,174	0.60	25,909	0.72	25,635	0.72
Fishing	96,811	2.88	103,290	2.87	87,629	2.45
Subtotal	402,481	11.97	432,212	12.02	409,272	11.46
Mining and Petroleum						
Mining and quarries	80,122	2.38	64,800	1.81	45,095	1.26
Natural gas and crude oil extraction	5,010	0.15	12,301	0.34	14,164	0.40
Subtotal	85,132	2.53	77,101	2.15	59,259	1.66
Manufacturing						
Tobacco, food and beverages	110,556	3.29	104,765	2.91	122,740	3.44
Textiles, clothing and leather goods	60,555	1.80	50,360	1.40	48,290	1.35
Wood and wood products	35,132	1.04	47,502	1.32	36,878	1.03
Paper, printing and publishing	18,880	0.56	21,357	0.59	11,932	0.33
Oil refining, carbon and rubber	58,595	1.74	64,257	1.79	56,521	1.58
Production of basic metal, non-mineral, machine and equipment	138,074	4.10	144,624	4.02	144,547	4.05
Other manufacturing industries	35,762	1.06	43,361	1.22	27,067	0.76
Subtotal	457,554	13.59	476,226	13.25	447,975	12.54
Electricity, Gas and Water						
Electricity, gas and water	71,195	2.12	76,652	2.13	51,913	1.45
Subtotal	71,195	2.12	76,652	2.13	51,913	1.45
Construction						
Residential buildings	80,798	2.40	81,208	2.26	88,526	2.48
Other constructions	146,638	4.36	184,384	5.13	193,601	5.42
Subtotal	227,436	6.76	265,592	7.39	282,127	7.90
Commerce						
Wholesale	99,681	2.96	104,771	2.91	102,223	2.86
Retail, restaurants and hotels	328,532	9.76	333,866	9.29	326,939	9.16
Subtotal	428,213	12.72	438,637	12.20	429,162	12.02
Transport, Storage and Communications						
Transport and storage	88,362	2.63	106,365	2.96	95,993	2.69
Communications	30,110	0.89	28,975	0.81	27,030	0.76
Subtotal	118,472	3.52	135,340	3.77	123,023	3.45
Financial Services						
Financial insurance and companies	234,741	6.98	282,671	7.87	324,971	9.10
Real estate and other financial services	382,454	11.37	395,453	11.00	352,828	9.88
Subtotal	617,195	18.35	678,124	18.87	677,799	18.98
Community, Social and Personal Services						
Community, social and personal services	62,581	1.86	69,274	1.93	85,298	2.39
Subtotal	62,581	1.86	69,274	1.93	85,298	2.39
Consumer Loans	338,383	10.06	335,166	9.32	349,790	9.80
Residential Mortgage Loans	556,386	16.52	610,080	16.97	655,209	18.35
Total	Ch$ 3,365,028	100.00%	Ch$ 3,594,404	100.00%	Ch$ 3,570,827	100.00%

Foreign Country Outstandings

Our cross-border outstanding loans are principally trade-related. These loans include loans to foreign financial institutions and foreign corporations, some of which are guaranteed by their Chilean parent company. The table below lists the total amounts outstanding to borrowers in certain foreign countries at the end of the last three years, and thus does not include foreign trade-related loans to domestic borrowers.

	As of December 31,		
	1999	2000	2001
	(in millions of constant Ch$ as of December 31, 2001)		
Albania	Ch$ —	Ch$ —	Ch$ 16
Argentina	72,937	70,417	36,401
Australia	21	138	4
Austria	—	—	844
Bahamas	—	1,833	—
Belgium	—	2,870	154
Bolivia	4,424	804	831
Brazil	30,800	30,048	35,170
British West Indies	11,401	19,729	27,246
Central America & Caribbean	5,217	4,239	—
Canada	32	21,881	154
Colombia	11,478	7,975	3,957
Ecuador	75	59	66
El Salvador	—	3,520	5,317
Finland	—	174	204
France	2,718	1,389	2,045
Germany	617	269	41
Holland	19	142	46
Hong Kong	—	—	248
Israel	545	327	16
Jordan	12	—	—
Korea	—	—	31
India	—	—	171
Italy	579	43	—
Japan	437	1,246	2,935
Mexico	9,518	11,756	33,916
Netherlands	18	—	—
New Zealand	29	—	—
Norway	—	23	—
Panama	4,346	5,270	10,123
Paraguay	18	153	52
Peru	22,260	23,935	18,480
Portugal	89	—	—
Singapore	—	—	55
South Africa	145	44	17
South Korea	448	44	525
Spain	296	2,223	297
Switzerland	847	622	411
Sweden	518	245	369
United Arab Emirates	—	—	26
United Kingdom	31	1,861	912
United States	26,362	26,494	21,325
Uruguay	—	93	98
Taiwan	125	—	—
Venezuela	—	—	3,349
Total	Ch$ 206,362	Ch$ 239,866	Ch$ 205,852

We also maintain deposits abroad, as needed to conduct our foreign trade transactions and manage liquidity. The table below lists the largest amounts of foreign deposits by country at the end of the past three years.

	December 31,		
	1999	2000	2001
	(in millions of constant Ch$ as of December 31, 2001)		
Australia	Ch$ 25	Ch$ 12	Ch$ 18
Austria	68	30	29
Belgium	208	169	109
Canada	145	98	145
China	180	170	191
Denmark	209	193	50
Finland	36	—	39
France	377	302	402
Germany	2,142	2,520	1,617
Italy	581	612	371
Japan	1,269	1,100	314
Netherlands	200	242	107
Norway	57	49	15
Panama	—	3	—
Spain	250	386	410
Sweden	525	196	96
Switzerland	90	133	286
United Kingdom	338	261	327
United States	138,181	59,056	80,343
Total	Ch$144,881	Ch$ 65,532	Ch$ 84,869

The table below sets forth certain information about our outstanding loans to Argentina (in millions of constant Ch$ as of December 31, 2001):

Aggregate outstanding loans at January 1, 2001	Ch$ 70,417
Net change in short-term outstanding loans	(4,882)
Changes in other outstanding loans	
Additional outstanding loans	1,189
Interest income accrued	593
Collections of principal	(34,295)
Collections of accrued interest	(1,627)
Other changes	5,006
Aggregate outstandings at December 31, 2001	Ch$36,401

As is described in "Item 3. Key Information—Risk Factors," Argentina is experiencing an economic crisis, which may result in difficulties in certain loan repayments. However, of the Ch$36,401 million in loans outstanding related to Argentina as of December 31, 2001, Ch$21,776 million were covered by guarantees, the majority of which (85.9%) are held within Chile. These guarantees are generally of a fixed asset nature. Generally, our policy is to require a guaranty for any loan related to Argentina.

Credit Review Process

Under our credit review system, the approval of a transaction with a customer requires the participation of two or more executives with credit authority, with at least one of them having the necessary limit to cover our total risk exposure with respect to that customer or conglomerate.

The evaluation of total customer credit risk takes 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 have 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 UF100,000 (approximately Ch$1,600 million) require the approval of a credit committee which includes the members of the board of directors. Transactions in which the total customer credit risk is equal to or less than UF100,000 may be approved by other executives of the bank, depending on the amount involved, as follows:

	Limit in UF
Credit committee including members of the board of directors	up to legal limits
Chief executive officer	up to UF 100,000
Credit risk senior officer	up to UF 100,000
Executive credit risk officers	up to UF 75,000
Executive vice president of corporate banking	up to UF 45,000
Other credit risk officers	up to UF 40,000
Other department heads	up to UF 16,000
Other officers	under UF 10,000

In addition to reviewing the credit limit, the division extending the credit must review the terms of the loan, the interest rate and any security to be obtained.

To evaluate a customer's credit risk, the commercial executives use various computerized data bases that provide information such as the customer's character, indebtedness to the bank, its financial statements, monthly sales information, some profitability reports, its debt to other banks and finance companies in the Chilean financial system and payment history with other creditors. For this purpose, information regarding a customer's indebtedness within the financial system is made available to banks by the Chilean Superintendency of Banks. For individual customers, scoring and other automated systems are used to determine the customer's character and payment capacity in terms of income, education, family obligations, other financial obligations and other factors.

Our credit process is based on credit policies approved by our board of directors and procedures established by the credit risk management area. The credit risk management area is also responsible for evaluating for the bank as a whole the risk presented by its current or potential customers. We also rely upon the collective efforts of our professional analysts who conduct reviews at the request of any of our commercial divisions, senior management and principal debtors. These reports analyze the amount of a credit, its use, the term, the customer's financial situation, the customer's character and the market in which the customer operates. These reports are prepared in four different formats: in-depth, summary, follow-up and project analysis. The control risk division reviews periodically the quality of the bank's loans, including the related loan classifications. This division has a team of inspectors who audit on an ongoing basis the compliance with the credit review process by the commercial executives who are involved in the credit analysis process, the various categories of risk assigned to customers, the reports on past due loans and our evaluation of debtors.

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 allowance for loan losses. The guidelines used by banks for such classifications are established by the Chilean Superintendency of Banks, although banks are given some latitude in devising more stringent classification systems within such guidelines. The Chilean 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. Lastly, Category III indicates significant deviations from the Chilean Superintendency of Banks guidelines that clearly reflect inadequacies in the evaluation of the risk and estimated losses associated with loans.

We have been classified in Category I since December 1991, when the classification system established by the Chilean Superintendency of Banks became applicable to us.

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 the bank. 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-. The total exposure of the bank to each of its customers and the classification of such customer's loans are continuously reviewed by the commercial officers of the bank and by the control risk division. The provisions required for each category of loans, which are established by the Chilean Superintendency of Banks, are as follows:

Category	Commercial loans range of estimated losses		Consumer loans past due status[(1)]		Residential mortgage loans past due status[(1)]		Provisions as a percentage of aggregate exposure
	From	To	From	To	From	To	
			(Days)		(Days)		
A	—%	—%	—	—	—	—	0%
B	1	5	1	30	1	180	1
B-	5	39	31	60	181	>181	20
C	40	79	61	120	—	—	60
D	80	100	121	>121	—	—	90

(1) In addition, the bank has to maintain additional provisions for consumer and residential mortgage loans (including renegotiated loans).

The loan classification guidelines of the Chilean Superintendency of Banks applicable to commercial loans require that the bank classify the greater of:

- the commercial loans outstanding to its 400 largest debtors; or
- the commercial loans outstanding to its largest debtors, aggregating 75% of the total amount of loans included in its commercial loan portfolio.

These guidelines also require that the bank 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.

According to our internal credit policies, we classify our loans using the aforementioned guidelines. The criteria for determining the range of estimated losses for purposes of the classification of commercial loans are as follows:

Category "A": A borrower's loans are category "A" if there exists no doubt as to the borrower's ability to repay the loans in a timely manner, 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 and, in any case, will not significantly affect the terms for repayment. This category also includes loans to customers involved in economic activities that represent a higher risk for the bank. 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.

Category "B–": Loans included in this category are principally loans outstanding to borrowers who are experiencing financial difficulty and whose operational revenues or liquid assets are insufficient to service the loans and where the security for the loan would cover 61% to 95% of the outstanding amount. 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. Our internal guidelines prohibit us from categorizing any loan to a customer for which the loan is currently subject to legal procedures of recovery as better than B- even if the customer's loan is over 100% secured.

Category "C": This category includes loans outstanding to borrowers who are experiencing serious financial difficulty and whose operational revenues or liquid assets are insufficient to service the loans and where the security for the loan would cover 21% to 60% of the outstanding amount. 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. We expect to suffer some degree of loss with respect to loans to these customers.

Category "D": This category includes loans outstanding to borrowers for which the estimated recovery amount on all loans is 20% or less. A charge-off of most of these loans outstanding is expected.

Analysis of the Bank's Loan Classification

The following tables provide statistical data regarding the classification of our loans at the end of each of the last five years. As discussed above, our risk analysis system requires that loans to all customers must be evaluated and classified, including past due and contingent loans.

	As of December 31, 1997				
Category	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	Percentage of Evaluated Loans
	(in millions of constant Ch$ as of December 31, 2001)				
A	Ch$ 1,598,911	Ch$ 179,107	Ch$ 279,387	Ch$ 2,057,405	58.25%
B	1,353,571	16,260	10,974	1,380,805	39.09
B–	59,668	4,146	1,007	64,821	1.84
C	16,805	3,657	—	20,462	0.58
D	5,149	3,480	—	8,629	0.24
Total evaluated loans	Ch$ 3,034,104	Ch$ 206,650	Ch$ 291,368	Ch$ 3,532,122	100.00%
Total loans	Ch$ 3,126,248	Ch$ 206,650	Ch$ 291,368	Ch$ 3,624,266	
Percentage evaluated	97.05%	100.00%	100.00%	97.46%	

	As of December 31, 1998				
Category	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	Percentage of Evaluated Loans
	(in millions of constant Ch$ as of December 31, 2001)				
A	Ch$1,504,554	Ch$ 166,904	Ch$ 350,961	Ch$ 2,022,419	55.85%
B	1,423,742	15,860	25,722	1,465,324	40.45
B–	92,519	5,432	2,027	99,978	2.76
C	21,122	4,775	—	25,897	0.72
D	4,286	3,559	—	7,845	0.22
Total evaluated loans	Ch$3,046,223	Ch$ 196,530	Ch$ 378,710	Ch$ 3,621,463	100.00%
Total loans	Ch$3,091,693	Ch$ 196,530	Ch$ 378,710	Ch$ 3,666,933	
Percentage evaluated	98.53	100.00	100.00	98.76%	

Category	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	Percentage of Evaluated Loans
	As of December 31, 1999				
	(in millions of constant Ch$ as of December 31, 2001)				
A	Ch$ 1,286,216	Ch$ 163,221	Ch$ 415,375	Ch$ 1,864,812	51.79%
B	1,483,366	12,052	32,115	1,527,533	42.42
B–	167,349	4,541	3,658	175,548	4.87
C	19,685	4,843	—	24,528	0.68
D	5,397	3,329	—	8,726	0.24
Total evaluated loans	Ch$ 2,962,013	Ch$ 187,986	Ch$ 451,148	Ch$ 3,601,147	100.00%
Total loans	Ch$ 2,995,616	Ch$ 187,986	Ch$ 451,148	Ch$ 3,634,750	
Percentage evaluated	98.88%	100.00%	100.00%	99.08%	

Category	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	Percentage of Evaluated Loans
	As of December 31, 2000				
	(in millions of constant Ch$ as of December 31, 2001)				
A	Ch$1,423,717	Ch$ 172,019	Ch$ 463,563	Ch$ 2,059,299	53.98%
B	1,482,765	14,821	36,194	1,533,780	40.21
B–	175,205	4,886	6,400	186,491	4.89
C	21,931	3,805	—	25,736	0.67
D	6,821	2,640	—	9,461	0.25
Total evaluated loans	Ch$3,110,439	Ch$ 198,171	Ch$ 506,157	Ch$ 3,814,767	100.00%
Total loans	Ch$3,149,050	Ch$ 198,171	Ch$ 506,157	Ch$ 3,853,378	
Percentage evaluated	98.77%	100.00%	100.00%	99.00%	

Category	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	Percentage of Evaluated Loans
	As of December 31, 2001				
	(in millions of constant Ch$ as of December 31, 2001)				
A	Ch$ 1,298,948	Ch$ 182,625	Ch$ 506,462	Ch$ 1,988,035	52.10%
B	1,528,831	16,547	39,521	1,584,899	41.54
B–	166,392	5,601	6,943	178,936	4.69
C	50,851	3,701	—	54,552	1.43
D	6,542	2,490	—	9,032	0.24
Total evaluated loans	Ch$ 3,051,564	Ch$ 210,964	Ch$ 552,926	Ch$ 3,815,454	100.00%
Total loans	Ch$ 3,094,930	Ch$ 210,964	Ch$ 552,926	Ch$ 3,858,820	
Percentage evaluated	98.60%	100.00%	100.00%	98.88%	

Classification of Loan Portfolio Based on the Borrower's Payment Performance

Interest and indexation readjustments from overdue loans are only recognized when and to the extent effectively received. Overdue loans are classified in groups of 1-29 days overdue, 30-89 days overdue, and 90 or more days overdue (the last group being referred to as "past due loans"). Past due loans are required to be covered by individual allowances for loan losses equivalent to 100% of any unsecured portion thereof, but only if and to the extent that the aggregate of all allowances for loan losses exceeds the global allowance for loan losses. See "—Individual Allowances for Loan Losses."

The following table sets forth as of December 31 of each of the last five years the amounts that are current as to payments of principal and interest and the amounts overdue.

Domestic Loans

	As of December 31,				
	1997	1998	1999	2000	2001
	(in millions of constant Ch$ as of December 31, 2001)				
Current	Ch$ 3,089,823	Ch$ 3,077,740	Ch$ 3,158,979	Ch$ 3,375,320	Ch$ 3,416,224
Overdue 1-29 days	15,283	24,359	25,280	12,463	16,659
Overdue 30-89 days	9,254	13,590	11,815	9,801	6,312
Overdue 90 days or more (“past due”)	20,800	29,120	40,408	42,468	46,616
Leasing contracts	294,060	261,019	191,906	173,460	167,157
Total loans	Ch$ 3,429,220	Ch$ 3,405,828	Ch$ 3,428,388	Ch$ 3,613,512	Ch$ 3,652,968

Foreign Loans

	As of December 31,				
	1997	1998	1999	2000	2001
	(in millions of constant Ch$ as of December 31, 2001)				
Current	Ch$ 195,046	Ch$ 261,105	Ch$ 206,362	Ch$ 229,994	Ch$ 204,572
Overdue 1-29 days	—	—	—	—	340
Overdue 30-89 days	—	—	—	—	45
Overdue 90 days or more (“past due”)	—	—	—	9,872	895
Leasing contracts	—	—	—	—	—
Total loans	Ch$ 195,046	Ch$ 261,105	Ch$ 206,362	Ch$ 239,866	Ch$ 205,852

Total Loans

	As of December 31,				
	1997	1998	1999	2000	2001
	(in millions of constant Ch$ as of December 31, 2001)				
Current	Ch$ 3,284,869	Ch$ 3,338,845	Ch$ 3,365,341	Ch$ 3,605,314	Ch$ 3,620,796
Overdue 1-29 days	15,283	24,359	25,280	12,463	16,999
Overdue 30-89 days	9,254	13,590	11,815	9,801	6,357
Overdue 90 days or more (“past due”)	20,800	29,120	40,408	52,340	47,511
Leasing contracts	294,060	261,019	191,906	173,460	167,157
Total loans	Ch$ 3,624,266	Ch$ 3,666,933	Ch$ 3,634,750	Ch$ 3,853,378	Ch$ 3,858,820
Overdue loans expressed as a percentage of total loans	1.25%	1.83%	2.13%	1.94%	1.84%
Past due loans as a percentage of total loans	0.57%	0.79%	1.11%	1.36%	1.23%

We suspend the accrual of interest on all overdue loans. The amount of interest that would have been recorded on overdue loans if they had been accruing interest was Ch$1,784 million for the year ended December 31, 2001.

Loans included in the previous table which have been restructured and as a result bear no interest are as follows:

	As of December 31,				
	1997	1998	1999	2000	2001
	(in millions of constant Ch$ as of December 31, 2001)				
Ch$	Ch$ 1,803	Ch$ 1,522	Ch$ 1,625	Ch$ 1,555	Ch$ 1,505
UF	452	417	412	248	246
Total	Ch$ 2,255	Ch$ 1,939	Ch$ 2,037	Ch$ 1,803	Ch$ 1,751

The amount of interest that would have been recorded on these loans for the year ended December 31, 2001 if these loans had been earning a market interest rate was Ch$83 million.

Allowance for Loan Losses

Chilean banks are required to maintain an allowance for loan losses in amounts determined in accordance with regulations issued by the Chilean Superintendency of Banks. A bank may also maintain a voluntary allowance in excess of the minimum required amount so as to provide additional coverage for potential loan losses. (We have historically followed the practice of maintaining voluntary allowances.) Under these regulations, the minimum amount of required allowance for loan losses is the greater of (1) the bank's global allowance for loan losses and (2) the aggregate amount of its individual allowance for loan losses.

Global Allowance for Loan Losses

The amount of the global allowance for loan losses 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) 75%.

A bank's risk index is based on the classification of its loans, determined as described above. 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 percentage determining the allowance for loan losses. The percentages are as follows:

Category	Provision Percentage
A	0%
B	1
B-	20
C	60
D	90

The risk index itself is then calculated by dividing (1) the aggregate amount so calculated 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 At December 31,	
1997	1.33 %
1998	1.58
1999	2.03
2000	2.01
2001	2.40

The chart below illustrates the evolution of our unconsolidated risk index over the last six years:

Unconsolidated Risk Index At December 31,	
1997	1.39 %
1998	1.64
1999	2.13
2000	2.05
2001	2.48

According to Chilean Superintendency of Banks, the average risk index of all financial institutions in Chile, both foreign and domestic, was 1.92% as of February 28, 2002.

Individual Allowances for Loan Losses

Chilean banks are also required to establish individual allowances for loan losses that are more than 90 days past due. The individual allowance for loan losses must equal 100% of each overdue loan or the portion of such loan which is not secured with collateral acceptable to the Chilean Superintendency of Banks. Individual allowance for loan losses are, however, required only if (and to the extent) they exceed in the aggregate the global allowance for loan losses.

Voluntary Allowances for Loan Losses

We follow an allowance policy that includes recording voluntary allowances for loan losses beyond that required by the Chilean Superintendent of Banks, where changes in the portfolio concentrations or economic considerations affecting or reasonably expected to affect the credit payment capacity of borrowers are not adequately addressed through regulatory mandated reserves. Thus, over the period from 1997 to 2001, during which the unconsolidated risk index rose from 1.39% to 2.48%, we recognized an increase in allowances for loan losses from 2.23% to 3.43% (as a percentage of total loans).

The table below sets forth our allowances for loan losses as they would be computed on the basis of our risk index based on the basis of a minimum 0.75% of the loans, our global allowance for loan losses, our potential aggregate individual allowance for loan losses, the minimum allowance for loan losses to be established by us in accordance with the regulations of the Chilean Superintendency of Banks, our voluntary allowances for loan losses, our total allowance for loan losses and such total allowance expressed as a percentage of our total loans at the end of each of the last five years.

	As of December 31,				
	1997	1998	1999	2000	2001
	(in millions of constant Ch$ as of December 31, 2001, except for percentages)				
Allowance based on risk index	Ch$ 48,202	Ch$ 57,937	Ch$ 73,786	Ch$ 77,453	Ch$ 92,612
Allowance based on 0.75%	27,182	27,502	27,261	28,900	28,941
Global allowance for loan losses	40,425	51,724	64,253	67,442	83,258
Individual allowance for loan losses	9,893	10,330	13,449	13,254	15,584
Required minimum allowance	50,318	62,054	77,702	80,696	98,842
Voluntary allowance	30,578	30,383	31,430	35,741	33,530
Total allowance for loan losses	Ch$ 80,896	Ch$ 92,437	Ch$ 109,132	Ch$ 116,437	Ch$ 132,372
Total allowance for loan losses as a percentage of total loans	2.23%	2.52%	3.00%	3.02%	3.43%

Analysis of Substandard Loans and Amounts Past Due

The following table analyzes our substandard loans (*i.e.*, all of the loans included in categories B-, C and D) and past due loans and the allowance for loan losses existing at the dates indicated. We have 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 December 31,				
	1997	1998	1999	2000	2001
	(in millions of constant Ch$ as of December 31, 2001, except for percentages)				
Total loans	Ch$ 3,624,266	Ch$ 3,666,933	Ch$ 3,634,750	Ch$ 3,853,378	Ch$ 3,858,820
Substandard loans B-, C and D	Ch$ 93,912	Ch$ 133,720	Ch$ 208,802	Ch$ 221,688	Ch$ 242,520
Substandard loans as a percentage of total loans	2.59%	3.65%	5.74%	5.75%	6.28%
Amounts past due [1]					
To the extent secured [2]	Ch$ 10,907	Ch$ 18,790	Ch$ 26,959	Ch$ 39,086	Ch$ 31,927
To the extent unsecured	9,893	10,330	13,449	13,254	15,584
Total amount past due	Ch$ 20,800	Ch$ 29,120	Ch$ 40,408	Ch$ 52,340	Ch$ 47,511
Amounts past due as a percentage of total loans:	0.57%	0.79%	1.11%	1.36%	1.23%
To the extent secured [2]	0.30	0.51	0.74	1.02	0.83
To the extent unsecured	0.27	0.28	0.37	0.34	0.40
Allowance for loans losses as a percentage of:					
Total loans	2.23%	2.52%	3.00%	3.02%	3.43%
Total loans excluding contingent loans	2.50	2.75	3.24	3.24	3.71
Total amounts past due	388.92	317.43	270.08	222.46	278.61
Total amounts past due-unsecured	817.71	894.84	811.45	878.50	849.41

(1) In accordance with Chilean regulations, past due loans are loans that are 90 days or more overdue on 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 Allowance for Loan Losses

The following table analyzes our allowance for loan losses and changes in the allowance attributable to charge-offs, new allowances, allowances released and the effect of price-level restatement on allowance for loan losses.

	December 31,				
	1997	1998	1999	2000	2001
	(in millions of constant Ch$ as of December 31, 2001)				
Allowance for loan losses at beginning of period	Ch$ 79,667	Ch$ 80,896	Ch$ 92,437	Ch$109,132	Ch$116,437
Charge-offs	(22,482)	(24,474)	(32,352)	(27,593)	(27,046)
Allowance established	34,027	38,731	53,098	40,642	47,023
Allowance released (1)	(2,634)	(1,407)	(2,107)	(1,159)	(1,136)
Price-level restatement (2)	(7,682)	(1,309)	(1,944)	(4,585)	(2,906)
Allowance for loan losses at end of period	Ch$ 80,896	Ch$ 92,437	Ch$109,132	Ch$116,437	Ch$132,372
Ratio of charge-offs to average loans	0.69%	0.67%	0.89%	0.75%	0.68%
Allowance for loan losses at end of period as a percentage of total loans	2.23%	2.52%	3.00%	3.02%	3.43%

(1) Represents the aggregate amount of allowance for loan losses released during the year as a result of charge-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 December 31, 2001.

Allowances increased between 1997 and 2001 largely due to the Chilean recession in 1999, which caused a deterioration in our debt portfolio and an increase in our risk index during 1999, 2000 and 2001. Based on the information we have available about our debtors, we believe that our allowances for loan losses are sufficient to cover known potential losses and losses inherent in a loan portfolio of its size and nature.

Our policy with respect to charge-offs follows the regulations established by the Chilean Superintendency of Banks. Under these regulations, a consumer loan must be written off not more than six months after the loan is overdue, other unsecured loans (or part thereof) must be written off not more than 24 months after being classified as past due. Secured loans must be written off within 36 months after being classified as past due.

Detailed information on write-offs can be seen in the following table, which shows the charge-offs breakdown by loan category.

	Year ended December 31,				
	1997	1998	1999	2000	2001
	(in millions of constant Ch$ as of December 31, 2001)				
Consumer loans	Ch$ 15,032	Ch$ 12,304	Ch$ 14,173	Ch$ 11,351	Ch$ 8,793
Residential mortgage loans	386	214	1,629	1,437	3,048
Commercial loans	5,215	7,670	12,210	8,952	11,317
Leasing contracts	1,849	1,985	4,113	5,847	3,599
Foreign loans	—	2,301	227	6	289
Total	Ch$ 22,482	Ch$ 24,474	Ch$ 32,352	Ch$ 27,593	Ch$ 27,046

Loans recoveries by type of loan are shown in the table below:

	Year ended December 31,				
	1997	1998	1999	2000	2001
	(in millions of constant Ch$ as of December 31, 2001)				
Consumer loans	Ch$ 3,848	Ch$ 4,353	Ch$ 3,837	Ch$ 4,210	Ch$ 4,565
Residential mortgage loans	—	6	192	56	108
Commercial loans	6,774	8,509	4,740	4,379	3,921
Leasing contracts	458	629	390	438	1,052
Foreign loans	—	—	—	—	—
Total	Ch$ 11,080	Ch$ 13,497	Ch$ 9,159	Ch$ 9,083	Ch$ 9,646

Allocation of Allowance for Loan Losses

The following tables set forth, as of December 31 of each of the last five years, the proportions in which our required minimum allowance for loan losses are attributable to our commercial, consumer and residential mortgage loans, and the amount of voluntary allowances (which are not allocated to any particular category) at each such date.

	1997				1998			
	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 of total loans (2)	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 of total loans (2)
Commercial loans	Ch$36,635	1.17%	1.01%	86.26%	Ch$43,647	1.41%	1.19%	84.31%
Consumer loans	7,621	3.69	0.21	5.70	9,859	5.02	0.27	5.36
Residential mortgage loans	343	0.12	0.01	8.04	643	0.17	0.02	10.33
Total allocated allowance	44,599	1.23%	1.23%	100.00%	54,149	1.48%	1.48%	100.00%
Leasing contracts	5,019	0.14	0.14		5,531	0.15	0.15	
Foreign loans	700	0.02	0.02		2,374	0.06	0.06	
Voluntary allowance	30,578	0.84	0.84		30,383	0.83	0.83	
Total allowance	Ch$80,896	2.23%	2.23%		Ch$92,437	2.52%	2.52%	

	1999				2000			
	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 of total loans (2)	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 of total loans (2)
Commercial loans	Ch$56,492	1.89%	1.55%	82.42%	Ch$59,751	1.90%	1.55%	81.72%
Consumer loans	9,231	4.91	0.25	5.17	8,592	4.34	0.22	5.14
Residential mortgage loans	1,037	0.23	0.03	12.41	1,620	0.32	0.04	13.14
Total allocated allowance	66,760	1.84%	1.84%	100.00%	69,963	1.82%	1.82%	100.00%
Leasing contracts	7,913	0.22	0.22		7,107	0.18	0.18	
Foreign loans	3,029	0.08	0.08		3,626	0.09	0.09	
Voluntary allowance	31,430	0.86	0.86		35,741	0.93	0.93	
Total allowance	Ch$109,132	3.00%	3.00%		Ch$116,437	3.02%	3.02%	

	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 percentage of total loans (2)
Commercial loans	Ch$ 72,984	2.36%	1.89%	80.20%
Consumer loans	10,362	4.91	0.27	5.47
Residential mortgage loans	1,769	0.32	0.05	14.33
Total allocated allowance	85,115	2.21%	2.21%	100.00%
Leasing contracts	9,578	0.25	0.25	
Foreign loans	4,149	0.11	0.11	
Voluntary allowance	33,530	0.86	0.86	
Total allowance	Ch$ 132,372	3.43%	3.43%	

(1) In millions of constant Ch$ as of December 31, 2001.
(2) Based on our loan classification.

Prior to 2000 we did not collect data regarding the allocation of charge-offs among debtors by economic sector. The following data sets forth our charge-offs for 2000 and 2001 by major economic sector. This table provides further detail of charge-offs that have already been described in the previous discussion of allowance for loan losses.

	Year ended December 31,	
	2000	2001
	(in millions of constant Ch$ as of December 31, 2001)	
Commercial:		
Agriculture	Ch$ 611	Ch$ 639
Mining	16	20
Manufacturing	2,138	2,027
Construction	783	60
Commerce	3,346	5,115
Transport	383	578
Financial services	988	1,631
Community	693	1,536
Subtotal:	8,958	11,606
Consumer loans	11,351	8,793
Residential mortgage loans	1,437	3,048
Leasing contracts	5,847	3,599
Total	Ch$27,593	Ch$ 27,046

Composition of Deposits and Other Commitments

The following table sets forth the composition of our deposits and similar commitments at December 31, 1999, 2000 and 2001.

	December 31,		
	1999	2000	2001
	(in millions of constant Ch$ as of December 31, 2001)		
Current accounts	Ch$ 554,163	Ch$ 622,095	Ch$ 655,791
Other demand liabilities	247,286	326,481	286,463
Savings accounts	78,917	85,552	95,112
Time deposits	2,060,448	2,445,197	2,548,160
Other commitments(1)	82,341	81,345	120,167
Total	Ch$3,023,155	Ch$3,560,670	Ch$ 3,705,693

(1) Includes preliminary leasing accounts payable relating to purchase of equipment.

Maturity of Deposits

The following table sets forth information regarding the currency and maturity of our deposits at December 31, 2001, expressed in percentages. UF-denominated deposits are similar to Chilean peso-denominated deposits in all respects, except that the principal is readjusted periodically based on variations in the Chilean consumer price index.

	Ch$	UF	Foreign Currency	Total
Demand deposits	45.81%	0.55%	33.80%	28.67%
Savings accounts	—	7.94	—	2.57
Time deposits:				
Maturing within 3 months	51.10	51.31	56.74	52.35
Maturing after 3 but within 6 months	1.35	2.18	5.54	2.49
Maturing after 6 but within 12 months	1.74	1.44	3.45	2.00
Maturing after 12 months	—	36.58	0.47	11.92
Total time deposits	54.19%	91.51%	66.20%	68.76%
Total deposits	100.00%	100.00%	100.00%	100.00%

The following table sets forth information regarding the currency and maturity of deposits in excess of U.S.$100,000 at December 31, 2001.

	Ch$	UF	Foreign Currency	Total
	(in millions of constant Ch$ as of December 31, 2001)			
Time deposits:				
Maturing within 3 months	Ch$ 610,578	Ch$ 531,478	Ch$ 312,855	Ch$ 1,454,911
Maturing after 3 but within 6 months	23,108	147,034	40,561	210,703
Maturing after 6 but within 12 months	30,040	169,974	25,747	225,761
Maturing after 12 months	180	32,275	3,639	36,094
Total time deposits	Ch$ 663,906	Ch$ 880,761	Ch$ 382,802	Ch$ 1,927,469

Minimum Capital Requirements

The following table sets forth our minimum capital requirements set by the Chilean Superintendency of Banks as of the dates indicated.

	As of December 31,		
	1999	2000	2001
	(in millions of constant Ch$ as of December 31, 2001)		
Banco de Chile's regulatory capital	Ch$ 326,290	Ch$ 309,835	Ch$ 311,301
Minimum regulatory capital required	138,585	151,985	157,488
Excess over minimum regulatory capital required	Ch$ 187,705	Ch$ 157,850	Ch$ 153,813

Short-term Borrowings

Our short-term borrowings (other than deposits) totaled Ch$227,460 million as of December 31, 1999, Ch$183,353 million as of December 31, 2000 and Ch$242,690 million as of December 31, 2001.

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

	For the year ended December 31,					
	1999		2000		2001	
	Year-End Balance	Weighted Average Nominal Interest Rate	Year-End Balance	Weighted Average Nominal Interest Rate	Year-End Balance	Weighted Average Nominal Interest Rate
	(in millions of constant Ch$ as of December 31, 2001, except for rate data)					
Investments under agreements to repurchase	Ch$ 165,035	6.49%	Ch$ 137,902	7.27%	Ch$ 158,373	4.72%
Central Bank borrowings	—	—	—	—	32,727	6.36
Borrowings from domestic financial institutions	12,635	9.74	16,886	6.47	24,947	7.12
Foreign borrowings	37,208	5.62	14,087	6.51	10,463	2.21
Other obligations	12,582	—	14,478	—	16,180	—
Total short-term borrowings	Ch$ 227,460	6.17%	Ch$ 183,353	6.56%	Ch$ 242,690	4.77%

The following table shows the average balance and the average nominal rate for each short-term borrowing category during the periods indicated.

	For the year ended December 31,					
	1999		2000		2001	
	Average Balance	Weighted Average Nominal Interest Rate	Average Balance	Weighted Average Nominal Interest Rate	Average Balance	Weighted Average Nominal Interest Rate
	(in millions of constant Ch$ as of December 31, 2001, except for rate data)					
Investments under agreements to repurchase	Ch$ 148,189	6.20%	Ch$ 162,442	8.48%	Ch$ 169,681	6.26%
Central Bank borrowings	3,023	6.48	1,742	8.51	30,389	5.51
Borrowings from domestic financial institutions	26,853	6.44	31,569	7.03	7,120	8.26
Sub-total	178,065	6.24	195,753	8.25	207,190	6.22
Foreign borrowings	45,707	5.62	8,078	6.03	4,118	2.93
Total short-term borrowings	Ch$ 223,772	6.11%	Ch$ 203,831	8.16%	Ch$ 211,308	6.16%

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

	Maximum 1999 month-end balance	Maximum 2000 month-end balance	Maximum 2001 month-end balance
	(in millions of constant Ch$ as of December 31, 2001)		
Investments under agreements to repurchase	Ch$ 161,856	Ch$ 194,331	Ch$ 209,854
Central Bank borrowings	9,365	18,872	59,551
Borrowings from domestic financial institutions	59,293	70,638	44,179
Foreign borrowings	82,230	28,026	48,374

Item 5. Operating and Financial Review and Prospects

Introduction

The following discussion should be read together with our financial statements and the section entitled "Item 4. Information on the Company—Selected Statistical Information." Certain amounts (including percentage amounts) that appear herein may not total due to rounding.

We prepare our financial statements in accordance with Chilean GAAP (including the rules of the Chilean Superintendency of Banks relating thereto), which differ in certain significant respects from U.S. GAAP. Note 30 to our audited financial statements provides a description of the material differences between Chilean GAAP and U.S. GAAP as they relate to us and includes a reconciliation to U.S. GAAP of net income for the years ended December 31, 1999, 2000 and 2001 and shareholders' equity at December 31, 2000 and 2001.

Pursuant to Chilean GAAP, the financial data presented in this section for all full-year periods are restated in constant pesos of December 31, 2001. See "Presentation of Financial Information" and Note 1 to our audited financial statements.

As described below, changes in interest rates and in the rates of inflation as well as economic and political factors affecting Chile have a substantial impact on our financial performance. See "Item 4. Information on the Company—Selected Statistical Information" for a description of risk characteristics associated with each type of loan in our loan portfolio.

Impact of Economic Conditions in Chile

The Chilean economy grew every year between 1984 and 1998, expanding at a real average annual rate of approximately 7.3% from 1990 through 1998. Despite its growth, it has remained smaller than the economies of certain other Latin American countries. In 1999, the Chilean economy contracted at a real rate of 1.0%, compared to growth of 3.2% in 1998. The unemployment rate during the fourth quarter of 1999 reached 8.9%. In 2000 and 2001, the Chilean economy recovered somewhat, as the gross domestic product grew 4.4% in 2000 and 2.8% in 2001. Nevertheless, unemployment remained high, reaching 7.9% in the fourth quarter of 2001. We cannot assure you that future developments in the Chilean economy will not impair our ability to proceed with our strategic plan or our business, financial condition or results of operations. Our financial condition and results of operations could also be adversely 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, as well as regulatory changes or administrative practices of Chilean authorities, over which we have no control. See "Item 3. Key Information—Risk Factors—Our growth and profitability depends on the level of economic activity in Chile and elsewhere" and "Item 3. Key Information—Risk Factors—Inflation could adversely affect the value of our ADSs and financial condition and results of operations."

Central Bank Subordinated Debt

During the 1982-1983 economic crisis, the Chilean banking system experienced significant instability due to, among other things, a recession in most of the world's major economies accompanied by high international interest rates, an overvalued peso, a lack of stringent banking regulation and ineffective credit policies at most Chilean banking organizations. The financial crisis required that the Central Bank and the Chilean government provide assistance to most Chilean private-sector banks (including us).

Subsequent to the 1982-1983 economic crisis, most major Chilean banks (including us) sold certain of their non-performing loans to the Central Bank at face value on terms that included a repurchase obligation by such banks. This repurchase obligation was later exchanged for subordinated debt of the banks issued in favor of the Central Bank. Pursuant to Law 18,818 of 1989, banks were permitted to repurchase the portfolio of non-performing loans previously sold to the Central Bank for a price equal to the economic value of such loans, provided that the bank assumed a subordinated obligation equal to the difference between the face value of the loans and the economic value paid. In November 1989, we repurchased our portfolio of non-performing loans from the Central Bank and assumed the Central Bank subordinated debt. The repayment terms of the Central Bank subordinated debt required that a certain percentage of our income before provisions for Central Bank subordinated debt, as determined by the Central Bank upon each issuance of additional capital, be applied to repay this obligation. The original principal amount of the Central Bank subordinated debt was approximately four times our equity. In 1993 we applied 72.9% of our income before provisions for the Central Bank subordinated debt to the repayment of such debt. In 1994 we applied 67.6% and in 1995 we applied 65.8% of our income before provisions for the Central Bank subordinated debt to the repayment of such debt

In November 1996, pursuant to Law No. 19,396, our shareholders approved a reorganization by which we were converted to a holding company named SM-Chile S.A. In turn, SM-Chile organized a new wholly-owned banking subsidiary named Banco de Chile to which we contributed all of our assets and liabilities other than the Central Bank subordinated debt. SM-Chile then created SAOS a second wholly-owned subsidiary that, pursuant to a prior agreement with the Central Bank, assumed a new repayment obligation in favor of the Central Bank which replaced the Central Bank subordinated debt in its entirety.

In exchange for assuming the Central Bank indebtedness, SAOS received from SM-Chile 63.6% of our shares, which serve as collateral for this indebtedness. As a result of our merger with Banco de A. Edwards, the percentage of shares held by SAOS has decreased to 42%. Dividends received from us are the sole source of SAOS's revenue, which it must apply to repay this indebtedness. However, under SAOS's agreement with the Central Bank regarding this indebtedness, we have no obligation to distribute dividends to our shareholders. To the extent distributed dividends are not sufficient to pay the amount due on this indebtedness, SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that SAOS commits to pay with future dividends. If the cumulative deficit balance exceeds an amount equal to 20% of our capital and reserves, the Central Bank may require SAOS to sell a sufficient number of shares of our stock owned by SAOS to pay the entire deficit amount accumulated. As of December 31, 2001, SAOS maintained a deficit balance with the Central Bank of Ch$9,970 million, equivalent to 3.2% of our capital and reserves. If from time to time in the future our shareholders decide to retain and capitalize all or part of our annual net income in order to finance our future growth, and to distribute stock dividends among our shareholders, the Central Bank may require us to pay the portion of the net income corresponding to shares owned by SAOS in cash to SAOS. If we distribute stock dividends and the Central Bank does not require us to pay that portion in cash, the shares received by SAOS must be sold by SAOS within the following 12 months. See "Item 4. Information the Company—History and Development of the Company." Any distribution of dividends by us to SAOS would be made *pro rata* to SAOS and all of our other shareholders according to their percentage interest in our company.

Inflation

Chile has experienced high levels of inflation in the past, which significantly affected our financial condition and results of operations. However, the rate of inflation in Chile has declined in recent years and was 4.7% in 1998, 2.3% in 1999, 4.5% in 2000 and 2.6% in 2001. Our results of operations reflect the effect of inflation in the following ways:

- a substantial portion of our assets and liabilities are denominated in UFs, a unit of account the value of which in pesos is indexed daily to reflect inflation recorded in the previous month, with the net gain or loss resulting from such indexation reflected in income;
- our assets, liabilities and shareholders' equity are restated monthly to adjust for inflation, with the resulting net gain or loss reflected in income; and
- the rates of interest earned and paid on peso-denominated assets and liabilities to some degree reflect inflation and expectations regarding inflation.

The financial data included in this annual report as of the end of any year or for any year in the five year period ended December 31, 2001, including the audited financial statements and the statistical information set forth under "Item 4. Information on the Company—Selected Statistical Information," are stated in constant Chilean pesos of December 31, 2001, thereby minimizing the distorting effect of inflation on period to period comparisons. See "Presentation of Financial Information."

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 Consumer Price Index. One UF was equal to Ch$15,066.96 at December 31, 1999, Ch$15,769.92 at December 31, 2000 and Ch$16,262.66 at December 31, 2001. The effect of any changes in the nominal peso value of our UF-denominated assets and liabilities is reflected in our results of operations as an increase (or decrease, in the event of deflation) in interest revenue and expense. Our net interest revenue will be positively affected by inflation to the extent that our average UF-denominated assets exceed our average UF-denominated liabilities, while net interest revenue will be negatively affected by inflation when average UF-denominated liabilities exceed average UF-denominated assets. Our average UF-denominated assets exceeded our average UF-denominated liabilities by Ch$779,736 million during the years ended December 31, 1999, Ch$778,850 million during the years ended December 31, 2000 and Ch$828,415 million during the years ended December 31, 2001. See "Item 4. Information on the Company—Selected Statistical Information."

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. The responsiveness to such prevailing rates of our peso-denominated interest earning assets and interest bearing liabilities varies. See "—Interest Rates." We maintain a substantial amount of non-interest bearing peso-denominated demand deposits. The ratio of such deposits to average interest peso bearing liabilities was 78% during 1999, 2000 and 2001. Because a large part of such deposits are not sensitive to inflation, any decline in the rate of inflation adversely affects our net interest margin on assets funded with such deposits and any increase in the rate of inflation increases the net interest margin on such assets.

Price-Level Restatements. Chilean GAAP requires that the effect of inflation on a bank's net monetary asset position (monetary assets less monetary liabilities) be reflected in its results of operations as a gain (or loss) from price-level restatement. A bank's net monetary asset position can be determined by subtracting its net nonmonetary asset position (nonmonetary assets less nonmonetary liabilities) from shareholders' equity. As such, under Chilean GAAP, the gain (or loss) from price-level restatement in results of operations is determined by subtracting the price-level restatement adjustment of net nonmonetary assets from the price-level restatement adjustment of shareholders' equity. The inflation rate used for purposes of such adjustments is the change in the Consumer Price Index during the 12 months ended November 30 of the reported year. The change in the Consumer Price Index used for price-level restatement purposes was 2.6% in 1999, 4.7% in 2000 and 3.1% in 2001. See note 1(b) to our audited financial statements. The actual change in the Consumer Price Index was 2.3% in the year ended December 31, 1999, 4.5% in the year ended December 31, 2000 and 2.6% in the year ended December 31, 2001.

Interest Rates

Interest rates earned and paid on our assets and liabilities to some degree reflect inflation and expectations regarding future inflation as well as shifts in short-term interest rates related to the Central Bank's monetary policies. The Central Bank manages short-term interest rates based on its objectives of achieving low inflation and stable exchange rates. Because our liabilities generally re-price faster than our assets, changes in the rate of inflation or short-term interest rates are reflected in the rates of interest we pay on our liabilities before they are reflected in the rates of interest we earn on our assets. Accordingly, our net interest margin on assets and liabilities usually is adversely affected in the short-term by increases in inflation or short-term interest rates and benefits in the short-term from decreases in inflation or short-term interest rates, although the existence of non-interest bearing peso-denominated demand deposits tends to mitigate both effects. See "—Inflation—Peso-denominated Assets and Liabilities." In addition, because our peso-denominated liabilities have relatively short re-pricing periods, those liabilities generally are more responsive to changes in inflation or short-term interest rates than our UF-denominated liabilities.

The average annual short-term interest rate based on the rate paid by Chilean financial institutions for 90 to 360 day deposits was 8.19% in 1999, 7.48% in 2000 and 6.32% in 2001. The average long-term interest rate based on the Chilean Central Bank's eight year bonds was 6.50% in 1999, 6.37% in 2000 and 5.09% in 2001.

Foreign Exchange Rates

A significant portion of our assets and liabilities are denominated in foreign currencies, principally U.S. dollars, and we historically have maintained and may continue to maintain gaps between the balances of such assets and liabilities. The gap between foreign currency-denominated assets and foreign currency-denominated liabilities was Ch$39,822 million at December 31, 1999, Ch$17,511 million at December 31, 2000 and Ch$68,523 million at December 31, 2001. See note 20 to our audited financial statements. This gap includes assets and liabilities denominated in foreign currencies and assets and liabilities denominated in Chilean pesos that contain repayment terms linked to changes in foreign currency exchange rates. Because foreign currency-denominated assets and liabilities, as well as interest earned or paid on such assets and liabilities and gains (losses) realized upon the sale of such assets, are translated into pesos in preparing our financial statements, our reported income is affected by changes in the value of the peso with respect to foreign currencies (principally the U.S. dollar). For their part, adjustments to U.S. dollar-indexed assets are reflected as adjustments in net interest earnings and offset results in the foreign exchange position. The exchange rate variation over capital and reserves of our foreign branches is adjusted against equity and not against results.

Mortgage Finance Bonds Issued and Held by Banco de Chile

We generally fund our residential mortgage loans through the issuance of UF-denominated notes, or mortgage finance bonds, which are recourse obligations with payment terms matched to the related mortgage loans, bearing interest at a spread below the interest rate applicable to such mortgage loans. However, if we were ever liquidated, holders of mortgage finance bonds would be secured by a pool of mortgages. See "Item 4. Information on the Company—History and Development of the Company—Principal Business Activities—Retail Banking—High- and Middle-Income Individuals—Mortgage Loans." Mortgage finance bonds traditionally are placed with institutions, such as pension funds, mutual funds and insurance companies, seeking long-term fixed-income investments.

However, we also purchase, for our own account, mortgage finance bonds that we issue and which we hold as financial investments. Unlike U.S. GAAP, under which mortgage finance bonds we issue and hold for future sale are offset against the related liability, under Chilean GAAP mortgage finance bonds and the related liability appear on our consolidated balance sheets separately as "financial investments, other financial investments" and "other interest bearing liabilities, mortgage finance bonds," respectively. See note 30(h) to our audited 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 our net interest margin (net interest revenue divided by average interest earning assets) from what it would have been under U.S. GAAP. Similarly, any other income analysis or financial ratios based on the size of our consolidated balance sheet on either the asset or liability side would be different than if such consolidated balance sheets were prepared according to U.S. GAAP. At December 31, 2001, we had issued and outstanding Ch$861,287 million of mortgage finance bonds, and held Ch$138,482 million of such mortgage finance bonds with a market value of Ch$138,605 million as financial investments.

According to the General Banking Law, if a bank faces insolvency and a reorganization plan is proposed, the bank must transfer its mortgage loan portfolio to the highest bidder on the mortgage finance bonds as long as such bid is equal to or higher than the amount due to the bank's other creditors pursuant to the reorganization plan. The successful bidder pays a portion of the amount due on the mortgage finance bonds equal to the amount paid for such bonds. If the auction does not succeed, the holders of the mortgage finance bonds are subject to the provisions of the reorganization plan. In the event of mandatory liquidation of a bank, the same rules apply, provided that in order for an offer to be accepted it must be equal to or higher than 90% of the face value of the mortgage finance bonds, unless the holders of a majority of the issued and outstanding mortgage finance bonds approve the offer in a meeting especially called for this purpose by the liquidator.

Contingent Loans

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 is recorded as interest revenue. Accordingly, we treat contingent loans as interest earning assets. 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. See "Item 4. Information on the Company—Selected Statistical Information—Average Balance Sheets, Interest Earned on Interest Earning Assets and Interest Paid on Interest Bearing Liabilities."

In addition, under Chilean GAAP, rights and obligations with respect to contingent loans are treated as contingent assets and liabilities on our consolidated balance sheets. This practice differs from U.S. GAAP, under which such contingent amounts are not recognized on the consolidated balance sheets but are disclosed off-balance sheet in memorandum accounts. Accordingly, to the extent we maintain contingent loans and contingent liabilities, our consolidated balance sheets will appear different than if they had been prepared under U.S. GAAP. See notes 23 and 30(f) to our audited financial statements.

At December 31, 2001, we had Ch$287,993 million of contingent loans and Ch$287,748 million of contingent liabilities outstanding.

Critical Accounting Estimates

The notes to our financial statements contain a summary of our significant accounting policies including a description of the significant differences between these policies and U.S. GAAP, additional disclosures required under such rules, a reconciliation between shareholders' equity and net income to the corresponding amounts that would be reported in accordance with U.S. GAAP and a discussion of recently issued accounting pronouncements.

We prepare our financial statements in conformity with Chilean GAAP, and the relevant rules of the Chilean Superintendency of Banks, which requires that management make certain estimates and assumptions, as some of the financial statements are related to matters that are inherently uncertain. We believe that the following discussion describes those areas that require the most judgment or involve a higher degree of complexity in the application of the accounting policies that currently affect our financial condition and results of operations:

Allowances for loan losses

Chilean banks are required to maintain loan loss allowances in amounts determined in accordance with the regulations issued by the Chilean Superintendency of Banks. Under these regulations, we must classify our portfolio into five categories based on payment capability. The minimum amount of required loan loss allowances are determined based on fixed percentages of estimated loan losses assigned to each category.

Additionally, Chilean banks may also maintain voluntary allowances in excess of the minimum required amount in order to provide additional coverage for potential loan losses. Classification of our loan portfolio is determined based on a systematic and ongoing review and evaluation process, which is performed as part of the credit-risk evaluation process, and which requires that we estimate the fair value and adequacy of collateral and other pertinent factors. A detailed description of this accounting policy is discussed in "Item 4. Information on the Company—Selected Statistical Information—Allowance for Loan Losses" and in note 1 to our financial statements.

Investment securities

Our investment portfolio principally includes debt securities purchased in connection with our balance sheet management activities. These securities are classified at the time of purchase, based on management's intentions, as either trading (i.e., short-term) or permanent (i.e., long-term).

We account for financial investments that trade on the secondary market value at fair market value with unrealized gains and losses included in other operating income (expenses) for those classified as trading, and with unrealized gains and losses included in a separate component of shareholders' equity for those classified as permanent, in accordance with the regulations of the Chilean Superintendency of Banks. All other financial investments are carried at acquisition cost plus accrued interest and UF indexation adjustments, as applicable.

If quoted market prices are not available for fixed maturity securities we discount the expected cash flows using market interest rates commensurate with the credit quality and maturity of the investment. Alternatively, a price matrix or model may be used to determine an appropriate fair value.

Price-level restatement

Chilean GAAP requires that the financial statements be restated to reflect the full effects of loss in the purchasing power of the Chilean peso on the financial position and results of operations of reporting entities. The method prescribes that the historical cost of all non-monetary accounts be restated for general price-level changes between the date of origin of each item and the year-end.

Our financial statements have been price-level restated in order to reflect the effects of the changes in the purchasing power of the Chilean currency during each year. All non-monetary assets and liabilities and all equity accounts have been restated to reflect the changes in the CPI from the date they were acquired or incurred to year-end. Consistent with general banking practices in Chile, no specific purchasing power adjustments of income statement amounts are made. The purchasing power gain or loss included in net income reflects the effects of Chilean inflation on the monetary assets and liabilities held by us.

For comparative purposes, the historical December 31, 1999 and 2000 consolidated financial statements and their accompanying notes have been presented in constant Chilean pesos as of December 31, 2001. This updating does not change the prior years' statements or information in any way except to update the amounts to constant pesos of similar purchasing power.

The price-level adjusted consolidated financial statements do not purport to represent appraised values, replacement cost, or any other current value of assets at which transactions would take place currently and are only intended to restate all nonmonetary consolidated financial statement components in terms of local currency of a single purchasing power and to include in the net result for each year the gain or loss in purchasing power arising from the holding of monetary assets and liabilities exposed to the effects of inflation. See the discussion of price-level restatement in note 1 to our financial statements.

Change in Accounting Principles

During 2001 we began to write-off assets received or awarded in lieu of payment, and assets recovered from leasing operations, on a straight-line basis over 18 months if they are not sold within one year. Previously, we were required to write-off assets received in lieu of payment that were not sold within one year. During 2001, we modified the accounting treatment of fees and expenses related to the origination of loans, as well as fees for services rendered, to be deferred and recognized in income over the term of the loans to which they relate, and over the period that the services are performed. Prior to January 1, 2001, these fees and expenses were recognized in income as the fee was received or the expense incurred. Both changes in accounting principles were made to comply with the regulations issued by the Chilean Superintendency of Banks. See note 2 to our financial statements.

Differences between Chilean and United States Generally Accepted Accounting Principles

Accounting principles generally accepted in Chile vary in certain important respects from the accounting principles generally accepted in the United States 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 30 to our financial statements presents a description of the significant differences between Chilean GAAP and U.S. GAAP.

Results of Operations for the Years Ended December 31, 1999, 2000 and 2001

The following section discusses the results of operations for the years ended December 31, 1999, 2000 and 2001. To the extent that it is available and is useful in analyzing our results, we have included information based on the segments that we use for internal reporting. We also present our results on a consolidated basis.

We use a segment-based accounting system, or SIMR, to manage our business. This system allows us to extract income and expense information by client. SIMR also allows us to view information by office or branch and by area of business. SIMR uses the accounting balances and the interest rates as agreed upon with the client. In order to assess the income per transaction, the system compares the interest rate agreed upon with the client with the bank's own cost of funds. We use internal cost of funds tables for various transactions. The tables for each type of transaction are updated daily, and an operating cost per client is extracted. General costs are allocated to the segments, such as technical support and communication. The system has been developed over the last three years, with some changes in cost allocations taking place. Consequently, there are some minor variances between each year. Our segments are as follows:

- large corporations,
- middle market banking,
- international banking,
- retail banking,
- treasury and money market operations, and
- other financial services.

The accounting policies used for the segments are those used for our consolidated management reports. Corporate and personal customers are assigned to account executives. Each executive works exclusively within one segment. Some costs are allocated to the segments and others are split between two or more segments based on a single transaction. Thereafter, any unallocated costs are included as "other" in order to arrive at the consolidated balance sheet and income statement.

The segment information is not subject to the same external auditing procedures as the financial statements and is used for internal reporting purposes only. Extensive internal audit procedures, however, are undertaken to ensure the integrity of the information before it is used in the management decision making purposes. The segment information presented has also been adjusted in order to tie results to the income statement, as presented in accordance with Chilean GAAP in the financial statements. The most significant differences in classification are as follows:

- We measure the net interest margin of loans and deposits on an individual transaction and client basis, based on the difference between the effective customer rate and the Bank's related fund transfer price in terms of maturity, repricing and currency.

- Treasury Operations performs our matches of interest rates and ensures that adequate hedging activities are carried out.

- Our management model used to measure the performance of our business segment considers results that are directly related to performance and not overhead expenses of corporate and support departments, voluntary allowances, taxes and other non-operating income and expenses.

- We allocate our operating costs to each segment based on the type and amount of the relevant transactions. These costs are mainly related to the use of technology and computer equipment. We calculate these costs using a marginal cost which we determine based on studies that consider the Bank's capacity and average number of transactions, among other factors. These allocations do not necessarily reflect the actual cost to the Bank.

- The Bank allocates theoretical rental costs to each branch it owns based on market rental values so that the results of these branches are comparable to rental-property branches.

Net Income Before Tax by Segment

The following table sets forth net income before tax for each segment for the years ended December 31, 1999, 2000 and 2001. The line item "adjustments and eliminations, net" includes the elimination of inter-segment transactions, the effect of conforming internal accounting policies to Chilean GAAP and a number of non-allocated costs, such as human resources, voluntary provisions and depreciation costs. For internal reporting purposes, we control and monitor these costs separately and do not include them in the determination of segment profitability. Also included within "other" are specific portions of income such as rental income.

	Year Ended December 31,			% Change	
	1999	2000	2001	1999/2000	2000/2001
	(in millions of constant Ch$ as of December 31, 2001, except for percentages)				
Large corporations	Ch$ 14,065	Ch$ 23,657	Ch$ 7,518	68.2%	(68.2)%
Middle market banking	16,887	29,928	27,317	77.2	(8.7)
International banking	13,428	12,392	8,891	(7.7)	(28.3)
Retail banking	9,061	16,069	18,101	77.3	12.6
Treasury and money market operations	22,952	24,124	30,435	5.1	26.2
Subsidiaries	1,942	6,870	9,701	253.8	41.2
Other	(7,148)	(26,992)	(16,341)	277.6	(39.5)
Net income before tax	Ch$ 71,187	Ch$ 86,048	Ch$ 85,622	20.9%	(0.5)%

Our large corporations segment performs two distinct functions. It provides services to our large corporate customers, and it provides services to any bank customer that experiences loan payment difficulties or needs to have its loans restructured. Given the nature of the second type of client and the subsequent slowdown in the Chilean economy, the large corporations segment had a significant decrease in income before taxes in 2001, as a consequence of higher provisions for loan losses. The performance of this segment was stronger in 2000 than in 2001 or 1999 as a result of the improvement in the Chilean economy in 2000, leading to lower provisions for loan losses.

While the middle market banking segment was also affected by the poorly performing economy, in 2000 and 2001, a decrease in operating expenses improved the segment's overall results.

Although our results for the international banking segment during 2000 were relatively stable as compared to 1999, we experienced a significant decrease in our results for 2001 principally due to the establishment of provisions and charge-offs related to a default on a Mexican corporate bond held by our New York branch as part of its investment portfolio.

In 2001, an increase in net interest revenue and in fees offset an increase in provisions for loan losses. Results in retail banking dramatically improved in 2000, due principally to a major publicity campaign that resulted in the opening of a large number of new personal bank accounts.

The treasury and money market segment's results have continued to benefit from the decrease in interest rates since 1999, which have helped investments in local and foreign currencies recover their former value. This also led to increased income within the trading portfolio.

The increase in income from subsidiaries in 2001was primarily the result of a higher volume of operations in our stock brokerage and factoring subsidiaries. The improvement in 2000 is mostly attributable to the fact that we did not record losses in 2000 similar to those in 1999 when our leasing subsidiary, Leasing Andino experienced serious losses. Because we dissolved Leasing Andino in 2000 and began to offer leasing services at the bank level, the results of our leasing operations are not accounted for at the subsidiary level.

Net Income

The following table sets forth the principal components of our net income, as detailed in our financial statements for the years ended December 31, 1999, 2000 and 2001:

	Year Ended December 31,			% Change	
	1999	2000	2001	1999/2000	2000/2001
	(in millions of constant Ch$ as of December 31, 2001, except for percentages)				
Net interest revenue	Ch$ 201,686	Ch$ 210,274	Ch$ 214,858	4.3%	2.2%
Provisions for loan losses	(50,991)	(39,483)	(45,887)	(22.6)	16.2
Fees and income from services, net	41,963	48,624	51,475	15.9	5.9
Other operating income (loss), net	17,541	11,269	6,211	(35.8)	(44.9)
Other income and expenses, net:					
Loan loss recoveries	9,159	9,083	9,646	(0.8)	6.2
Other income and expenses, net	(4,042)	1,684	3,344	—	98.6
Minority interest	(1)	(1)	(1)	0.0	0.0
Operating expenses	(138,541)	(145,980)	(148,247)	5.4	1.6
Net loss from price-level restatement	(5,587)	(9,422)	(5,777)	68.6	(38.7)
Net income before income taxes	71,187	86,048	85,622	20.9	(0.5)
Income taxes	(2,002)	(1,550)	1,346	(22.6)	—
Net income	Ch$ 69,185	Ch$ 84,498	Ch$ 86,968	22.1%	2.9%

2000 and 2001. Our net income for 2001 was Ch$86,968 million, an increase of 2.9% from Ch$84,498 million in 2000, principally reflecting increased net interest revenue, increased income from fees and other services and the impact of a tax benefit. These results were partially offset by an increase in provisions for loan losses and operating expenses related to the merger with Banco de A. Edwards.

1999 and 2000. Our net income for 2000 was Ch$84,498 million, an increase of 22.1% from Ch$69,185 million in 1999, principally reflecting increased net interest revenue, increased fees and income from services, increased other income and expenses, net, and a decrease in provisions for loan losses which was offset in part by a decrease in other operating income, reflecting fewer gains from trading activities. For an explanation of the gains from trading activities, see "—Other Operating Income (Loss), Net" below. Other income and expenses, net in 1999 included a one-time amortization charge relating to Leasing Andino and a high volume of write-offs of assets received in lieu of payment. For further details, see "—Other Income and Expenses, Net."

On April 23, 1999, we acquired, together with Banchile Asesoria Financiera, all of the shares of Leasing Andino owned by Orix Corporation. We had previously held a 65% ownership interest in the company. On July 1, 1999, we acquired the 6,380 shares outstanding in the company and, consequently, held 100% of Leasing Andino's share capital. Leasing Andino was then dissolved and we assumed all of its rights and obligations. We are continuing the financing lease activities developed by Leasing Andino, although we have maintained the Leasing Andino trademark.

Net Interest Revenue

The tables included under the headings "—Interest Revenue" and "—Interest Expense" set forth certain information regarding our consolidated interest revenue and expenses and average interest earning assets and average interest bearing liabilities for the years ended December 31, 1999, 2000 and 2001. This information is derived from the tables included elsewhere in this annual report under "Item 4. Information on the Company—Selected Statistical Information" and is qualified in its entirety by reference to such information.

	Year Ended December 31,			% Change	
	1999	2000	2001	1999/2000	2000/2001
	(in millions of constant Ch$ as of December 31, 2001, except for percentages)				
Interest revenue	Ch$ 507,323	Ch$ 565,595	Ch$ 515,553	11.5%	(8.8)%
Interest expense	(305,637)	(355,321)	(300,695)	16.3	(15.4)
Net interest revenue	Ch$ 201,686	Ch$ 210,274	Ch$ 214,858	4.3%	2.2%
Net interest margin(1)	4.15%	4.22%	3.80%	—	—

(1) Net interest margin is net interest revenue divided by average interest earning assets. Pursuant to Chilean GAAP, we include mortgage finance bonds issued and held by us as interest earning assets. See "—Introduction—Mortgage Finance Bonds Issued and Held by Banco de Chile." Under U.S. GAAP mortgage finance bonds would not be classified as interest earning assets. Instead such assets would be offset against the related liability thereby affecting our net interest margin.

The following table sets forth the effect on our net interest revenue of changes in the average volume of interest earning assets and interest bearing liabilities and the average nominal interest rates on interest earning assets and interest bearing liabilities during the periods indicated:

	Increase (Decrease)	
	1999/2000	2000/2001
	(in millions of constant Ch$ as of December 31, 2001)	
Due to changes in average volume of interest earning assets and interest bearing liabilities	Ch$ (6,033)	Ch$ 23,052
Due to changes in average nominal interest rates of interest earning assets and interest bearing liabilities	14,621	(18,468)
Net change	Ch$ 8,588	Ch$ 4,584

2000 and 2001. Net interest revenue increased by 2.2% from Ch$210,274 million in 2000 to Ch$214,858 million in 2001 primarily due to a 13.5% increase in the average volume of interest earning assets, which was partially offset by a 42 basis points decrease in net interest margin (our net interest revenue divided by average interest earning assets). Our net interest margin decreased from 4.22% at December 31, 2000 to 3.80% at December 31, 2001. The decrease in net interest margin was primarily a consequence of a decrease in nominal interest rates (attributable to a decline in real interest rates and a decrease in the inflation rate from 4.5% in 2000 to 2.6% in 2001), which resulted in our earning lower nominal rates on the portion of interest earning assets financed by non-interest bearing liabilities, as well as a change in the composition of our interest earning assets mix toward lower margin and lower risk assets, which resulted in an increase of 32.3% in the average volume of financial investments in 2001. At the same time, although the interest we pay our depositors increased during the period, the interest we charge to our borrowers increased by a greater amount, more than offsetting the impact of the increase in the rate of interest paid.

1999 and 2000. Net interest revenue increased by 4.3% from Ch$201,686 million in 1999 to Ch$210,274 million in 2000 due to a 7 basis points increase in the net interest margin, despite a 16.3% increase in interest expenses during 2000. The increase in net interest income in 2000 was due to an increase in both investments and the loan portfolio. The growth in investment volume in Central Bank instruments as well as the mortgage bond portfolio, together with higher interest earned during 2000, contributed to an increase in total interest earned. On an overall basis, the loan portfolio did not grow significantly, but its composition was more profitable due to an increase in commercial and mortgage loan margins as well as a recovery in lease loan volume and margin.

The increase in the ratio of net interest earning assets expressed in UF compared to those expressed in Chilean pesos contributed to the increase in the net interest margin, as the consumer price index on which the UF adjustment is based increased from 2.3% in 1999 to 4.5% in 2000. Interest expenses also increased due to increases in nominal interest paid and greater funding requirements as a result of the economic growth recovery, reflected in higher credit demand and higher investment volume. Generally, funding sources were generated through liabilities in UF, which resulted in higher costs due to the increase in inflation in 2000 as compared to 1999.

Interest Revenue

The following table sets forth information regarding our interest revenue and average interest earning assets for the years ended December 31, 1999, 2000 and 2001:

	Year Ended December 31,			% Change	
	1999	2000	2001	1999/2000	2000/2001
	(in millions of constant Ch$ as of December 31, 2001, except for percentages)				
Interest revenue[1]	Ch$ 507,323	Ch$ 565,595	Ch$ 515,553	11.5%	(8.8)%
Average interest earning assets:					
Commercial loans[2]	Ch$ 1,819,540	Ch$ 1,870,209	Ch$ 2,009,816	2.8	7.5
Consumer loans	186,264	185,095	198,207	(0.6)	7.1
Mortgage loans[3]	703,373	749,976	787,281	6.6	5.0
Foreign trade loans	282,371	310,309	341,619	9.9	10.1
Interbank loans	138,588	101,657	136,366	(26.6)	34.1
Past due loans[4]	33,050	39,838	52,050	20.5	30.7
Contingent loans[5]	288,063	266,168	291,305	(7.6)	9.4
Leasing contracts	204,116	172,043	169,406	(15.7)	(1.5)
Total loans	3,655,365	3,695,295	3,986,050	1.1	7.9
Financial investments[6]	1,123,270	1,213,728	1,605,831	8.1	32.3
Interbank deposits	84,440	75,414	62,999	(10.7)	(16.5)
Total	Ch$ 4,863,075	Ch$ 4,984,437	Ch$ 5,654,880	2.5%	13.5%
Average rates earned on total interest earning assets[7]:					
Average nominal rates	10.43%	11.35%	9.12%	—	—
Average real rates	11.37%	8.96%	10.23%	—	—

(1) Interest revenue includes fees we charge in respect of contingent loans. See "—Introduction—Contingent Loans."
(2) Excludes leasing contracts.
(3) Includes residential and general purpose mortgage loans.
(4) "Past due loans" includes interest accrued and unpaid on principal until the date on which payment becomes overdue.
(5) Contingent loans consist of unfunded letters of credit, guarantees, performance bonds and other unfunded commitments.
(6) "Financial investments" includes primarily bonds issued by the Central Bank and foreign governments as well as mortgage finance bonds we issued.
(7) See "Item 4. Information on the Company—Selected Statistical Information—Average Balance Sheets, Interest Earned on Interest Earning Assets and Interest Paid on Interest Bearing Liabilities."

The following table sets forth the effect on our interest revenue of changes in (1) the average volume of interest earning assets and (2) the average nominal interest rates on interest earning assets, during the periods presented in the preceding table:

	Increase (Decrease)	
	1999/2000	2000/2001
	(in millions of constant Ch$ as of December 31, 2001)	
Effect due to changes in average volume of interest earning assets	Ch$ 11,759	Ch$ 65,516
Effect due to changes in average nominal interest rates of interest earning assets	46,513	(115,558)
Net change	Ch$ 58,272	Ch$ (50,042)

2000 and 2001. Despite a 13.5% increase in the average volume of interest earning assets, interest revenue decreased 8.8% from Ch$565,595 million in 2000 to Ch$515,553 million in 2001. The decrease was primarily the result of a decrease in the average nominal interest rate earned on such assets, from 11.35% in 2000 to 9.12% in 2001. We earned a lower nominal interest rate as the result of a decrease in the inflation rate (from 4.5% in 2000 to 2.6% in 2001) and in real interest rates due to a relaxation in monetary policy. The decrease was partially offset by an increase in real interest accrued in foreign currency as a result of increased exchange rates. The growth in the average interest earning assets in 2001 resulted principally from a Ch$392,103 increase in financial investments, and, to a lesser extent, from increased commercial loans, foreign trade loans and interbank loans.

1999 and 2000. Interest revenue increased by 11.5% from Ch$507,323 million in 1999 to Ch$565,595 million in 2000. Average interest earning assets increased 2.5% from Ch$4,863,075 million in 1999 to Ch$4,984,437 million in 2000 due to an increase in the average nominal rate earned on such assets from 10.43% in 1999 to 11.35% in 2000. During 2000, the monetary relaxation policy originally implemented in response to the Asian financial crisis resulted in a reduction in the real interest rate. However, this reduction was offset by an increase in the inflation rate from 2.3% in 1999 to 4.5% in 2000. The net result was an increase in nominal rates.

The growth in average interest earning assets during 2000 resulted principally from increased balances of financial investment, commercial loans and mortgage loans, and to a lesser extent, from increased balances of foreign trade loans.

Interest Expense

The following table sets forth information regarding our interest expense and average interest bearing liabilities for the years ended December 31, 1999, 2000 and 2001:

	Year ended December 31,			% Change	
	1999	2000	2001	1999/2000	2000/2001
	(in millions of constant Ch$ as of December 31, 2001, except for percentages)				
Interest expense	Ch$ 305,637	Ch$ 355,321	Ch$ 300,695	16.3%	(15.4)%
Average interest bearing liabilities:					
Time deposits[1]	Ch$ 1,977,054	Ch$ 2,220,592	Ch$ 2,637,269	12.3	18.8
Savings accounts	132,338	144,785	171,511	9.4	18.5
Total Central Bank borrowings	6,791	4,768	34,000	(29.8)	613.1
Investments sold under agreements to repurchase	140,763	163,591	172,569	16.2	5.5
Mortgage finance bonds	724,873	777,367	824,131	7.2	6.0
Other interest bearing liabilities[2]	781,539	631,827	618,045	(19.2)	(2.2)
Total	Ch$ 3,763,358	Ch$ 3,942,930	Ch$ 4,457,525	4.8%	13.1%
Average rates paid on total interest bearing liabilities[3]:					
Average nominal rates	8.12%	9.01%	6.75%	–	–
Average real rates	9.04%	6.47%	7.57%	–	–
Average (Chilean peso-denominated) non-interest bearing demand deposits	Ch$ 722,523	Ch$ 773,329	Ch$ 909,730	7.0%	17.6%

(1) Includes interest earning demand deposits.
(2) Combines interest bearing demand deposits and other interest bearing liabilities.
(3) See "Item 4. Information on the Company—Selected Statistical Information—Average Balance Sheets, Interest Earned on Interest Earning Assets and Interest Paid on Interest Bearing Liabilities."

The following table sets forth the effect on our interest expense from changes in (1) average volume of interest bearing liabilities and (2) average nominal interest rates paid on interest bearing liabilities, during the periods presented:

	Increase (Decrease)	
	1999/2000	2000/2001
	(in millions of constant Ch$ as of December 31, 2001)	
Effect due to changes in average volume of interest bearing liabilities	Ch$ 17,792	Ch$ 42,464
Effect due to changes in average nominal interest rates of interest bearing liabilities	31,892	(97,090)
Net change	Ch$ 49,684	Ch$ (54,626)

2000 and 2001. Interest expense decreased 15.4% to Ch$300,695 million in 2001 from Ch$355,321 million in 2000. This reduction was largely attributable to a significant decrease in average nominal interest rate paid, from 9.01% in 2000 to 6.75% in 2001, partially offset by the impact of a 13.1% increase in the average volume of interest bearing liabilities, from Ch$3,942,930 million in 2000 to Ch$4,457,525 million in 2001. The decrease in average nominal interest rate paid was primarily attributable to the lower inflation and real interest rates in local currency. The increase in average interest bearing liabilities resulted principally from increased balances of time deposits, mortgage finance bonds and savings accounts.

1999 and 2000. Interest expense increased by 16.3% from Ch$305,637 million in 1999 to Ch$355,321 million in 2000, reflecting a 4.8% increase in average interest bearing liabilities from Ch$3,763,358 million in 1999 to Ch$3,942,930 million in 2000, the effect of which was magnified by an increase in the average nominal interest rate paid on such liabilities from 8.12% in 1999 to 9.01% in 2000.

The growth in average interest bearing liabilities during 2000 resulted principally from an increase in time deposits, mortgage finance bonds, and to a lesser extent, in investments sold under agreements to repurchase and in savings accounts. The increase in the average nominal rate paid and the decrease in average real rates paid on average interest bearing liabilities, reflect the combination of a downward cycle in terms of real interest rates with higher inflationary indexes, fluctuating from 2.3% in 1999 to 4.5% in 2000. The average real rate paid on interest bearing liabilities decreased from 9.04% in 1999 to 6.47% in 2000.

Provisions for Loan Losses

Chilean banks are required to maintain allowances to cover possible credit losses that at least equal their loans to customers multiplied by the greater of (1) their risk index and (2) 0.75%. The risk index is derived from management's classification of a bank's portfolio using the conceptual guidelines and definitions of the Chilean Superintendency of Banks and management's estimate of the likelihood of default. See "Item 4. Information on the Company—Selected Statistical Information." For statistical information with respect to our substandard loans and allowances for loan losses, see "Item 4. Information on the Company—Selected Statistical Information" and Note 7 to our audited financial statements. The amount of provisions charged to income in any period consists of net provisions for possible loan losses and net provisions made with respect to real estate acquired upon foreclosure.

The following table sets forth information with respect to our provisions for loan losses and charge-offs for each of the years ended December 31, 1999, 2000 and 2001:

	Year Ended December 31,			% Change	
	1999	2000	2001	1999/2000	2000/2001
	(in millions of constant Ch$ as of December 31, 2001, except for percentages)				
Provisions:					
Total provisions for loan losses	Ch$ 50,991	Ch$ 39,483	Ch$ 45,887	(22.6)%	16.2%
Charge-offs:					
Total charge-offs	32,352	27,593	27,046	(14.7)	(2.0)
Other asset quality data:					
Total loans	Ch$ 3,634,750	Ch$ 3,853,378	Ch$ 3,858,820	6.0	0.1
Consolidated risk index	2.03%	2.01%	2.40%	—	—
Unconsolidated risk index	2.13%	2.05%	2.48%	—	—
Required allowance for loan losses based on risk index (0.75% minimum)	Ch$ 77,702	Ch$ 80,696	Ch$ 98,842	3.9	22.5
Allowance for loan losses(1)	Ch$ 109,132	Ch$ 116,437	Ch$ 132,372	6.7%	13.7%
Allowance for loan losses as a percentage of total loans	3.00%	3.02%	3.43%	—	—

(1) Allowance for loan losses include voluntary loan loss allowances which are greater than those required by the Chilean Superintendency of Banks. These allowances are created when we believe that changes in the portfolio concentrations or economic conditions affecting or reasonably expected to affect borrowers' credit payment capacities are not adequately addressed by the regulatory mandated reserves. In addition, from time to time we include other global allowances within our voluntary reserves.

2000 and 2001. Provisions for loan losses increased 16.2% from Ch$39,483 million in 2000 to Ch$45,887 million in 2001, reflecting our increasingly conservative credit risk policies implemented in the wake of adverse international and domestic economic conditions. These economic conditions have led to a significant reduction in aggregate demand and consumption, which continued to affect our customers' financial conditions. As allowances for loan losses increased during the year and charge-offs decreased by 2.0% in 2001, our consolidated risk index increased from 2.01% at December 31, 2000 to 2.40% at December 31, 2001. The increase in the provisions for loan losses was partially offset by the impact of a release of Ch$4,250 million in voluntary allowances that the Central Bank required as a condition for our merger with Banco de A. Edwards.

1999 and 2000. Our overall provisions for loan losses decreased by 22.6% from Ch$50,991 million in 1999 to Ch$39,483 million in 2000, reflecting a decrease of Ch$11,508 million in provisions for loan losses. We decreased our provision for loan losses in 2000 as a result of a 14.7% decrease in charge-offs from Ch$32,352 million in 1999 to Ch$27,593 million in 2000, principally due to the decrease in our loans classified as Category B and B- (for which provisions of 1% and 20% are required, respectively) associated with an improvement in the credit quality of our portfolio and an overall improvement in the Chilean economy. Nevertheless, our required allowance for loan losses increased by 3.9% from Ch$77,702 million at December 31, 1999 to Ch$80,696 million at December 31, 2000.

On a consolidated basis, our risk index decreased slightly from 2.03% in 1999 to 2.01% in 2000. On an unconsolidated basis, there was a sharper decrease in our risk index from 2.13% in 1999 to 2.05% in 2000, due to the favorable risk evolution of loans granted in Chile.

Fees and Income from Services, Net

The following table sets forth certain components of our fees and income from services (net of fees paid to third parties that provide support for those services, principally fees relating to Credichile's sales force and receipts and collection services provided to us) for the years ended December 31, 1999, 2000 and 2001:

	Year Ended December 31,			% Change	
	1999	2000	2001	1999/2000	2000/2001
	(in millions of constant Ch$ as of December 31, 2001, except for percentages)				
Credit cards	Ch$ 4,752	Ch$ 5,816	Ch$ 7,642	22.4%	31.4%
ATMs	3,080	2,591	2,942	(15.9)	13.5
Receipts, services and payments(1)	2,503	3,288	3,631	31.4	10.4
Checking accounts, overdrafts and current accounts	9,622	10,239	12,604	6.4	23.1
Collection of accounts(2)	2,279	2,372	2,303	4.1	(2.9)
Bancuenta Credichile(3)	1,920	1,134	1,253	(40.9)	10.5
Lines of credit	3,242	3,439	2,074	6.1	(39.7)
Letters of credit, guarantees and other contingent operations	3,025	2,350	2,456	(22.3)	4.5
Mutual fund fees	6,908	8,210	9,477	18.8	15.4
Custody and trust services	660	499	575	(24.4)	15.2
Foreign trade and foreign currency transactions	1,490	1,100	1,473	(26.2)	33.9
Financial advisory services	2,064	2,178	1,932	5.5	(11.3)
Credichile sales commissions	(1,585)	(1,601)	(1,946)	1.0	21.5
Commissions received by insurance representatives (Banco de Chile affiliate) from insurance companies	1,068	1,452	2,101	36.0	44.7
Revenues from sales of previously leased goods	237	1,419	301	498.7	(78.8)
Other fees, net	698	4,138	2,657	492.8	(35.8)
Total	Ch$ 41,963	Ch$ 48,624	Ch$ 51,475	15.9%	5.9%

(1) Includes payments of services received from utilities and other institutions.
(2) Includes commissions received for collection of bills of exchange.
(3) Represents fees charged on Bancuenta accounts.

2000 and 2001. Fees and income from services, net increased by 5.9% from Ch$48,624 million in 2000 to Ch$51,475 million in 2001, principally as a result of higher fees from checking accounts, overdrafts and current accounts and credit cards, as well as higher fees received from our mutual fund subsidiary. The higher fees were mainly a consequence of our charging higher fees for these associated services as well as a significant increase in our client base (approximately 18,600 new checking account clients were added in 2001). The increase in credit cards fees was influenced by the "Travel" card promotional campaigns carried out during the year. The higher fees from our mutual fund subsidiary resulted in part from an increase in the volume of average funds under management, as well as a change in the compensation system for the asset management sales force to a system based on variable income.

In 2001, we began to apply new regulations required by the Chilean Superintendency of Banks whereby fee income is recognized on an accrual basis instead of a cash basis. The new regulations resulted in a reduction in the amount of fee income we recognized. The new regulations have led to a deferral of approximately Ch$2,114 million in fee income in 2001. Excluding this extraordinary effect, income from services grew 10.2% in 2001.

1999 and 2000. Fees and income from services, net increased by 15.9% from Ch$41,963 million in 1999 to Ch$48,624 million in 2000, principally as a result of significant increases in mutual fund, credit card and other fees. To a lesser extent the increase was the result of an increase in receipts, services and payments and checking accounts, overdrafts and current accounts. The revenue from sales of previously leased goods increased from Ch$237 million in 1999 to Ch$1,419 million in 2000.

Other Operating Income (Loss), Net

Other operating income (loss), net, consists of net gains and losses from trading activities and net gains and losses from foreign exchange transactions. Trading results include gains and losses realized on the sale of financial investments as well as gains and losses arising from marking certain financial investments to market at period-end. Net gains and losses from foreign exchange transactions include gains and losses realized upon the sale of foreign currency and foreign exchange derivatives and gains and losses arising from the period-end translation of foreign currency-denominated assets and liabilities into pesos. Foreign exchange results do not include net adjustments on U.S. dollar-indexed domestic currency transactions, or the exchange rate variation on foreign branches' capital and reserves. Foreign exchange results do include existing interest rate differences in currency derivatives used for hedging.

The following table sets forth certain components of our other operating income (loss), net, in the years ended December 31, 1999, 2000 and 2001:

	Year Ended December 31,			% Change	
	1999	2000	2001	1999/2000	2000/2001
	(in millions of constant Ch$ as of December 31, 2001, except for percentages)				
Gains on trading activities, net	Ch$12,715	Ch$ 7,042	Ch$ 4,569	(44.6)%	(35.1)%
Foreign exchange transactions, net	4,826	4,227	1,642	(12.4)	(61.2)
Total	Ch$17,541	Ch$11,269	Ch$ 6,211	(35.8)%	(44.9)%

2000 and 2001. Other operating income, net, decreased from Ch$11,269 million in 2000 to Ch$6,211 million in 2001 largely due to a decrease in gains from and in foreign exchange transactions. Lower gains on trading activities in 2001 were mainly attributable to the establishment of provisions and charge-offs during the fourth quarter of 2001 as a result of a default on a Mexican corporate bond held by our New York branch. The decrease in gains on trading activities was partially offset by increased mark to market earnings on Chilean corporate bonds and sovereign bonds (primarily Chilean and Mexican sovereign bonds).

The decrease in 2001 in foreign exchange transactions was primarily attributable to our decision to maintain a net liability position in U.S. dollars while the Chilean peso depreciated 14.6% between December 31, 2000 and December 31, 2001 against the U.S. dollar. In the same period, the bank maintained a net asset position in dollar-adjustable Chilean pesos, which partially offset the aforementioned decrease. The loss from foreign exchange transactions was also attributable to lower accrual earnings on U.F. – U.S. dollar forward contracts as a result of the lower inflation rate (the annual change experienced by the UF index was 4.7% in 2000 and 2.1% in 2001).

1999 and 2000. Other operating income, net, decreased by Ch$6,272 million in 2000 compared to 1999, as a result of a decrease in gains on trading activities, net of Ch$5,673 million. During 2000, the interest rate on instruments held on the investment portfolio decreased less than in 1999, which was the first year of monetary relaxation following the restrictive monetary policy implemented in Chile during the Asian financial crisis. Declining interest rates in 1999 helped increase the value of the securities held, which were principally comprised of Central Bank marketable debt securities and foreign government notes.

Other Income and Expenses, Net

Other income and expenses, net, consists of gains arising from recovery of loans previously charged off, non-operating income, non-operating expenses and income and gains arising from our affiliates accounted for by the equity method, offset by any minority interest participation in the net income of our subsidiaries. See notes 9, 17 and 19 to our audited financial statements.

The following table sets forth certain components of our other income and expenses, net, in the years ended December 31, 1999, 2000 and 2001.

	Year Ended December 31,			% Change	
	1999	2000	2001	1999/2000	2000/2001
	(in millions of constant Ch$ as of December 31, 2001, except for percentages)				
Loan loss recoveries previously charged off	Ch$ 7,858	Ch$ 7,223	Ch$ 8,658	(8.1)%	19.9%
Loan loss recoveries reacquired from the Central Bank	1,301	1,860	988	43.0	(46.9)
Subtotal	9,159	9,083	9,646	(0.8)	6.2
Non-operating income	5,729	7,704	9,357	34.5	21.5
Non-operating expenses	(9,715)	(6,023)	(5,970)	(38.0)	(0.9)
Subtotal	(3,986)	1,681	3,387	—	101.5
Income from investments in other companies	(56)	3	(43)	—	—
Minority interest	(1)	(1)	(1)	0.0	0.0
Total	Ch$ 5,116	Ch$10,766	Ch$12,989	110.4%	20.6%

2000 and 2001. Other income and expenses, net increased by Ch$2,223 million in 2001 compared to 2000, due principally to an increase of Ch$1,706 million in net non-operating income and, to a lesser extent, to higher recoveries from loans that had been previously charged-off. The increase in non-operating income, net, resulted primarily from higher earnings obtained from sales of assets received in lieu of payment and, to a lesser extent, from lower charge-offs related to these assets, as a result of the new accounting treatment described in note 2 to our consolidated financial statements.

1999 and 2000. Other income and expenses, net, increased by Ch$5,650 million in 2000 compared to 1999, due principally to an increase of Ch$1,975 million in non-operating income and a decrease of Ch$3,692 million in non-operating expenses from 1999 to 2000.

The increase in non-operating income includes a profit of Ch$1,496 million on the sale of the New York branch's building. Non-operating income in 2000 also includes a higher amount of income from the sale of other fixed assets than in 1999.

Non-operating expenses decreased by Ch$3,692 million in 2000 compared to 1999, principally due to a number of one-time items that affected only 1999. These items include:

- an expense of Ch$1,041 million relating to the amortization of the goodwill from the purchase of Leasing Andino (fully amortized in one year only, as permitted under Chilean GAAP); and

- write-offs relating to assets received in lieu of payment, resulting in a charge in 1999 that was Ch$1,841 million greater than in 2000, principally related to weak economic conditions in 1999, which resulted in difficulties in selling assets.

Operating Expenses

The following table sets forth information regarding our operating expenses in the years ended December 31, 1999, 2000 and 2001:

	Year Ended December 31,			% Change	
	1999	2000	2001	1999/2000	2000/2001
	(in millions of constant Ch$ as of December 31, 2001, except for percentages)				
Personnel salaries and expenses	Ch$ 78,390	Ch$ 82,141	Ch$ 81,265	4.8%	(1.1)%
Administrative and other expenses:					
Advertising	4,611	5,714	6,501	23.9	13.8
Building maintenance	4,929	4,118	3,879	(16.5)	(5.8)
Rentals and insurance	3,009	3,826	4,398	27.2	15.0
Office supplies	2,962	2,718	2,647	(8.2)	(2.6)
Other expenses	35,650	38,425	41,479	7.8	7.9
Total administrative and other expenses	51,161	54,801	58,904	7.1	7.5
Depreciation and amortization	8,990	9,038	8,078	0.5	(10.6)
Total	Ch$138,541	Ch$145,980	Ch$148,247	5.4%	1.6%

2000 and 2001. Our operating expenses increased by 1.6% from Ch$145,980 million in 2000 to Ch$148,247 million in 2001, mainly due to an increase in administrative and other expenses related to the merger process. Excluding merger related expenses, total operating expenses would have decreased by 3.2% during 2001.

Personnel salaries and expenses decreased by 1.1% during 2001 compared to 2000, mainly as a consequence of lower severance payments, partially offset by higher bonus expenses related to the collective bargaining agreement. During 2000, we incurred higher severance compensations in connection with a restricting project implemented during the year.

The 7.5% increase in administrative and other expenses was due mainly to an increase in the amounts paid to external advisors and consultants (accountants, legal, outplacement, etc.) and to a lesser extent, to higher advertising expenses, both of which were principally related to the merger process.

The decrease in depreciation and amortization expenses during 2001 as compared to 2000, was mainly attributable to higher amortization expenses incurred during the fourth quarter of 2000 associated with expenses incurred in promoting the use of debit cards.

1999 and 2000. Our operating expenses increased by 5.4% from Ch$138,541 million in 1999 to Ch$145,980 million in 2000, due principally to a Ch$3,751 million increase in personnel salaries and expenses as a result of an increase in severance compensations derived from our restructuring. The restructuring was the result of a review of our most relevant operating processes with the aim of enhancing future efficiency. Operating expenses grew as a result of a Ch$3,640 million increase in administrative and other expenses, mainly resulting from promotional campaigns, collection expenses and other expenses derived from an aggressive sales campaign targeted at the retail market.

Loss from Price-Level Restatement

Chilean GAAP requires that adjustments be made to nonmonetary assets (including fixed assets) and liabilities and to shareholders' equity at the end of each reported period to reflect the effects of inflation during such period. The net effect of this inflation adjustment is reflected in results of operations under "gain (loss) from price-level restatement." See "—Introduction—Inflation."

2000 and 2001. Loss from price-level restatement decreased from Ch$9,422 million in 2000 to Ch$5,777 million in 2001 primarily due to a decrease in the inflation rate used for adjustment purposes from 4.7% to 3.1% during the period, which resulted in a Ch$9,418 million restatement of our equity. This was partially offset by an increase in the valuation of fixed assets of Ch$2,447 million, an increase in investments in other companies of Ch$554 million and an increase in other assets of Ch$640 million.

1999 and 2000. Loss from price-level restatement increased from Ch$5,587 million in 1999 to Ch$9,422 million in 2000 due to an increase in the inflation rate used for adjustment purposes from 2.6% to 4.7%, which resulted in a Ch$14,765 million restatement of our equity, partially offset by a higher valuation of fixed assets amounting to Ch$3,724 million, investment in other companies amounting to Ch$783 million and other assets amounting to Ch$836 million.

Income Tax

The statutory corporate income tax rate in Chile was 15% in 2001. As an inducement for Chilean banks to refinance their indebtedness with the Central Bank related to the sale of loans during the crisis of the early 1980s, Law No. 19,396 of July 1995 provided that if a bank chose to refinance such indebtedness, the bank's income tax payable could not increase. As a result, we have been permitted under such law to deduct dividend payments made to SAOS. In addition, any other payments made by SAOS or its shareholders to the Central Bank in connection with the Central Bank Indebtedness are tax deductible. Consequently, our effective tax rate is significantly lower than the statutory corporate income tax rate because it deducts such dividend payments from our taxable income. Secondarily, significant differences in the tax treatment for provisions on individual loans and for charge-offs for past due loans have an impact on our effective tax rate. In addition, all real estate taxes paid on properties that are leased to customers are deductible from our taxable income.

2000 and 2001. We received a Ch$1,346 million tax credit in 2001, as compared to income tax liability of Ch$1,550 million in 2000. This was primarily attributable to (a) a change in accounting principles related to the recording of deferred income taxes, which resulted in a tax credit of Ch$2,743 million arising from the application of these guidelines for periods prior to 1999, (b) the recognition of the difference between the tax actually paid in 2001 and what had been set aside in December 2000 for 2001, and (c) earnings related to the recognition of deferred taxes arising as a consequence of the increase in the first category rate from 2002 onwards.

1999 and 2000. Our income tax in 2000 represented a net charge of Ch$1,550 million, whereas in 1999 it represented a net charge of Ch$2,002 million. Included in tax expenses in 2000 is a one-time payment of Ch$3,360 million resulting from a trial with the Chilean Internal Revenue Service. In the trial, certain costs were rejected for tax purposes by the Chilean Internal Revenue Service. The case was not resolved until 2000, at which time the costs were recognized in the appropriate accounts. Included in tax expenses in 1999 is a charge of Ch$2,115 million, which is the difference between what was paid during 1999 and what had been provisioned at December 31, 1998. We record the effects of deferred taxes on our consolidated financial statements in accordance with Technical Bulletin No. 60 issued by the Chilean Association of Accountants. As described in that accounting standard, beginning January 1, 1999, we recognized the consolidated tax effects generated by the temporary differences between financial and tax values of assets and liabilities. This net deferred tax asset was completely offset against net "complementary" liability account. Such complimentary deferred tax balances are being amortized against results over the estimated reversal periods corresponding to the underlying temporary differences as of January 1, 1999. Accordingly, our effective tax rate in 2000 differs from the statutory tax rate due to the net amortization of the deferred tax complementary accounts. For this reason, Ch$3,819 million was recognized as deferred income tax in 2000, and Ch$3,086 million was recognized as deferred income tax in 1999.

Cash Flows

	Year Ended December 31,		
	1999	**2000**	**2001**
	(in millions of constant Ch$ as of December 31, 2001)		
Net cash provided by (used in) operating activities............................	Ch$ 92,118	Ch$(141,095)	Ch$(133,204)

2000 and 2001. Cash used in operating activities decreased by Ch$7,891 million in 2001 compared to 2000, due to a change in the level of interest accruals, a higher level of allowance for loan losses and an increase in other charges (credits) not representing cash flows, which more than offset the cash used in the portfolio of trading investments.

1999 and 2000. Cash provided by operating activities decreased Ch$233,213 million in 2000 compared to 1999, due to a change in the portfolio of trading investments. During 2000, investments were made in securities issued by the Central Bank amounting to Ch$87,212, and in foreign government funds (term federal funds) amounting to Ch$153,689. The combination of these two investments resulted in the negative cash flow generated from operating activities in 2000.

	Year Ended December 31,		
	1999	**2000**	**2001**
	(in millions of constant Ch$ as of December 31, 2001)		
Net cash provided by (used in) investing activities	Ch$(136,533)	Ch$(378,455)	Ch$(136,275)

2000 and 2001. Cash used in investing activities decreased by Ch$242,180 million in 2001 compared to 2000, mainly due to slower growth in loan volume, as a consequence of decreased global economic activity (during 2001 the bank's loan volume grew 0.1% compared to 6.0% in 2000).

1999 and 2000. Cash used in investing activities increased by Ch$241,922 million in 2000 compared to 1999, mainly due to a 6.0% increase in loan volume in 2000. Loans decreased 0.9% in 1999.

	Year Ended December 31,		
	1999	**2000**	**2001**
	(in millions of constant Ch$ as of December 31, 2001)		
Net cash provided by (used in) financing activities	Ch$46,459	Ch$602,449	Ch$316,822

2000 and 2001. In 2001, cash provided by financing activities decreased by Ch$285,627 as compared to 2000, primarily as a result of smaller increases in savings accounts, time deposits and current accounts, a decrease in the volume of banker's drafts and other deposits and, to a lesser extent, higher repayments of long-term borrowings.

1999 and 2000. In 2000, Ch$555,990 million more cash was provided in financing activities than in 1999. This increase was primarily the result of an increase in current accounts, savings accounts and time deposits and higher proceeds from the issuance of long-term borrowings.

Chilean and U.S. GAAP Reconciliation

We prepare our financial statements in accordance with Chilean GAAP, which differs in certain significant respects from U.S. GAAP. See note 30 to our audited financial statements for a discussion of new accounting rules under U.S. GAAP. The following table sets forth net income and shareholders' equity for the years ended December 31, 2000 and 2001 under Chilean GAAP and U.S. GAAP:

	Year Ended December 31,	
	2000	**2001**
	(in millions of constant Ch$ as of December 31, 2001)	
Net income (Chilean GAAP)	Ch$ 84,498	Ch$ 86,968
Net income (U.S. GAAP)	78,287	74,598
Shareholders' equity (Chilean GAAP)	394,333	398,269
Shareholders' equity (U.S. GAAP)	418,705	409,572

The material differences in accounting for net income under Chilean GAAP and U.S. GAAP during 2000 and 2001 relate to the accounting for allowances for loan losses, classifications of investment securities, derivatives and the treatment of deferred taxes. For a full explanation of these differences and other differences in income between Chilean GAAP and U.S. GAAP, see note 30 of our audited financial statements included elsewhere in this annual report.

Funding

The following table sets forth our average daily balance of liabilities for the years ended December 31, 1999, 2000 and 2001, in each case together with the related average nominal interest rates paid thereon:

	Year Ended December 31,								
	1999			2000			2001		
	Average Balance	% of Total Liabilities	Average Nominal Rate	Average Balance	% of Total Liabilities	Average Nominal Rate	Average Balance	% of Total Liabilities	Average Nominal Rate
	(in millions of constant Ch$ as of December 31, 2001, except for percentages)								
Non-interest bearing demand deposits	Ch$ 722,523	12.8%	—%	Ch$ 773,329	13.1%	—%	Ch$ 909,730	13.6%	—%
Interest bearing demand deposits	76	0.0	2.6	509	0.0	2.4	807	0.0	0.7
Time deposits	1,977,054	35.1	8.1	2,220,592	37.6	8.9	2,637,269	39.6	6.3
Savings accounts	132,338	2.4	5.3	144,785	2.5	6.5	171,511	2.6	4.6
Mortgage finance bonds	724,873	12.9	8.8	777,367	13.2	10.9	824,131	12.4	9.4
Central Bank borrowings	6,791	0.1	6.1	4,768	0.1	7.9	34,000	0.5	4.6
Contingent liabilities	288,679	5.1	—	267,527	4.5	—	291,704	4.4	—
Other non-interest bearing liabilities	853,280	15.2	—	920,995	15.6	—	1,008,707	15.1	—
Other interest bearing liabilities	922,226	16.4%	8.1%	794,909	13.4%	7.8%	789,807	11.8%	6.0%
Total liabilities	Ch$ 5,627,840	100.0%		Ch$ 5,904,781	100.0%		Ch$ 6,667,666	100.0%	

Our most important source of funding is our customer deposits (which consist primarily of peso-denominated non-interest bearing demand deposits and peso- and UF-denominated interest bearing time deposits). Non-interest bearing demand deposits, representing 13.6% of our average total liabilities for the twelve months ended December 31, 2001, are the least expensive source of funding for us. Time deposits and mortgage finance bonds represented 52.0% of our average liabilities in the year ended December 31, 2001, compared to 50.8% for the prior year.

Our current funding strategy is to continue to utilize all sources of funding in accordance with their cost and availability and with our general asset and liability management strategy. We also intend to continue to broaden our customer deposit base, to emphasize core deposit funding and to fund our mortgage loans with the matched funding available through the issuance of mortgage finance bonds in Chile's capital markets. See "Item 4. Information on the Company—History and Development of the Company—Principal Business Activities—Retail Banking."

Liquidity

Liquidity risk is the risk that we will become unable to make payment obligations and potential payment obligations as and when they become due without incurring unacceptable losses. To manage that risk, we maintain at all times a diversified stock of highly liquid assets that can be quickly mobilized in extraordinary circumstances, including cash and due from banks and financial investments, Central Bank and government securities. Additionally, we have established lines of credit with foreign and domestic banks and have access to Central Bank borrowings to increase liquidity as necessary.

Our general policy is to maintain liquidity adequate to ensure our ability to honor withdrawals of deposits, make repayments of other liabilities at maturity, extend loans and meet our own working capital needs. The minimum amount of liquidity is determined by the reserve requirements set by the Central Bank. These reserves, in the case of peso- and UF-denominated deposits, are currently 9.0% of demand deposits and 3.6% of time deposits.

In the case of dollar or other foreign currency deposits, these reserves are currently 19% for demand deposits and 13.6% for time deposits. We are currently in compliance with these requirements.

The following tables set forth our contractual obligations and commercial commitments by time remaining to maturity. As of December 31, 2001, the scheduled maturities of our contractual obligations, including accrued interest, were as follows:

Contractual Obligations	Due within 1 year	Due after 1 year but within 3 years	Due after 3 years but within 6 years	Due after 6 years	Total
	(in millions of constant Ch$ as of December 31, 2001)				
Deposit and other term liabilities[1]	Ch$ 2,526,001	Ch$ 25,859	Ch$ 11,047	Ch$ —	Ch$ 2,562,907
Mortgage finance bonds	83,293	144,786	204,856	428,352	861,287
Bonds issued	5,242	13,301	24,978	135,014	178,535
Chilean Central Bank borrowings:					
Central Bank credit lines from renegotiations of Loans	2,396	—	—	—	2,396
Other Central Bank borrowings	32,727	—	—	—	32,727
Borrowings from domestic financial institutions	24,947	12	—	—	24,959
Foreign borrowings	191,011	94,584	4,956	—	290,551
Other obligations	21,943	10,183	8,390	4,520	45,036
Lease contracts	2,061	3,853	2,955	3,120	11,989
Investments under agreements to repurchase	158,017	—	—	356	158,373
Total	Ch$ 3,047,638	Ch$ 292,578	Ch$ 257,182	Ch$ 571,362	Ch$ 4,168,760

(1) Excludes demand accounts and savings accounts.

As of December 31, 2001, the scheduled maturities of other commercial commitments, including accrued interest, were as follows:

	Due within 1 year	Due after 1 year but within 3 years	Due after 3 years but within 6 years	Due after 6 years	Total
	(in millions of constant Ch$ as of December 2001)				
Commercial Commitments					
Letters of Credit	Ch$ 45,706	Ch$ —	Ch$ —	Ch$ —	Ch$ 45,706
Guarantees	165,490	52,315	23,945	292	242,042
Total other commercial commitments	Ch$ 211,196	Ch$ 52,315	Ch$ 23,945	Ch$ 292	Ch$ 287,748

In addition, we are subject to a technical requirement pursuant to which Chilean banks must hold a certain amount of assets in cash or in highly liquid instruments. This reserve is equal to the amount by which the daily balance of:

(1) deposit in checking accounts;

(2) other demand deposits or obligations payable on sight incurred in the ordinary course of business;

(3) other deposits unconditionally payable immediately or within a term of less than 30 days; and

(4) time deposits payable within ten days, in the aggregate, exceed 250% of our capital and reserves.

Chilean regulations also require that gaps among assets and liabilities maturing within less than 30 days not exceed a bank's equity more than once and that gaps among assets and liabilities maturing within less than 90 days not exceed a bank's equity more than twice.

The senior members of our finance division manage liquidity using daily cash flows projected over the following 100 days to ensure that adequate liquidity is maintained, complying with limits imposed by Chilean banking regulations and those set internally by us. Finally, the diversity of our products and funding sources, especially with respect to the credit risk of the investor, the industry sector and the funding time frame, is an essential factor underlying our liquidity management.

Capital

We currently have shareholders' equity in excess of that required by all current Chilean regulatory requirements. According to the General Banking Law, a bank must have an effective equity of at least 8% of its risk-weighted assets, net of required reserves, and paid-in capital and reserves, or basic capital, of at least 3% of its total assets, net of required allowances. In our case, however, because of our merger with Banco de A. Edwards we are required to have an effective equity of at least 10%. For these purposes, the effective equity of a bank is the sum of:

(a) the bank's basic capital;

(b) subordinated bonds issued by the bank valued at their placement price up to 50% of its basic capital, provided that the value of the bonds decreases 20% for each year that lapses during the period commencing six years prior to their maturity; and

(c) voluntary loan loss allowances, but only up to 1.25% of the bank's risk-weighted assets.

In calculating effective equity, contributions made to subsidiaries or foreign branches are deducted from the bank's basic capital. For purposes of weighing the risk of a bank's assets, the General Banking Law considers five different categories of assets, based on Basle Committee recommendations for minimum capital requirements.

The following table reflects the composition of our regulatory capital as of December 31, 2001.

		As of December 31, 2001
Basic capital	Ch$	311,301
Investment in subsidiaries		(18,601)
Capital assigned to foreign branches		(42,653)
Subordinated bonds		125,024
Voluntary allowance		33,530
Effective equity		408,601
Unconsolidated risk-weighted assets, net	Ch$	3,400,219
Effective equity /risk-weighted assets		12.02%
Unconsolidated assets, net of allowances	Ch$	5,249,603
Basic capital/assets, net of allowances		5.93%

Dividend Policy

Our dividend policy is proposed by our board of directors and approved by the shareholders, and is based on our capital needs. Chilean law requires that a minimum of 30% of the prior year's net income be paid as a dividend. In 2000, we paid dividends of Ch$87,054 million corresponding to 126% of net income for the year ended December 31, 1999. In 2001, we paid dividends of Ch$84,334 million corresponding to 100% of net income for the year ended December 31, 2000.

Capital Expenditures

The following table reflects our capital expenditures in each of the three years ended December 31, 1999, 2000 and 2001.

	Years Ended December 31,					
	1999		2000		2001	
	(in millions of constant Ch$ as of December 31, 2001)					
Computer equipment	Ch$	2,696	Ch$	2,489	Ch$	6,734
Furniture, machinery and installations		3,881		3,293		2,661
Real estate		1,027		868		360
Vehicles		36		254		63
Total	Ch$	7,640	Ch$	6,904	Ch$	9,818

Our budget for capital expenditures in 2002 is Ch$24,765 million.

Item 6. Directors, Senior Management and Employees

Directors

Our administration is conducted by our board of directors which, in accordance with our *estatutos*, consists of eleven directors and two alternate directors. The entire board of directors is elected every three years. Our current board of directors was elected in March 2002 and their term expires in March 2005. Cumulative voting is permitted for the election of directors. Our President and Chief Executive Officer are appointed by the board of directors and hold their offices at the board of directors' discretion. Scheduled meetings of the board of directors are held at least once a month. Extraordinary board of directors meetings may be called by the Chairman, when requested by a majority of the directors or, in limited circumstances, when requested by one director.

Our current directors are as follows:

Directors	Position	Age
Segismundo Schulin-Zeuthen S.	Chairman	56
Andrónico Luksic C.	Vice Chairman	48
Guillermo Luksic C.	Director	45
Jacob Ergas E.	Director	67
Jorge Awad M.	Director	56
Rodrigo Manubens M.	Director	42
Gonzalo Menendez D.	Director	52
Maximo Pacheco M.	Director	48
Francisco Perez M.	Director	43
Manuel Sobral F.	Director	47
Maximo Silva B.	Director	56
Edmundo Eluchans U.	Alternate Director	51
Jorge Díaz V.	Alternate Director	58

Segismundo Schulin-Zeuthen S. has been the Chairman of our board of directors since 1999. Previously he had been our President and Chief Executive Officer since 1987. He joined us in 1985 and served as Assistant General Manager until 1986. Prior to joining us, Mr. Schulin-Zeuthen held positions at Banco Morgan Finansa and at Nacional Financiera. Mr. Schulin-Zeuthen is also Vice Chairman of ICARE, a member of the board of directors of La Bolsa de Comercio de Santiago (the Santiago Stock Exchange), a member of the board of directors of the Asociacion de Bancos e Instituciones Financieras (the Chilean Association of Banks and Financial Institutions) and chairman of the boards of Banchile Corredora de Bolsa. Mr. Schulin-Zeuthen holds a degree in commercial engineering from the Universidad de Chile.

Andrónico Luksic C. was elected director and Vice Chairman of our board of directors on March 21, 2002. He is a member of the New York Stock Exchange, of the Advisory Committee to the David Rockefeller Center for

Latin American Studies at Harvard University, of the Board of Trustees to Babson College, of the Latin American Advisory Committee and the Advisory Board of the Panama Canal Authority. Mr. Luksic is Vice Chairman of Quiñenco S.A. and Director of Compañia Cervecerias Unidas, Manufacturas de Cobre Madeco S.A., Empresas Lucchetti S.A. and Member of SOFOFA; Trustee of the Teatro Municipal de Santiago and Chile-Pacific Foundation. He was Chairman of the board of directors of Banco O'Higgins and subsequently Chairman of the board of directors of Banco Santiago until may 1999. Mr. Luksic was Director and Chairman of the board of directors of Banco de A. Edwards from September 1999 to December 2001.

Guillermo Luksic C. has been a member of our board of directors since March 29, 2001. He is the former Vice Chairman of the board. Mr. Luksic is Chairman of the board of directors of Quiñenco S.A., Compañia Cervecerias Unidas S.A., CNT Telefonica del Sur S.A., Vice Chairman of Madeco S.A. and a director of Empresas Lucchetti S.A. He is also a member of the Advisory Council of Fundacion Paz Ciudadana and the Center of Public Studies CEP, a member of the board of Universidad Finis Terrae and a member of the Board of Trustees of the Thunderbird Graduate School of International Management.

Jacob Ergas E. has been a member of our board of directors since January 2, 2002. Mr. Ergas is also Director of Administradora Banchile de Fondos Mutuos S.A. and Banchile S.A. Administradora de Fondos de Inversión. He was Chairman of the board of directors of Banedwards S.A. Administradora de Fondos Mutuos, Banedwards S.A. Fondos de Inversión and Banedwards Corredora de Seguros Limitada. He was director of Promarket S.A., Banedwards Compañía de Seguros de Vida S.A. and Banedwards S.A. Asesoría Financiera. He was Director and Vice Chairman of Banco de A. Edwards from 1986 to December, 2001 and also Director of the Asociación de Bancos e Instituciones Financieras. He is Chairman of the board of directors of Inversiones Ever S.A. and J. Ergas S.A. Asesorias.

Jorge Awad M. has been a member of our board of directors since 1996. From 1989 to 1996 he was a member of the board of directors of Banco de Santiago. Mr. Awad is the Chairman of the board of directors of Lan Chile and Empresa Contructora Copeva and a member of the board of directors of several other companies including Envases del Pacífico S.A. and Diario La Nación. Mr. Awad holds a degree in commercial engineering from the Universidad de Chile.

Rodrigo Manubens M. has been a member of our board of directors since March 2001. Mr. Manubens was a member of the board of directors of Banco de A. Edwards from 1999 until April 2001. From 1985 to May 1999 Mr. Manubens was a member of the board of Banco O'Higgins, and continued in that role when it merged into Banco Santiago. From 1995 to 1999 he was Chairman of Banco Tornquist in Argentina and a member of the board of Banco Sur in Peru and Banco Asuncion in Paraguay. Mr. Manubens also served for a 10-year period as a director and chairman of Endesa Chile S.A. He is also chairman of Banedwards Seguros de Vida, Banchile Corredora de Seguros Limitada, and Banchile Factoring, S.A. and a member of the boards of directors of Banchile Corredora de Bolsa S.A. Mr. Manubens holds a degree in business from Universidad Adolfo Ibañez and a masters of science from the London School of Economics and Political Science.

Gonzalo Menendez D. has been a member of our board of directors since March 2001. Mr. Menendez is also member of the board of directors of Quiñenco S.A., Antofagasta PLC, Minera Michilla S.A. and Mining Group Antofagasta Minerals S.A. Since 1990, he has been a director and is now chairman of the Latin American Bank for Export (BLADEX). From 1993 to 1999, Mr. Menendez was a member of the board of directors and the executive committee of Banco Santiago. From 1999 to 2001, Mr. Menendez was a member of the board of directors of Banco de A. Edwards. From 1980 to 1985, Mr. Menendez was the Chief Executive Officer of Antofagasta Railway. From 1985 to 1992, he was the Chief Executive Officer of Banco O'Higgins. From 1994 to 1998 he was the Chief Executive Officer of Empresas Lucchetti S.A. Mr. Menendez has been a Professor of Finance, Chilean Economic and Business Policy at Universidad de Chile, Counselor of Universidad de Antofagasta, Counselor of the Center of Public Studies (CEP) and Counselor to Fundacion Coanil and Universidad Diego Portales. Mr. Menendez is also the Chairman of Inversiones Vita S.A. Baned Servicios Especializados S.A., Banchile Asesoría Financiera S.A., Banchile Administradora de Fondos de Inversión S.A. and Administradora Banchile de Fondos Mutuos S.A. and a member of the boards of directors of Banedwards Compañia de Seguros de Vida S.A., Compañia Nacional de Telefonos, Telefonica del Sur S.A., and Compañia de Telefonos de Coyhaique S.A. Mr. Menendez holds a degree in business administration from the Universidad de Chile.

Maximo Pacheco M. has been a member of our board of directors since March 2001. Mr. Pacheco is President of International Paper for Latin America and member of the board of directors of AFP Provida, Falabella and Lucchetti. Mr. Pacheco holds a degree in commercial engineering from the Universidad de Chile.

Francisco Perez M. has been a member of our board of directors since March 2001. Since July 1998, Mr. Perez has been the Chief Executive Officer, or CEO, of Quiñenco S.A. He was formerly the CEO of Compañia Cervecerias Unidas S.A. He is also a member of the board of directors of Compañia Cervecerias Unidas S.A. and Entel, among others. Prior to 1991, Mr. Perez was CEO of Citicorp-Chile and also worked for Bankers Trust. Mr. Perez holds a degree in business administration from the Pontificia Universidad Catolica de Chile and a masters degree in business administration (MBA) from the University of Chicago.

Manuel Sobral F. has been a member of our board of directors since 1999. Mr. Sobral has been a member of the boards of directors of Inversiones Concepcion and Inversiones Aculeo since 1988.

Maximo Silva B. has been a member of our board of directors since 1987. Mr. Silva is chairman of the board of directors of Isapre Banmedica S.A., Clinica Santa Maria S.A. and Clinica Davila y Servicios Medicos S.A. and a member of the boards of directors of Banchile Corredora de Seguros Limitada (since 2002) and Banmedica S.A. (since 1990). He has also been the Chairman of the Asociacion de Clinicas Privadas de Chile and Isapre Salud Colmena, Colombia, since 1996. Mr. Silva was Chile's Minister of Labor, and he holds a law degree from the Universidad Catolica de Chile.

Edmundo Eluchans U. was elected as an Alternate Director on March 21, 2002. Mr. Eluchans was a Director of Banco del Trabajo, Banco O'Higgins and Banco Santiago. He is also a Director of Promarket S.A., Baned Servicios Especializados S.A. and member of the Administrative Council of Banedwards Corredora de Seguros Limitada. Mr. Eluchans is also a Director of several corporations and commercial institutions in Chile, and the principal partner at the Chilean law firm of Edmundo Eluchans y Cia. He was a Director at Banco de A. Edwards from March 2001 to December 2001, after having been designated an Alternate Director in March 2000.

Jorge Díaz V. was elected as an Alternate Director on March 21, 2002. Mr. Díaz is a Director of FCMI Administradore de Fondos de Inversión S.A. and an Advisor of Quiñenco S.A. Mr. Díaz was the Intendent of Banks from 1976 to 1980, Director of Banco del Pacifico from 1980 to 1981, the administrator designated by the Chilean Superintendency of Banks to Banco Unido de Fomento from 1982 to 1985, CEO of Banco Concepción (now Corpbanca) from 1986 to 1992 and advisor of O'Higgins Central Hispano S.A. until 1999. He was a Director at Banco de A. Edwards from March 2001 to December 2001, after having been designated as an Alternate Director in March 2000. He holds a degree in economics from the Pontificia Universidad Católica de Chile.

Senior Management

Our current executive officers are as follows:

Executive Officers	Position	Age
Pablo Granifo L.	Chief Executive Officer	43
Ricardo Dell'Orto B.	General Legal Counsel	60
Julio Guzman H.	Manager — Corporate and International Division	48
Luis Felipe Bravo F.	Manager — Credit Risk Division	58
Alejandro Herrera A.	Manager — Individual Banking and Branches	45
Marcelo Caracci L.	Manager — Operations and Technology Division	52
Arturo Concha U.	Manager — Financial Division	48
Antonio Barraza M.	Manager — Human Resources Division	54
Arturo Tagle Q.	Manager — Planning and Research Division	43
Alvaro Cambara L.	Manager —Marketing Division	45
Pedro Bolados M.	Manager — Risk Control Division	43
Cristian Wolleter V.	Manager — Middle Market Division	49
Alicia Sandoval Q.	Manager — Special Business Division	52

Pablo Granifo L. was appointed our Chief Executive Officer in October 2001. He was Chief Executive Officer of Banco de A. Edwards from November 2000 to October 2001, after having been a commercial manager at Banco de Santiago from 1995 to 1999 and a corporate manager at Banco Santiago from 1999 to January 2000. Mr. Granifo is a member of the board of directors of Administradora Banchile de Fondos Mutuos S.A., Banchile Asesoria Financiera S.A., Banchile Factoring S.A. and Banchile Administradora de Fondos de Inversion S.A., and he is a member of the executive committee of Banchile Corredores de Seguros Ltda. He holds a degree in business from the Pontificia Universidad Catolica de Chile.

Ricardo Dell'Orto B. is our General Legal Counsel and Secretary of our board of directors and has worked with us since 1965. Mr. Dell'Orto is Chairman of the board of directors of the Corporacion Club de Golf Rocas de Santo Domingo. He holds a law degree from the Universidad Catolica de Chile and participated in instructional programs for lawyers at Harvard Law School in 1992 and 1994.

Julio Guzman H. is the Manager of the Corporate and International division and has worked with us since 2002, after having been the General Manager of Banco de A. Edwards. He joined Banco de A. Edwards in 1992 after working at Banco Santiago, Citibank N.A. and Banco de Chile. Mr. Guzman is a member of the board of directors of Administradora Banchile de Fondos Mutuos S.A., Banchile Asesoria Financiera S.A., Banchile Securitizadora S.A. and Banchile Administradora de Fondos de Inversion S.A. and holds a degree in economics from the Pontificia Universidad Católica de Chile.

Luis Felipe Bravo F. was made the Manager of the Credit Risk Division in January 2002. Mr. Bravo joined Banco de Chile in 1986 and has been Manager of Corporative and International Credit, Manager of Enterprises and Manager of Credit Risk. Prior to that time, Mr. Bravo was a director of Carvalho Hiskenn, Brasil and Credit Manager at Citibank N.A. Mr. Bravo holds degrees in commercial engineering and accounting from the Pontificia Universidad Católica de Chile.

Alejandro Herrera A. was made the Manager of the Individual Banking and Branches Division in January 2002, after having served in the same position at Banco de A. Edwards. He joined Banco de A. Edwards in 2000, after having been the Chief Executive Officer of Administradora de Fondos Mutuos Santiago S.A. and the Manager of Individual Banking and Branches Division at Banco Santiago between 1995 and 1999. Prior to that time he worked at Banco Santiago, as Branches Manager, Metropolitan Region. Mr. Herrera is a member of the board of directors of Banchile Administradora de Fondos Mutuos S.A., Administradora Banchile de Fondos de Inversion S.A., Banchile Securitizadora S.A.. Promarket S.A. and he is a member of the executive committee of Banchile Corredores de Seguros Ltda. He holds a degree in business from the Pontificia Universidad Católica de Valparaíso.

Marcelo Caracci L. is the Manager of the Operations and Technology Division and has worked with us since May 2001. Prior to that time, Mr. Caracci was founder and Director of Sonda Bancos and Sonda Peru, both technology companies. He participated actively in the development and startup of Redbanc, Transbank, Servipag and Deposito Central de Valores. He holds a degree in civil engineering from the Universidad Católica de Chile.

Arturo Concha U. is the Manager of the Financial Division. He joined us in 1986 after serving as Chief Financial Officer at Banco Bice and Banco Colocadora Nacional de Valores. Mr. Concha serves as Chairman of the board of directors of the Sociedad Interbancaria de Depositos de Valores de S.A. Mr. Concha holds degrees in commercial engineering and accounting from the Universidad Católica de Chile and has attended executive education programs at Harvard Business School.

Antonio Barraza M. has been the Manager of the Human Resources Division since 1994, when he joined Banco de Chile. Prior to that time, Mr. Barraza was Manager of Human Resources at the Chilean Central Bank, Banco del Trabajo and Banco Morgan Finansa, after having been an assistant Manager of Branches at Banco Osorno and an assistant Manager of Human Resources and Administration at Industria Azucarera Nacional. Mr. Barraza holds degrees in commercial engineering and accounting from the Universidad de Chile.

Arturo Tagle Q. is the manager of the Planning and Research Division. Mr. Tagle joined us in 1995. Prior to that time, Mr. Tagle was the General Manager of the Chilean Bankers Association and Director of Research at the Chilean Superintendency of Banks. He holds a degree in commercial engineering from the Universidad Católica de Chile and an MBA from the University of Chicago.

Alvaro Cambara L. was made the Manager of the Marketing Division in January 2002, after having been the Manager of the Individual Banking Division and the Marketing Manager of that Division. Prior to that time, Mr. Cambara held several positions in our Corporate and Marketing divisions, after having been Marketing Manager at AFP Provida S.A. Mr. Cambara holds a degree in business from Pontificia Universidad Católica de Chile.

Pedro Bolados M. is the Manager of the Risk Control Division and joined the bank in January, 2002, after serving as Comptroller of Banco de A. Edwards. He joined Banco de A. Edwards in 1992 after being Corporate Audit Vice President at Citibank N.A. in Latin America Mr. Bolados holds an M.B.A. from the Pontificia Universidad Católica de Chile.

Cristian Wolleter V. is the Manager of the Middle-Market Division and has worked with us since 1980. He is also a member of the board of directors of Banchile Factoring S.A. and Banchile S.A. Asesoria Financiera. Prior to joining us, Mr. Wolleter held various positions at Financiera Tasco and Agrobanco, where he was Chief Credit Officer. Mr. Wolleter holds a degree in commercial engineering from the Universidad de Chile.

Alicia Sandoval Q. became the Manager of the Special Business Division in January 2002, after serving as the Manager of Specialized Credits in the Corporate Division. Prior to that time, Mrs. Sandoval was an advisor to the Chief Executive Officer of Industria Azucarera Nacional S.A. where she also served as Assistant Manager and an analyst at Corporacion de Fomento. Mrs. Sandoval holds degrees in commercial engineering and accounting from the Universidad de Chile.

Compensation

Consistent with Chilean law, we do not disclose to our shareholders or otherwise make public information regarding the compensation of our individual directors or officers. For the year ended December 31, 2001, the aggregate amount of compensation paid to all of our directors was Ch$1,022 million, and no amounts were set aside or accrued by us to provide pension, retirement or similar benefits for our directors and executive officers. This amount does not include Ch$1,965.2 million paid to our senior management and Ch$530 million paid to directors and executive officers of our subsidiaries.

Indebtedness of Directors and Executive Officers

The Chilean Companies Law provides that any transaction in which a director has a personal interest or is acting on behalf of a third party must be previously approved by the board of directors, which will do so only when it has been informed of such director's interest and the terms of such transaction are similar to those prevailing in the market. If the proposed transaction involves amounts considered material, the board must previously determine that such transaction is consistent with equity conditions similar to those prevailing in the market. If it is not possible to reach such a judgment, the board may appoint two independent evaluators. The evaluator's final conclusions must be made available to shareholders and directors for a period of 20 business days, during which shareholders representing 5% or more of the issued voting shares may request the board to summon to a shareholder's meeting to resolve the matter, with the agreement of two-thirds of the issued voting shares.

For purposes of this regulation, the law provides that the amount of a proposed transaction is material if (1) it exceeds 1% of the company's paid-in capital and reserves (provided that it also exceeds 2,000 UF), or (2) it exceeds 20,000 UF. All resolutions approving such transactions must be reported to the company's shareholders at the next annual shareholder's meeting.

Chilean law contains additional provisions restricting transactions with affiliates not involving directors or executive officers. The Chilean Companies Law requires that our transactions with related parties be on market terms or on similar terms to those customarily prevailing in the market. We are required to compare the terms of any such transaction to those prevailing in the market at the date the transaction is to be entered into. Directors of companies that violate this provision are liable for losses resulting from such violation. As disclosed in note 16 to our audited financial statements included elsewhere in this annual report, we incurred an aggregate of Ch$6,418 million in expenses and Ch$144 million in income from transactions other than loans with related parties in 2001.

As authorized by the General Banking Law, and within applicable regulatory limits, we also hold several outstanding loans owed by different affiliated corporations. All such loans

(a) were made in the ordinary course of business;

(b) were made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons; and

(c) did not involve more than the normal risk of collectibility or present other unfavorable features.

We held an aggregate of Ch$56,642 million in loans to, including Ch$16,692 million in collateral pledged by, related parties as of December 31, 2001. See note 16 to our audited financial statements for details concerning these transactions.

Board Practices

We have an audit committee composed of three members of our board of directors who are appointed by our board of directors. Members serve for the same period as they serve as directors and they can be re-elected. According to Article 50 bis of the Chilean Companies Law, the majority of the members of the audit committee must be independent of the controlling shareholder. The audit committee may appoint independent personnel to carry out specific duties. The present members of the audit committee were appointed by the board at a meeting held on March 21, 2002, and are as follows:

- Jorge Awad M. (President);
- Gonzalo Menéndez D.; and
- Manuel Sobral F.

The audit committee conducts monthly ordinary meetings and its main duties are:

- supervising our operations;
- reviewing the audit reports prepared by our internal comptroller and supervising our controlling divisions; and
- reviewing the work of our external auditors and interacting with rating agencies.

Employees

The following table shows the breakdown of our full-time, permanent employees at the dates indicated:

	As of December 31,		
	1999	**2000**	**2001**
Banco de Chile	4,488	4,350	4,052
Overseas branches and representative offices	64	63	55
Subsidiaries	385	421	428
Total	4,937	4,834	4,535

At December 31, 2001, 769 (17.0%) of our employees were unionized. All management positions are held by non-union employees. We are party to four collective bargaining agreements (one of which we assumed as part of the merger with Banco A. Edwards) covering our unionized employees. Three collective bargaining agreements were signed in September 2001 and expire in December 2005, the other was signed in November 1999, and expires in December 2002 . We have not experienced a strike in the last 10 years and consider relations with our employees to be satisfactory.

We have a comprehensive personnel training and development program which includes internal courses on operational, technical and commercial subjects as well as participation in external seminars. In 2001, the total cost of training programs was 1.2% of total personnel salaries and expense. We do not maintain any pension or retirement programs for the vast majority of our employees. We do, however, pay certain long-serving key employees a severance payment upon retirement. Although we have, in the past, provided productivity bonuses to individual employees on a discretionary basis, we do not maintain a formal profit-sharing plan.

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. Our directors and senior managers do not have different or preferential voting rights with respect to those shares they own.

Item 7. Major Shareholders and Related Party Transactions

The following table sets forth information concerning the beneficial ownership of our shares as of April 30¸ 2002 for the following:

- each person or entity who is known by us to own beneficially more than 5% of our outstanding share capital or voting power; and
- our directors and members of our executive management group, as a group.

The calculation of percentages in the "Percentage of Outstanding Shares" column in the table below is based upon the number of our ordinary shares issued and outstanding as of April 30, 2002, plus our shares subject to options held by the respective persons as of April 30, 2002 and exercisable within sixty days.

Name	Shares Beneficially Owned	Percentage of Shares	Shares Owned of Record	Percentage of Outstanding Shares	Number of Votes	Percentage of Votes
L.Q. Inversiones Financieras S.A.		—	13,762,345,978	20.22%	35,506,098,991	52.15%
SM-Chile S.A.(1).	41,175,754,216	60.48%	12,582,052,427	18.48%		
Sociedad Administradora de la Obligacion Subordinada SAOS S.A.(1)		—	28,593,701,789	42.00%		
Directors and executive officers as a group (26 persons)		—	16,924,237	0.02%	89,326,304	0.13%
Other shareholders	26,904,029,389	39.52%	13,124,759,174	19.28%	32,484,358,310	47.72%
Total	68,079,783,605	100.00%	68,079,783,605	100.00%	68,079,783,605	100.00%

(1) The sum of the shares directly held by SAOS and SM-Chile equals the amount of shares beneficially owned by SM-Chile SA. because SM-Chile is the parent company of SAOS, as described in "Item 4. Information on the Company—History and Development of the Company—History."

Quiñenco began acquiring our shares in 1999, and as of December 31, 1999 it had an 3.8% interest through shares it held directly and through SM-Chile. Quiñenco continued to acquire shares during 2000, and as of December 31, 2000, L.Q. Inversiones Financieras, its wholly owned subsidiary, had a 12.3% interest.

On December 14, 2000, Quiñenco announced that it had entered into an agreement with our controlling shareholder group, led by Empresas Penta, to acquire, through its wholly-owned subsidiary L.Q. Inversiones Financieras, an additional 35.8% interest in us for UF 19,766,052 (equivalent to U.S.$541.3 million on the announcement date). The acquisition was completed on March 27, 2001.

On February 6, 2001, Quiñenco launched a tender offer on the Chilean Stock Exchange to acquire 5% of the outstanding shares of SM-Chile. The tender offer was successfully concluded on February 28, 2001. The shares purchased included 28.4 million of SM-Chile's Series A shares, 550 million of SM-Chile's Series B shares, 21.5 million of SM-Chile's Series D shares and 29.3 million of SM-Chile's Series E shares. The shares acquired during the tender offer represented 5% of the outstanding shares of each series of SM-Chile. The acquisition cost associated with the share purchase amounted to Ch$36,212 million.

On March 27, 2001, Quiñenco, through L.Q. Inversiones Financieras, acquired an additional 35.8% interest in us, pursuant to a purchase agreement between Quiñenco and our controlling shareholder group dated February 2, 2001. Quiñenco's interest was acquired through the purchase of our shares and those of SM-Chile. The shares purchased included:

- 1,466.8 million of our ordinary shares, which represented 3.3% of our outstanding shares;
- 79.5 million shares of SM-Chile's Series A shares, which represent 14.0% of the outstanding shares of SM-Chile;
- 4,144.1 million shares of SM-Chile's Series B shares, which represent 37.7% of the outstanding shares of SM-Chile;
- 90.7 million shares of SM-Chile's Series D shares, which represent 21.1% of the outstanding shares of SM-Chile; and
- 18.6 million shares of our Series E shares, which represent 3.2% of the outstanding shares of SM-Chile.

The total purchase price was Ch$304,128 million.

Combined with the prior share purchases carried out in 1999 and 2000, Quiñenco's aggregate interest in us as of March 27, 2001 reached 52.7%. As a result, L.Q. Inversiones Financieras became our largest shareholder and is represented by five of our eleven directors. After the Merger with Banco Edwards, L.Q. Inversiones Financieras holds a 52.15% voting interest.

At an extraordinary shareholders meeting held on December 16, 2001, our shareholders approved the merger with Banco de A. Edwards. Banco de A. Edwards merged into us, and we acquired all the assets and assumed all the liabilities of Banco de A. Edwards, and incorporated all of the equity and shareholders of that bank. As part of the merger, we issued 23,147,126,425 shares, without par value that were distributed to Banco de A. Edwards' shareholders at a rate of 3.135826295 Banco de Chile shares for each Banco de A. Edwards share.

Our board of directors follows the provisions of Chilean law with respect to any potential conflicts of interest arising from Quiñenco's ownership of a majority of our common stock as well as a majority of the common stock of Banco de A. Edwards. We have not adopted any special procedures for addressing these potential conflicts, as we believe Chilean law is sufficient.

Related Party Transactions

In the ordinary course of our business, we engage in a variety of transactions with certain of our affiliates and related parties. Financial information concerning these transactions is set forth in note 16 to our audited financial statements. The Chilean Companies Law requires that our transactions with related parties be on a market basis or on similar terms to those customarily prevailing in the market. We are required to compare the terms of any such transaction to those prevailing in the market at the date the transaction is to be entered into. Directors of companies that violate this provision are liable for losses resulting from such violation.

In addition, the Chilean Companies Law provides that any transaction in which a director has a personal interest or is acting on behalf of a third party must be previously approved by the board of directors, which will do so only when it has been informed of such director's interest and the terms of such transaction are similar to those prevailing in the market. If the proposed transaction involves amounts considered to be material, the board must, in order to approve the transaction, previously determine that such transaction is consistent with equity conditions similar to those prevailing in the market. If it is not possible to reach such a judgment, the board may appoint two independent evaluators. The evaluator's final conclusions must be made available to shareholders and directors for a period of 20 business days, during which shareholders representing 5% or more of the issued voting shares may request the board to call a shareholder's meeting to resolve the matter, with the agreement of two-thirds of the issued voting shares. For purposes of this regulation, the law considers that the amount of a proposed transaction is material if (1) it exceeds 1% of the company's paid-in capital and reserves, (provided that it also exceeds 2,000 UF) or (2) it exceeds 20,000 UF.

All resolutions approving such transactions must be reported to the company's shareholders at the next annual shareholder's meeting. Violation of Article 44 may result in administrative or criminal sanctions and civil liability to shareholders or third parties who suffer losses as a result of such violation. We believe that we have complied with the requirements of Article 89 and Article 44 in all transactions with related parties and affirm that we will continue to comply with such requirements. See note 16 to our audited financial statements for a more detailed accounting of transactions with related parties.

As authorized by the General Banking Law, and within the regulatory limits, we hold several outstanding loans owed by different corporations related to us. All such loans (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons, and (c) did not involve more than the normal risk of collectibility or present other unfavorable features. See note 16 to our audited financial statements.

Item 8. Financial Information

DIVIDENDS

The dividends on our shares are proposed by our board of directors and are approved by our shareholders at the annual ordinary shareholders' meeting following the year with respect to which the dividends are proposed, which is held in the first three months of every year. Following shareholder approval, the dividends are declared and paid. Dividends are paid to shareholders of record on the fifth business day preceding the date set for payment of the dividend. The applicable record dates for the payment of dividends to holders of our ADSs are, to the extent practicable, the same. Under the *Ley Sobre Sociedades Anonimas No. 18.046* and the *Reglamento de Sociedades Anonimas* (which we refer to collectively as the Chilean Companies Law), Chilean public corporations are generally required to distribute at least 30% of their earnings as dividends, but a bank is permitted to distribute less than such minimum amount in any given year if the holders of at least two-thirds of the bank's outstanding stock so determine. Under the *Ley General de Bancos*, or the General Banking Law, a Chilean bank may only pay a single dividend per year (*i.e.* interim dividends are not permitted). It is our current policy to pay 100% of our earnings as dividends.

Our dividend policy is affected to some extent by the rights of SAOS, our affiliate, pursuant to its assumption of the Central Bank indebtedness discussed in "Item 5. Operating and Financial Review and Prospects —Central Bank Subordinated Debt."

We currently have one class of capital shares. In March 2002, dividends were paid to our shareholders as follows:

(1) holders of our pre-merger common stock received dividends with respect to our 2001 fiscal year they would have received absent the merger; and

(2) holders of our then existing F shares (which were issued to the former holders of Banco de A. Edwards common stock) received dividends they would have received with respect to the Banco de A. Edwards 2001 fiscal year absent the merger. Once these dividends were declared and paid, the F shares automatically converted on a one-for-one basis into shares of our common stock.

Dividends payable to holders of our ADSs are net of conversion expenses of the depositary and are subject to Chilean withholding tax currently at the rate of 35%, subject to certain credits. Owners of our ADSs are not charged any fees with respect to cash or stock dividends.

Pursuant to current Chilean foreign exchange regulations, a shareholder who is not a resident of Chile need not register as a foreign investor in order to receive dividends, sale proceeds or other amounts with respect to its shares remitted outside Chile, but the investor must inform the Central Bank about any such transactions and must remit foreign currency through the *Mercado Cambiario Formal*, or the Formal Exchange Market. Under the foreign investment contract, the depositary, on behalf of our ADS holders, will be 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.

The following table sets forth the cash dividends declared on each share of our common stock and per ADS during the periods indicated.

	As of and for the Year Ended December 31,					
	1997	**1998**	**1999**	**2000**	**2001**	**2001**
		(in constant Ch$ as of December 31, 2001)				(in U.S.$)
Dividends per share of common stock	1.78	1.80	1.17	1.94	1.88	0.00286
Dividends per ADS (1)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Note: n.a. = not applicable.
(1) Calculated on the basis of 600 shares per ADS.

Item 9. The Offer and The Listing

Nature of Trading Market

Shares of our common stock are traded on the Chilean Stock Exchanges. Since January 2, 2002, the ADSs held in the form of ADRs and representing the common stock have also been traded in the United States on the NYSE, under the symbol "BCH." Each ADS represents 600 shares of common stock. As of May 31, 2002, a maximum of 1,919,874 ADSs were outstanding (equivalent to 1,151,924,400 shares of common stock or 1.69% of the total number of issued shares of common stock). It is not practicable for us to determine the proportion of ADSs beneficially owned by U.S. persons.

The table below shows, for the periods indicated, the annual, quarterly and monthly high and low closing prices (in nominal Chilean pesos) of the shares of our securities on the Santiago Stock Exchange and the annual, quarterly and monthly high and low closing prices (in U.S. dollars) as reported by the NYSE.

	Santiago Stock Exchange		**NYSE**	
	Common Stock		**ADS(2)**	
	High	**Low**	**High**	**Low**
	(Ch$ per share)(1)		**(US$ per ADS)**	
Annual Price History				
1997	21.0	18.8	n.a.	n.a.
1998	22.0	9.9	n.a.	n.a.
1999	25.0	11.5	n.a.	n.a.
2000	27.0	21.0	n.a.	n.a.
2001	28.0	21.7	n.a.	n.a.
Quarterly Price History				
2000				
1st Quarter	26.0	22.5	n.a.	n.a.
2nd Quarter	25.2	23.0	n.a.	n.a.
3rd Quarter	23.5	22.5	n.a.	n.a.
4th Quarter	27.0	21.0	n.a.	n.a.
2001				
1st Quarter	26.0	21.7	n.a.	n.a.
2nd Quarter	28.0	23.2	n.a.	n.a.
3rd Quarter	28.0	23.0	n.a.	n.a.
4th Quarter	26.5	22.7	n.a.	n.a.
2002				
1st Quarter	26.0	20.0	20.05	16.0
Monthly Price History				
November 2001	26.5	24.6	n.a.	n.a.
December 2001	26.0	25.0	n.a.	n.a.
January 2002	26.0	23.0	20.1	18.0
February 2002	23.1	21.9	17.9	16.0
March 2002	25.0	20.0	19.9	17.0
April 2002	19.9	18.1	17.9	17.0
May 2002	19.5	18.7	17.8	17.0

Sources: Santiago Stock Exchange —Official Quotation Bulletin; NYSE.
Note: n.a. = not applicable.
(1) Pesos per share reflect nominal price at trade date.
(2) Price per ADS in U.S.$; one ADS represents 600 shares of common stock.

No trading suspensions have occurred during the last three years.

The Chilean Stock Market: History and Description

The Chilean securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. The Santiago Stock Exchange, which is Chile's principal exchange, had a market capitalization of approximately U.S.$56.7 billion as of December 31, 2001 and an average monthly trading volume of approximately U.S.$345 million for 2001. The Santiago Stock Exchange was established in 1893 and is a private company whose equity consists of 48 shares held by 46 shareholders. As of December 31, 2001, 249 series of shares were listed on the Santiago Stock Exchange.

The Santiago Stock Exchange accounts for approximately 71.7 % of all amounts traded in Chile. The ten largest companies in terms of market capitalization represented, as of December 31, 2001, approximately 41.4% of the Santiago Stock Exchange's aggregate market capitalization and during 2001 accounted for approximately 37.5% of its total volume. During 2001, 22.4% of the companies listed on the Santiago Stock Exchange had their shares traded on an average of 70.0% or more of the exchange's trading days.

Equity, closed-end funds, fixed-income securities, short-term and money market securities, gold, silver and U.S. dollars are traded on the Santiago Stock Exchange. In 1991, the Santiago Stock Exchange initiated a futures market with two instruments: U.S. dollars futures and Selective Share Price Index, or IPSA, futures. In 1994, the Santiago Stock Exchange initiated an option market. Securities are traded through an open voice auction system and an electronic auction system called Telepregon. Trading through the open voice system occurs on each business day in two sessions, from 11:00 a.m. to 12:30 p.m. and from 4:00 p.m. to 4:30 p.m. The electronic trading system operates from 9:30 a.m. to 4:30 p.m. The Electronic Stock Exchange operates continuously from 9:30 a.m. to 4:30 p.m. on each business day.

The three main share price indices for the Santiago Stock Exchange are the General Share Price Index or IGPA, the IPSA and the Inter-10. The IGPA is calculated using the prices of 171 issues and is broken into five main sectors: banks and finance, farming and forest products, mining, industrials and miscellaneous. The IPSA is a major company index, currently including the Exchange's 40 most active stocks. Shares included in the IPSA are weighted according to the value of shares traded and account for more than 68.0% of the entire market capitalization. The Inter-10 corresponds to the quarterly 10 most active Chilean ADRs. Our stocks are included in the IPSA, the IGPA and the Inter-10. In addition, there are two main share price indices for the Electronic Stock Exchange, the Global Index and the ADRIAN. The Global Index is composed of the 42 shares most representative of the Chilean economy and are integrated by four industrial sectors: electricity, services, industry and natural resources. The ADRIAN incorporates all the Chilean ADRs.

Approximately 26.8% of equity trading in Chile is conducted on the Chilean Electronic Stock Exchange, an electronic trading market which was created by banks and non-member brokerage houses. The remaining 1.5% of equity is traded on the Valparaiso Stock Exchange.

Item 10. Additional Information

Set forth below is a brief summary of the significant provisions of our *estatutos* and Chilean law. This description contains all material information concerning our shares, but does not purport to be complete and is qualified in its entirety by reference to our *estatutos* (a copy of which has been filed as an exhibit to this annual report), the General Banking Law, the Chilean Companies Law and the *Ley de Mercado de Valores No. 18,045,* or the Securities Market Law, each referred to below. For a description of the provisions of our *estatutos* related to our board of directors and our audit committee, see "Item 6. Directors, Senior Management and Employees" and related to our dividends, see "Item 8. Financial Information—Dividends."

Shareholder rights in a Chilean bank that is also an open stock (public) corporation are governed by the corporation's *estatutos*, which effectively serve the purpose of both the articles or certificate of incorporation and the bylaws of a company incorporated in the United States, by the General Banking Law and by the provisions of Chilean Companies Law applicable to open stock corporations. Article 137 of the Chilean Companies Law provides that all provisions of the Chilean Companies Law take precedence over any contrary provision in a corporation's *estatutos*. Both the Chilean Companies Law and our *estatutos* provide that legal actions by shareholders against us (or our officers or directors) to enforce their rights as shareholders or by one shareholder against another in their capacity as such are to be brought in Chile in arbitration proceedings.

The Chilean securities markets are principally regulated by the SVS under the Securities Market Law and the Chilean Companies Law. In the case of banks, compliance with these laws is supervised by the Chilean Superintendency of Banks. These two laws provide for disclosure requirements, restrictions on insider trading and price manipulation and protection of minority investors. The Securities Market Law sets forth requirements relating to public offerings, stock exchanges and brokers, and outlines disclosure requirements for companies that issue publicly offered securities. The Chilean Companies Law sets forth the rules and requirements for establishing open stock corporations while eliminating government supervision of closed (closely-held) corporations. Open stock (public) corporations are those with 500 or more shareholders, or companies in which 100 or more shareholders own at least 10% of the subscribed capital (excluding those whose individual holdings exceed 10%), and all other companies that are registered in the Securities Registry of the SVS.

Capitalization

There is currently one outstanding series of Banco de Chile capital stock. We have a total of 68,079,783,605 outstanding shares. All of our shares are fully subscribed and paid and there are no legal restrictions on the payment of dividends therefrom from our net income. All such shares will have full voting rights. As part of our merger with Banco de A. Edwards, Banco de A. Edwards shareholders received "F shares" of Banco de Chile. The F shares had all of the same rights as our common stock, except that they entitled holders to receive dividends in 2002 with respect to Banco de A. Edwards' 2001 income. Once these dividends were declared and paid, the F shares automatically converted on a one-for-one basis into shares of our common stock. Accordingly, the F shares no longer exist. For this reason, we refer to all our shares as "shares" or "common stock" unless the context otherwise requires.

Under Chilean law, the shareholders of a company, acting at an extraordinary shareholders' meeting, have the power to authorize an increase in such company's capital. When an investor subscribes for issued shares, the shares are registered in such investor's name, even if not paid for, and the investor is treated as a shareholder for all purposes except with regard to receipt of dividends and the return of capital. The investor becomes eligible to receive dividends once it has paid for the shares (if it has paid for only a portion of such shares, it is entitled to reserve a corresponding pro-rata portion of the dividends declared with respect to such shares unless the company's bylaws provide otherwise). If an investor does not pay for shares for which it has subscribed on or prior to the date agreed upon for payment, the company is entitled under Chilean law to auction the shares on the stock exchange and collect the difference, if any, between the subscription price and the auction proceeds. However, until such shares are sold at auction, the subscriber continues to exercise all the rights of a shareholder (except the right to receive dividends and return of capital). In the case of banks, authorized shares and issued shares which have not been paid for within the period fixed for their payment by the Chilean Superintendency of Banks are cancelled and are no longer available for issuance by the company.

Article 22 of Chilean Companies Law states that the purchaser of shares of a company implicitly accepts its bylaws and any agreements adopted at shareholders' meetings.

Ownership Restrictions

Under Article 12 of the Securities Market Law and the regulations of the Chilean Superintendency of Banks, shareholders of open stock corporations are required to report the following to the SVS and the Chilean stock exchanges:

- any direct or indirect acquisition or sale of shares that results in the holder's acquiring or disposing, directly or indirectly, of 10% or more of an open stock corporation's share capital; and

- any direct or indirect acquisition or sale of shares or options to buy or sell shares, in any amount, if made by a holder of 10% or more of an open stock corporation's capital or if made by a director, liquidator, main officer, general manager or manager of such corporation.

In addition, majority shareholders must include in their report whether their purpose is to acquire control of the company or if they are making a financial investment. A beneficial owner of ADSs representing 10% or more of our share capital will be subject to these reporting requirements under Chilean law.

Under Article 54 of the Securities Market Law and the regulations of the Chilean Superintendency of Banks, persons or entities intending to acquire control, directly or indirectly, of an open stock corporation are also required to inform the public of such acquisition at least 10 business days in advance but in any case, as soon as negotiations regarding the change of control begin (*i.e.,* when information and documents concerning the target are delivered to the potential acquiror) through a filing with the SVS, the stock exchanges and the companies controlled by and that control the target and through a notice published in two Chilean newspapers, which notice must disclose, among other information, the person or entity purchasing or selling and the price and conditions of any negotiations.

Prior to such publication, a written communication to such effect must be sent to the target corporation, to the controlling corporation, to the controlled corporations by the target corporation, to SVS and to the Chilean stock exchanges. Title XV of the Securities Market Law sets forth the basis to determine what constitutes a controlling power, a direct holding and a related party.

Article 36 of the General Banking Law states that as a matter of public policy, no person or company may acquire, directly or indirectly, more than 10% of the shares of a bank without the prior authorization of the Chilean Superintendency of Banks, which may not be unreasonably withheld. The prohibition would also apply to beneficial owners of ADSs. In the absence of such authorization, any person or group of persons acting in concert would not be permitted to exercise voting rights with respect to the shares or ADSs acquired. In determining whether or not to issue such an authorization, the Chilean Superintendency of Banks considers a number of factors enumerated in the General Banking Law, including the financial stability of the purchasing party.

Article 35 bis of the General Banking Law requires the prior authorization of the Chilean Superintendency of Banks for:

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

The authorization which is required solely when the controlling shareholder would own more than 15% of the outstanding shares after the intended purchase may be denied or may be conditioned on one or more of the following:

- that the bank or banks maintain a total capital of not less than 14% of their risk adjusted assets;
- that the technical reserve established in article 65 of the General Banking Law be applicable when deposits exceed one and a half times the resulting bank's paid-in capital and reserves; or
- that the margin for interbank loans be diminished to 20% of the resulting bank's Total Capital.

Article 84 No. 2 of the General Banking Law and the regulations issued by the Chilean Superintendency of Banks create the presumption that natural persons who are holders of shares and who beneficially own more than 1% of the shares are related to the bank and imposes certain restrictions on the amounts and terms of loans made by banks to related parties. This presumption would also apply to beneficial owners of ADSs representing more than 1% of the shares. Finally, according to the regulations of the Chilean Superintendency of Banks, Chilean banks that issue ADSs are required to inform the Chilean Superintendency of Banks if any person, directly or indirectly, acquires ADRs representing 5% or more of the total amount of shares of capital stock issued by such bank.

Preemptive Rights and Increases of Share Capital

The Chilean Companies Law provides that whenever a Chilean company issues new shares for cash, it must offer its existing shareholders the right to purchase a sufficient number of shares to maintain their existing ownership percentages in the company. Pursuant to this requirement, preemptive rights in connection with any future issue of shares will be offered by us to the depositary as the registered owner of the shares underlying the ADSs. However, the depositary will not be able to make such preemptive rights available to U.S. holders of ADSs unless a registration statement under the Securities Act is effective with respect to the underlying shares or an exemption from the registration requirements thereunder is available.

We intend to evaluate, at the time of any preemptive rights offering, the practicality under Chilean law and Central Bank regulations in effect at the time of making such rights available to our ADS holders, as well as the costs and potential liabilities associated with registration of such rights and the related shares of common stock under the Securities Act, and the indirect benefits to us of thereby enabling the exercise by all or certain U.S. holders of ADSs of their preemptive rights and any other factors we consider appropriate at the time, and then to make a decision as to whether to file such registration statement. We cannot assure you that any registration statement would be filed. If we do not file a registration statement and no exemption from the registration requirements under the Securities Act is available, the depositary will sell such holders' preemptive rights and distribute the proceeds thereof if a premium can be recognized over the cost of such sale.

In the event that the depositary is not able, or determines that it is not feasible, to sell such rights at a premium over the cost of any such sale, all or certain U.S. holders of ADSs may receive no value for such rights. Non-U.S. holders of ADSs may be able to exercise their preemptive rights regardless of whether a registration statement is filed. The inability of all or certain U.S. holders of ADSs to exercise preemptive rights in respect of shares of common stock underlying such ADSs could result in such holders not maintaining their percentage ownership of the common stock following such preemptive rights offering unless such holder made additional market purchases of ADSs or shares of common stock.

Under Chilean law, preemptive rights are exercisable or freely transferable by shareholders during a period that cannot be less than 30 days following the grant of such rights. During such period, and for an additional 30-day period thereafter, a Chilean company is not permitted to offer any unsubscribed shares for sale to third parties on terms which are more favorable than those offered to its shareholders. At the end of such additional 30-day period, a Chilean open stock corporation is authorized to sell unsubscribed shares to third parties on any terms, provided they are sold on a Chilean stock exchange. Unsubscribed shares that are not sold on a Chilean stock exchange can be sold to third parties only on terms no more favorable for the purchaser than those offered to shareholders.

Shareholders' Meetings and Voting Rights

An ordinary annual meeting of shareholders is held within the first three months of each year, generally in March. The ordinary annual meeting of shareholders is the corporate body that approves the annual financial statements, approves all dividends in accordance with the dividend policy determined by our board of directors, elects the board of directors and approves any other matter which does not require an extraordinary shareholders' meeting. The last ordinary annual meeting of our shareholders was held on March 21, 2002. Extraordinary meetings may be called by our board of directors when deemed appropriate, and ordinary or extraordinary meetings must be called by our board of directors when requested by shareholders representing at least 10% of the issued voting shares or by the Chilean Superintendency of Banks.

Notice to convene the ordinary annual meeting or an extraordinary meeting is given by means of three notices which must be published in a newspaper of our corporate domicile (currently Santiago) or in the *Official Gazette* in a prescribed manner, and the first notice must be published not less than 15 days nor more than 20 days in advance of the scheduled meeting. Notice must also be mailed 15 days in advance to each shareholder and given to the Chilean Superintendency of Banks and the Santiago, Valparaiso and Electronic Stock Exchanges. Currently, we publish our official notices in the *Diario El Mercurio*.

The quorum for a shareholders' meeting is established by the presence, in person or by proxy, of shareholders representing at least an absolute majority of the issued shares; if a quorum is not present at the first meeting, the meeting can be reconvened (in accordance with the procedures described in the previous paragraph) and, upon the meeting being reconvened, shareholders present at the reconvened meeting are deemed to constitute a quorum regardless of the percentage of the shares represented.

The shareholders' meetings pass resolutions by the affirmative vote of an absolute majority of those voting shares present or represented at the meeting. The vote required at any shareholders' meeting to approve any of the following actions, however, is a two-thirds majority of the issued shares:

- a change in corporate form, merger or spin-off;
- an amendment to our term of existence or early dissolution;

- a change in corporate domicile;
- a decrease of corporate capital;
- the approval of capital contributions in kind and a valuation of the assets contributed;
- a modification of the powers of shareholders or limitations on the powers of our board of directors;
- a reduction in the number of members of the board of directors;
- the transfer of 50% or more of the corporate assets or the formation or amendment of any business plan that contemplates the transfer of 50% or more of the corporate assets;
- any non-cash distribution in respect of the shares;
- the granting of guarantees to secure third-party obligations in excess of 50% of the corporate assets, unless granted to a subsidiary; or
- the repurchase of shares.

Shareholders may accumulate their votes for the election of directors and cast the same in favor of one person.

In general, Chilean law does not require a Chilean open stock corporation to provide the level and type of information that U.S. securities laws require a reporting company to provide to its shareholders in connection with a solicitation of proxies. However, shareholders are entitled to examine the books of the company within the 15-day period before the ordinary annual meeting. Under Chilean law, a notice of a shareholders' meeting listing matters to be addressed at the meeting must be mailed not fewer than 15 days prior to the date of such meeting, and, in cases of an ordinary annual meeting, shareholders holding a prescribed minimum investment must be sent an annual report of the company's activities which includes audited financial statements. Shareholders who do not fall into this category but who request it must also be sent a copy of the company's annual report. In addition to these requirements, we regularly provide, and management currently intends to continue to provide, together with the notice of shareholders' meeting, a proposal for the final annual dividend.

The Chilean Companies Law provides that whenever shareholders representing 10% or more of the issued voting shares so request, a Chilean company's annual report must include, in addition to the materials provided by the board of directors to shareholders, such shareholders' comments and proposals in relation to the company's affairs. Similarly, the Chilean Companies Law provides that whenever the board of directors of an open stock corporation convenes an ordinary meeting of the shareholders and solicits proxies for that meeting, or distributes information supporting its decisions, or other similar material, it is obligated to include as an annex to its annual report any pertinent comments and proposals that may have been made by shareholders owning 10% or more of the company's voting shares who have requested that such comments and proposals be so included.

Only shareholders registered as such with us on the fifth business day prior to the date of a meeting are entitled to attend and vote their shares. A shareholder may appoint another individual (who need not be a shareholder) as his proxy to attend and vote on his behalf. Every shareholder entitled to attend and vote at a shareholders' meeting has one vote for every share subscribed.

Dividend, Liquidation and Appraisal Rights

Under the Chilean Companies Law, Chilean companies are generally required to distribute at least 30% of their earnings as dividends. However, under the General Banking Law, banks are permitted to distribute less than such minimum amount in any given year if holders of at least two-thirds of the bank's common stock so determine. In the event of any loss of capital or of the legal reserve, no dividends can be distributed so long as such loss is not recovered. Also, no dividends of a bank above the legal minimum can be distributed if doing so would result in the bank exceeding its indebtedness ratio or its lending limits.

Dividends that are declared but not paid by the date set for payment at the time of declaration are adjusted from the date set for payment to the date such dividends are actually paid, and they accrue interest. The right to receive a dividend lapses if it is not claimed within five years from the date the dividend is payable.

We may declare a dividend in cash or in shares. When a share dividend is declared above the legal minimum (which minimum must be paid in cash), our shareholders must be given the option to elect to receive cash. Our U.S. holder of ADSs may, in the absence of an effective registration statement under the Securities Act or an available exemption from the registration requirement thereunder, effectively be required to receive a dividend in cash. See "—Preemptive Rights and Increases of Share Capital."

In the event of our liquidation, the holders of fully paid shares would participate equally and ratably, in proportion to the number of paid-in shares held by them, in the assets available after payment of all creditors.

In accordance with the General Banking Law, our shareholders would have no appraisal rights in the event of a business combination or otherwise.

Approval of Financial Statements

Our board of directors is required to submit our audited financial statements to the shareholders annually for their approval. The approval or rejection of such financial statements is entirely within our shareholders' discretion. If our shareholders reject our financial statements, our board of directors must submit new financial statements not later than 60 days from the date of such rejection. If our shareholders reject our new financial statements, our entire board of directors is deemed removed from office and a new board of directors is elected at the same meeting. Directors who individually approved our financial statements are disqualified for re-election for the ensuing period.

Registrations and Transfers

We act as our own registrar and transfer agent, as is customary among Chilean companies. In the case of jointly owned shares, an attorney-in-fact must be appointed to represent the joint owners in dealings with us.

Amended Chilean Securities Laws and Chilean Companies Laws

On December 20, 2000, the Chilean Congress enacted Law No. 19,705, which amended the Securities Market Law and the Chilean Companies Law. Among the amendments introduced, Law No. 19,705 established that certain transactions must be performed with respect to any tender offer. In particular, the acquisition of shares with the intention of obtaining control of an open stock corporation, offers to buy shares representative of 3% or more of the outstanding shares after obtaining control of an open stock corporation and the sale of shares by controlling shareholders when the price paid is substantially higher than the market price must all be performed within the context of a tender offer. The SVS has stated that a price should be considered substantially higher than the market price when it is 10% higher than the average market price for a period starting 90 days and ending 30 days before the proposed transaction.

The amendments introduced to the Chilean Companies Law also established that:

- open stock corporations must create directors committees, formed with a majority of independent directors, if there are any, with the power to revise and approve transactions when the interest of the controlling shareholders is involved in those transactions;

- open stock corporations can offer stock options to their officers and employees when their general shareholders meeting approves an increase of capital with the issuance of new shares, within a limit of 10% of the new shares issued;

- open stock corporations can buy back their own shares with a limit of 5% of the respective company paid in capital and reserves;

- mutual funds can vote for the company's board of directors, but they cannot vote for a member of the board who is related to the controlling shareholders; and

- directors and shareholders who hold 5% or more of the outstanding shares have the right to sue for indemnification on behalf of the company.

MATERIAL CONTRACTS

On October 3, 2001, we entered into a merger agreement with Banco de A. Edwards. The merger agreement set forth the steps necessary for the merger such as shareholder approval at a general extraordinary shareholders meetings and the approval of the Chilean Superintendency of Banks and Financial Institutions. The merger agreement also required that we establish an ADR program and list those securities on the New York Stock Exchange. It was also agreed that the equity contribution of Banco de A. Edwards was equivalent to 34% of the merged bank, so that the shareholders of Banco de A. Edwards would have the right to receive 3.135826295 shares of Banco de Chile for each share of Banco de A. Edwards that they held. On December 6, and December 18, 2001 the general extraordinary shareholders meetings of Banco de Chile and Banco de A. Edwards, respectively, approved the terms and conditions of the merger, effective as of January 1, 2002.

LEGAL PROCEEDINGS

We are subject to claims and are a party to legal proceedings incidental to the normal course of business. We do not believe that liabilities related to any such claims and proceedings are likely to have, in the aggregate, a material adverse effect on our consolidated financial condition or results of operations.

EXCHANGE CONTROLS

The Central Bank is responsible for, among other things, monetary policies and exchange controls in Chile. Appropriate registration of a foreign investment in Chile grants the investor access to the Formal Exchange Market. Foreign investments can be registered with the Foreign Investment Committee under Decree Law No. 600 or can be registered with the Central Bank under the Central Bank Act. The Central Bank Act is an organic constitutional law requiring a "special majority" vote of the Chilean Congress to be modified.

On April 16, 2001, the Central Bank agreed that, effective April 19, 2001:

- the prior foreign exchange restrictions would be eliminated; and

- a new Compendio de Normas de Cambios Internacionales, or Compendium of Foreign Exchange Regulations, would be applied.

The main objective of this change, as declared by the Central Bank, is to facilitate capital movements from and into Chile and encourage foreign investment.

The following restrictions were eliminated:

- A reserve requirement with the Central Bank for a period of one year. This mandatory reserve was imposed on foreign loans and funds brought into Chile to purchase shares other than those acquired in the establishment of a new company or in the capital increase of the issuing company. This reserve requirement was decreased from 30% to 0% of the proposed investment on September 16, 1998.

- The requirement for prior approval by the Central Bank for certain operations.

- Mandatory return of foreign currencies to Chile.

- Mandatory conversion of foreign currencies into Chilean pesos.

Under the new regulations, only the following limitations are applicable to these operations:

- the Central Bank must be provided with information related to certain operations; and
- certain operations must be conducted within the Formal Exchange Market.

The Central Bank also eliminated Chapter XXVI of the "Compendium of Foreign Exchange Regulations," which addressed the establishment of an ADR facility by a Chilean company. According to the new rules, it is not necessary to seek the Central Bank's prior approval in order to establish an ADR facility. The establishment of an ADR facility is now regarded as an ordinary foreign investment. The establishment of an ADR facility now simply requires that the Central Bank be informed of the transaction, and that it is conducted exclusively through the Formal Exchange Market.

Foreign Investment Contract

We are a party, as legal successor of Banco de A. Edwards, to the currently existing foreign investment contract with the Central Bank and the depositary (a copy of which was filed as an exhibit to our Registration Statement on Form F-4 (File No. 333-14020) filed with the Securities and Exchange Commission on October 18, 2001). Absent the foreign investment contract, under applicable Chilean exchange controls, investors would not be granted access to the Formal Exchange Market for the purpose of converting pesos to U.S. dollars and repatriating from Chile amounts received with respect to deposited shares or shares withdrawn from deposit on surrender of ADSs (including amounts received as cash dividends and proceeds from the sale in Chile of the underlying shares and any rights arising therefrom).

The following is a summary of the material provisions of the foreign investment contract. This summary does not purport to be complete and is qualified in its entirety by reference to the foreign investment contract. Under the foreign investment contract, the Central Bank agrees to grant to the depositary, on behalf of ADR holders, and to any investor not residing or domiciled in Chile who withdraws shares upon delivery of ADRs (we refer to such shares as withdrawn shares), access to the Formal Exchange Market to convert pesos to U.S. dollars (and remit such U.S. dollars outside of Chile) in respect of shares represented by ADSs or withdrawn shares, including amounts received as:

- cash dividends;
- proceeds from the sale in Chile of withdrawn shares (subject to receipt by the Central Bank of a certificate from the holder of the withdrawn shares (or from an institution authorized by the Central Bank) that such holder's residence and domicile are outside Chile and a certificate from a Chilean stock exchange (or from a brokerage or securities firm established in Chile) that such withdrawn shares were sold on a Chilean stock exchange);
- proceeds from the sale in Chile of rights to subscribe for additional shares;
- proceeds from the liquidation, merger or consolidation of Banco de Chile; and
- other distributions, including without limitation those resulting from any recapitalization as a result of holding shares represented by ADSs or withdrawn shares.

Transferees of withdrawn shares will not be entitled to any of the foregoing rights unless the withdrawn shares are redeposited with the depositary. Investors receiving withdrawn shares in exchange for ADRs will have the right to redeposit such shares in exchange for ADRs, provided that the conditions to redeposit are satisfied.

The foreign investment contract provides that a person who brings foreign currency into Chile to purchase shares with the benefit of the foreign investment contract must convert the foreign currency into pesos on the same date as the foreign currency is brought into Chile and then has five banking business days within which to invest in shares in order to receive the benefits of the foreign investment contract. If such person decides within such period not to acquire shares, he or she can access the formal exchange market to reacquire dollars, provided that the applicable request is presented to the Central Bank within seven baking business days of the initial conversion into pesos. Shares acquired as described above may be deposited for ADSs and receive the benefits of the foreign investment contract, subject to:

(1) receipt by the Central Bank of a certificate from the depositary that such deposit has been effected and that the related ADRs have been issued; and

(2) receipt by the custodian of a declaration from the person making such deposit waiving the benefits of the foreign investment contract with respect to the deposited shares.

Access to the Formal Exchange Market under any of the circumstances described above is not automatic. Such access requires approval of the Central Bank based on a request presented through a banking institution established in Chile. The foreign investment contract provides that if the Central Bank has not acted on the request within seven banking days, the request will be deemed approved.

Under current Chilean law, the foreign investment contract cannot be changed unilaterally by the Central Bank, and there are judicial precedents (which are not binding with respect to future judicial decisions) indicating that the foreign investment contract may not be abrogated by future legislative changes. We cannot assure, however, that additional Chilean restrictions applicable to the holders of ADRs, the disposition of underlying shares or the repatriation of the proceeds from such disposition could not be imposed in the future, nor can we assess the duration or impact of such restrictions if imposed.

TAXATION

Chilean Tax Considerations

The following discussion is based on certain Chilean income tax laws presently in force, including Ruling No. 324 of January 29, 1990 of the Chilean Internal Revenue Service and other applicable regulations and rulings. The discussion summarizes the principal Chilean income tax consequences of an investment in ADSs or shares of common stock by an individual who is not domiciled in, or a resident of, Chile or a legal entity that is not organized under the laws of Chile and does not have a permanent establishment located in Chile which we refer to as a foreign holder. For purposes of Chilean tax law, an individual holder is a resident of Chile if he or she has resided in Chile for more than six consecutive months in one calendar year or for a total of more than six months, whether consecutive or not, in two consecutive tax years. An individual holder is domiciled in Chile if he or she resides in Chile with the purpose of staying in Chile (such purpose to be evidenced by circumstances such as the acceptance of employment within Chile or the relocation of his or her family to Chile). This discussion is not intended as tax advice to any particular investor, which can be rendered only in light of that investor's particular tax situation.

Under Chilean law, provisions contained in statutes such as tax rates applicable to foreign holders, 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 statute. In addition, the Chilean tax authorities issue rulings and regulations of either general or specific application and interpret the provisions of Chilean tax law. Chilean taxes may not be assessed retroactively against taxpayers who act in good faith relying on such rulings and regulations, but Chilean tax authorities may change said rulings and regulations prospectively. There is no general income tax treaty in force between Chile and the United States.

Cash Dividends and Other Distributions

Cash dividends paid by us with respect to ADSs or shares of common stock held by a foreign holder will be subject to a 35.0% Chilean withholding tax, which is withheld and paid over by us which we refer to as the Chilean withholding tax. A credit against the Chilean withholding tax is available based on the level of corporate income tax, or first category tax, actually paid on the taxable income to which the dividend is imputed; however, this credit does not reduce the Chilean withholding tax on a one-for-one basis because it also increases the base on which the Chilean withholding tax is imposed. In addition, distribution of book income in excess of retained taxable income is subject to the Chilean withholding tax, but such distribution is not eligible for the credit. Under Chilean income tax law, for purposes of determining the level of the first category tax paid, dividends generally are assumed to have been paid out of oldest retained taxable profits. The effective rate of withholding tax to be imposed on dividends paid by us will vary depending upon the amount of first category tax paid by us on the earnings to which the dividends are attributed. In our case, the amount paid as first category tax is lower than it would be based on our income because the dividends paid to SAOS are accounted for as a cost to us. Presently, the first category tax rate is 16.0%. The first category tax rate will be 16.5% in 2003 and 17.0% from 2004 onwards. Whether the first category tax is imposed or not, the effective overall combined rate of Chilean taxes imposed with respect to our distributed profits would be 35.0%.

The foregoing tax consequences apply to cash dividends paid. Dividend distributions made in property (other than shares of common stock) are subject to the same Chilean tax rules as cash dividends. Share dividends are not subject to Chilean taxation.

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. The deposit and withdrawal of shares of common stock in exchange for ADRs will not be subject to any Chilean taxes.

Gain recognized on the 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 (10.0% or more of the shares in the case of open stock corporations). 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. However, if it is impossible to determine the taxable capital gain, a 5.0% withholding will be imposed on the total amount to be remitted abroad without any deductions as a provisional payment of the total tax due.

The tax basis of shares of common stock received in exchange for ADSs will be the acquisition value of such shares on the date of the exchange. 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.

The distribution and exercise of preemptive rights relating to the shares of common stock will not be subject to Chilean taxation. 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 Chilean Internal Revenue Service has not enacted any rule nor issued any ruling about the applicability of the following norms to the foreign holders of ADRs.

Pursuant to legislation enacted on July 29, 1998, any taxpayer which during the tax years 1999 through 2002, inclusive, obtains a gain in the sale, through a Chilean stock exchange, of shares of publicly traded corporations that are significantly traded in stock exchanges at the time of their acquisition may elect to declare, and to pay, for such capital gain, either (a) the first category tax as a sole tax, or (b) in the case of foreign holders, at a rate of 35.0%, provided that such acquisition has occurred in a Chilean stock exchange when such shares were not newly issued at the time of their acquisition. This option is not available if the sale of shares is made to a company in which the seller holds an interest.

An amendment to the Chilean Income Tax Law, Law No. 19,738 published on June 19, 2001, established an exemption for the payment of income tax by foreign institutional investors, such as mutual funds, pension funds and others, 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.

A foreign institutional investor is an entity that is either:

- a fund that makes public offers of its shares in a country whose public debt has been rated investment grade by an international risk classification agency qualified by the Superintendency of Securities and Insurance;

- a fund that is registered with a regulatory entity of a country whose public debt has been rated investment grade by an international risk classification agency qualified by the Superintendency of Securities and Insurance, provided that the investments in Chile, including securities issued abroad that represent Chilean securities, held by the fund represent less than 30.0% of its share value;

- a fund that holds investments in Chile that represent less than 30.0% of its share value, provided that it proves that no more than 10.0% of its share value is directly or indirectly owned by Chilean residents;

- pension fund that is exclusively formed by individuals that receive their pensions on account of capital accumulated in the fund;

- a fund regulated by Law No. 18,657, or the Foreign Capital Investment Funds Law, in which case all holders of its shares must reside abroad or be qualified as local institutional investors; or

- another kind of institutional foreign investor that complies with the characteristics defined by a regulation with the prior report of the Superintendency of Securities and Insurance and the Chilean Internal Revenue Service.

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;

- 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.

Pursuant to a recently enacted amendment to the Chilean Income Tax Law published on November 7, 2001 (Law No. 19,768), the sale and disposition of shares of Chilean public corporations which are significantly traded on stock exchanges is exempted from Chilean taxes on capital gains if the sale or disposition was made:

- on a local 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 (a) were purchased on a public stock exchange or in a tender offer process pursuant to Title XXV of the Chilean Securities Market Law, (b) are newly issued shares issued in a capital increase of the corporation, or (c) were the result of 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 would have ceased to be significantly traded on stock exchange. In such case, the gains exempted from Chilean taxes on capital gains will be up to the average price per share of the last 90 days. Any gains above the average price will be subject to the first category tax.

In the case where the sale of the shares is made on a day that is different than the date in which the exchange is recorded, capital gains subject to taxation in Chile may be generated. On October 1, 1999, the Chilean Internal Revenue Service issued Ruling No. 3708 whereby it allowed Chilean issuers of ADSs to amend the deposit agreements to which they are parties in order to include a clause that states that, in the case that the exchanged shares are sold by the ADSs' holders in 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 the price registered in the invoice issued by the stock broker that participated in the sale transaction. Consequently, should we include this clause in the deposit agreement, the capital gain that may be generated if the exchange date is different than the date in which the shares received in exchange for ADSs were sold, will not be subject to taxation.

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 a gift of shares of common stock by a foreign holder. No Chilean stamp, issue, registration or similar taxes or duties apply to foreign holders of ADSs or shares of common stock.

United States Tax Considerations

The following discussion summarizes the principal U.S. federal income tax considerations relevant to an investment in the ADSs or shares of common stock by a holder that is a citizen or resident of the United States or a U.S. domestic corporation or that otherwise will be subject to U.S. federal income tax on a net income basis in respect of the ADSs or shares of common stock (a "U.S. Holder"), but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase ADSs or shares of common stock. In particular, this discussion is directed only to U.S. holders that will hold ADSs or shares of common stock as capital assets and that have the U.S. dollar as their functional currency, and does not address the tax treatment of U.S. holders that are subject to special tax rules, such as banks, dealers in securities or currencies, traders in securities electing to mark to market, financial institutions, insurance companies, tax-exempt entities, holders of 10% or more of our voting shares, persons holding ADSs or shares of common stock as a position in a "straddle" or conversion transaction, or as part of a "synthetic security" or other integrated financial transaction. Prospective purchasers who are U.S. holders are advised to consult their own tax advisors as to the overall United States federal, state and local tax consequences of their ownership of ADSs and the underlying shares of common stock.

The statements of United States tax laws set out below are based on the laws in force as of the date of this annual report and may be subject to any changes in United States law occurring after such date, including changes that may have retroactive effect.

ADRs

In general, U.S. holders of ADRs evidencing ADSs of the bank will be treated, for United States federal income tax purposes, as the beneficial owners of the underlying shares of common stock that are represented by those ADSs and evidenced by those ADRs.

Cash Dividends and Other Distributions

The gross amount of cash dividends paid out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) with respect to the shares of common stock or ADSs, including the net amount of the Chilean withholding tax withheld on the distribution (after taking into account the credit for the First Category Tax), will be includable in the gross income of a U.S. holder as ordinary income on the day the dividends are received by the U.S. holder, in the case of shares of common stock, or by the depositary, in the case of shares of common stock represented by ADSs, and will not be eligible for the dividends received deduction allowed to corporations under the Internal Revenue Code of 1986, or the Code. Dividends paid in Chilean pesos will be includable in the income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day they are received by the U.S. holder, in the case of shares of common stock, or the depositary, in the case of shares of common stock represented by ADSs. U.S. holders should consult their own tax advisors regarding the treatment of foreign currency gain or loss, if any, on any Chilean pesos received that are converted into U.S. dollars on a date subsequent to receipt. The Chilean withholding tax (after taking into account the credit for the first category tax) will be treated as a foreign income tax that a U.S. holder may elect to deduct in computing its income tax or, subject to generally applicable limitations and conditions under the Code, to credit against its U.S. federal income tax liability. For purposes of calculating the foreign tax credits, dividends paid on the common stock or ADSs will generally constitute foreign source “passive income” or “financial services income” for U.S. tax purposes. Foreign tax credits may not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities or in respect of arrangements in which a U.S. holder’s expected economic profit is insubstantial. U.S. holders should consult their own advisors concerning the implications of these rules in light of their particular circumstances.

Distributions of additional shares of common stock (or rights to subscribe for shares of common stock) to U.S. holders with respect to the ADSs or shares of common stock that are made as part of a pro rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

A holder of shares of common stock or ADSs that is a nonresident alien individual or a foreign corporation (a “non-U.S. holder”) generally will not be subject to U.S. federal income or withholding tax on dividends received on shares of common stock or ADSs, unless such income is effectively connected with the conduct by such non-U.S. holder of a trade or business in the United States.

Capital Gains

Gain or loss realized by a U.S. holder on the sale, exchange or other disposition of ADSs or shares of common stock will be subject to U.S. federal income taxation as a capital gain or loss in an amount equal to the difference between such holder’s adjusted basis in the ADSs or the shares of common stock and the amount realized on the disposition. Such gain or loss generally will be a capital gain or loss. Capital gains realized by an individual U.S. holder are generally subject to a reduced tax rate with respect to property held for more than one year.

Gains realized by an U.S. holder on a sale or other disposition of ADSs or shares of common stock generally will be treated as U.S. source income. Because a U.S. holder generally may not use a foreign tax credit to reduce its U.S. federal income tax liability in respect of its U.S. source income, in the case of a disposition of shares of common stock (which, unlike a disposition of ADSs, would be taxable in Chile), the U.S. holder generally would not be able to utilize foreign tax credits in respect of any Chilean tax imposed on such a disposition unless such holder has other income from foreign sources, in the appropriate category, for purposes of the foreign tax credit limitation rules. U.S. holders should consult their tax advisors regarding the application of the foreign tax credit limitation rules to their investment in, and disposition of, the ADSs and shares of common stock.

Deposits and withdrawals of shares of common stock by U.S. holders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

A non-U.S. holder of shares of common stock or ADSs will not be subject to U.S. federal income or withholding tax on gain realized on the sale of shares of common stock or ADSs, unless (1) such gain is effectively connected with the conduct by such non-U.S. holder of a trade or business in the United States or (2) in the case of gain realized by an individual non-U.S. holder, such Non-U.S. holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

Backup Withholding and Information Reporting

In general, dividends paid to a U.S. holder and proceeds from a disposition of the ADSs or shares of common stock will be subject to information reporting requirements and such payments may be subject to U.S. backup withholding tax if the U.S. holder does not provide a taxpayer identification number or otherwise establish an exemption. Under certain circumstances, such payments made to a non-U.S. holder also may be subject to U.S. information reporting requirements and U.S. backup withholding tax, unless the holder certifies its non-U.S. status or otherwise establishes an exemption.

The foregoing discussion of Chilean and United States tax considerations is intended only to provide a general description of the principal relevant factors. The discussion is not intended as tax advice to any particular investor, which advice can be rendered only in light of that investor's particular tax situation. INVESTORS SHOULD CONSULT THEIR TAX ADVISORS ABOUT THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF ADSs OR SHARES OF COMMON STOCK.

DOCUMENTS ON DISPLAY

You may obtain copies of this annual report and the exhibits thereto at the Securities and Exchange Commission's public reference rooms in Washington, D.C., New York, NY, and Chicago, IL. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference rooms. As a foreign private issuer, we are not required to make filings with the Commission by electronic means, although we may do so. Any filings we make electronically will be available to the public over the Internet at the Securities and Exchange Commission's web site at http://www.sec.gov.

Item 11. Quantitative and Qualitative Disclosure About Market Risk

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices, as well as the correlation among these factors and their volatility. We have an independent market risk control area that identifies, measures and monitors our financial risks on a global and consolidated basis. This area has oversight responsibilities for local activities as well as those based abroad, particularly our activities at the New York branch and Miami agency. Our market risk control area is charged with controlling the joint risk generated by the bank and its subsidiaries. This area reports on a monthly basis to our ALCO and on a daily basis to our different divisions according to the risk levels assumed, risks evolution and control over established limits. The ALCO is comprised of the Chairman, the President and Chief Executive Officer and several Executive Vice Presidents, including the Executive Vice President of market risk control. In addition to a review of market risk, the ALCO also reviews the evolution of our assets and liabilities, focusing on interest rate, maturity and currency gaps. Reports include regulatory gaps according to the measurements established by the Chilean Superintendency of Banks as well as those gaps measured according to our internal standards. Senior members of our financial division meet informally on a daily basis, formally on a weekly basis and with external consultants, including economists and financial market experts.

Once risks have been identified, it is this area's responsibility to ensure that adequate procedures have been put in place to mitigate the risks as far as is possible.

Risk Identification

This section describes the market risks that we are exposed to, the tools and methodology we use to control these risks and the quantitative disclosures that demonstrate the level of exposure to market risk that we are assuming. We keep daily databases for each risk factor, which are obtained from brokers or government agencies participating in Reuters or Bloomberg or issuing information on prices on issuer's internet sites. Due to the lack of market liquidity and information on certain sections of the local market rate curve, it is necessary to interpolate data that is tested against the rates directly obtained from the treasury. We maintain a daily risk factor database for currency parities, bond prices and interest rates for different maturities and currencies.

We are exposed to the material financial risks described below, derived from the financial positions we maintain.

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

Interest rate risk. We are exposed to interest rate risk due to interest rate gaps resulting from asset and liability transactions closed with different repricing profiles. We maintain interest rate gaps in local currency and U.S. dollars. Interest rate gaps in other currencies are not significant. The interest rate swap is being introduced into the domestic market and will enable us to rely on a deeper market for these trading instruments as a means of managing these mismatches in the longer term.

Inflation risk. Although 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 business, financial condition and results of operations. The rate of inflation as measured by changes in the CPI reached 27.3% in 1990. The inflation rate declined from 1991 through 2000 from 18.7% to 4.5%. In 2001, inflation decreased to 2.6% as a result of the economic slowdown. We use several tools to mitigate against market risks. However, we cannot assure that Chilean inflation will not change significantly from the current level and we cannot assure that our business, financial condition and result of operations in the future will not be adversely affected by changing levels of inflation.

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 a pro rata amount of the prior calendar month's change in the CPI. One UF was equal to Ch$15,066.96 at December 31, 1999, Ch$15,769.92 at December 31, 2000 and Ch$16,262.66 at December 31, 2001. In addition to the UF inflation index, the market trades UF interest rates ("real" interest rates) as well as peso interest rates ("nominal" interest rates). In this way, assets and liabilities denominated in UF will be valued, discounted or traded according to the corresponding UF interest rate.

The effect of inflation in the results of a bank depends on:

- the long or short net financial position in nominal pesos (for example, if the inflation rate is higher than expected, then a positive net result will be realized if nominal peso-denominated liabilities exceed nominal peso-denominated assets);

- the repricing dates of the nominal peso-denominated assets and liabilities, because transactions that reprice first will internalize the last expectations of higher or lower inflation; and

- the market ability to predict future inflation rates, because the better the estimations of future inflation rates made by the market, the closer a nominal peso-denominated asset will be to a UF-denominated asset.

We fund our assets mainly with short term nominal pesos (30 days on average), which means we hold a permanent net short position in nominal pesos. Our nominal peso net position was Ch$(815) million at year-end 2000 and Ch$(936) million at year-end 2001.

Price risk. We are exposed to price risk due to the trading positions maintained in financial instruments that are traded by price, such as stock or bond portfolio. With respect to bonds, which involve interest rate or price risk, we consider them in accordance with the practice applied in the market on which these bonds are traded. In general, bonds issued in the local market are traded by years to maturity, whereas bonds issued on the international market are traded by price.

Measurement Models

Our methods for evaluating, measuring and responding to risks have developed over the last three years. We use the following models and methods:

- value at risk (VaR) based risk management;
- asset and liability management;
- exchange rate sensitivity analysis; and
- the use of derivatives.

VaR based risk management. We introduced VaR in 1999 and it has become an important tool in measuring the risks to which we are exposed. We use VaR to compare trading positions separately to our portfolio as a whole. This section describes the trading and non-trading risks to which we are exposed and the manner in which we use VaR to measure and respond to these risks.

Trading positions refer to portfolios comprised of instruments that are tradable on the market and that are sufficiently liquid so that daily market valuations and daily risk measurements are necessary to manage actual and potential losses on a timely basis. There is no portfolio classification for “held to maturity” in Chile. Consequently, all instruments that are tradable on the market must be classified as trading or available for sale instruments. Trading positions include all Central Bank bond portfolios, mortgage bonds, corporate bonds issued by local or foreign issuers and sovereign bonds. We do not maintain currency forward or interest rate swap portfolios for trading purposes.

Non-trading positions are generally comprised of non-tradable portfolios (generally without liquidity) that are accrued over time. These portfolios are more stable over time and do not require daily risk valuation. Loan portfolios are an example of these positions.

Accordingly, we measure market risk for trading portfolios on a daily basis, and additionally we measure the interest rate risk, net of credit risk, over our total currency and foreign exchange financial position, *i.e.*, over our total balance sheet, including both trading and non-trading positions. In this manner, our potential for loss in equity value in case of a change in the interest rate curve is measured. This last measurement is performed on a monthly basis.

Although market risk for non-trading portfolios is not measured separately from trading portfolios, they are considered in the measurement of our total interest rate risk. On the other hand, although trading portfolios appear to be duplicated in both measurements, the purpose is different and we set independent risk limits for trading portfolios and for the total interest rate risk.

A Central Bank zero risk coupon curve is built on a daily basis, so daily interest rate changes can be calculated for the relevant vertices (or time periods). These changes are used to discount future cash flows and to determine our total interest rate risk, as well as the daily market risk for the part of our portfolio consisting of Central Bank instruments, where no price information is available on a daily basis from external sources.

Distributions of flows subject to contractual maturities (*e.g.*, bonds and loans) are performed according to repricing. Distributions based on actuarial or other methods are applied for flows with unknown or uncertain maturities (capital, demand accounts and other non-transactional accounting parties).

We also measure foreign exchange risk over the total foreign exchange position, i.e., over the total assets and liabilities denominated in foreign currency or local currency indexed to a foreign currency. The risk, under normal and event scenarios, is measured over the relevant currencies only i.e., net positions in U.S. dollars, Japanese yen, German marks or Euros.

The only derivatives currently traded in Chile are currency forwards and interest rate swaps. Although some transactions can be classified as trading, most of them are closed for managing the overall foreign exchange and interest rate position. Consequently, market risk is not calculated independently for these portfolios, but it is included in the calculation of the overall interest rate and foreign currency risks. Risk is always measured under normal and crisis conditions for both our trading portfolios and our total financial position (trading and non-trading).

We use three classifications of risk depending on their nature:

- overnight or normal risk;
- event risk; and
- equivalent position.

Overnight or Normal Risk. Overnight risk is defined as the potential loss attributable to normal risk factor volatility conditions, that is, the result of maintaining prevailing positions after the close of a business day.

The VaR method is applied for measuring overnight risk, although it may be designated differently depending on whether it is being used to refer to trading positions or total financial position. This method enables calculation of the impact of the overnight volatility of the risk factor involved on a position's market value, assuming that daily price variations have a normal distribution. We calculate risk factor historical volatility on a daily basis, using 100 business days and a 95% confidence level. For certain trading positions facing higher risk factor volatility, the historical volatility exponential method is used, though in general the uniform method is used.

The calculated volatility is adjusted by market liquidity, calculating the number of days required to close a given position. For this purpose, we must define the maximum position that may possibly be settled or closed on one day on the market where a position is traded, without affecting normal risk factor volatility.

Given that positions are normally made up of several risk factors of the same kind (parties for several currencies, prices for different bonds, interest rates for different maturities), we calculate both the individual VaR of each factor and the covariate VaR for the set of factors.

The following table shows the median, low and the high daily VaR for 2001 along with the VaR as of December 31, 2001.

	Period Ended December 31, 2001			At December 31, 2001
	Median VaR	Minimum VaR	Maximum VaR	VaR
	(in millions of Ch$)			
Foreign exchange	34	3	183	84
Interest rate risk—local currency	232	25	507	140
Interest rate risk—foreign currency	556	344	990	990
Trading portfolio—local currency	499	234	780	720
Trading portfolio—foreign currency	528	250	1,043	978
Trading portfolio—sovereign and corporate bonds	783	450	1,539	450
Foreign subsidiaries—total interest rate risk	317	237	423	353
Foreign subsidiaries—trading portfolio—sovereign and corporate bonds	944	356	1,942	952

Assumptions and Limitations of the VaR Model

- Our VaR model assumes that changes in the market risk factors have a normal distribution and that the parameters of this joint distribution have been estimated correctly. In particular, the normal distribution assumption may result in underestimating the probability of extreme market moves. For this reason, we assess event risk, the potential loss due to extreme changes in risk factors (see below).

- The model assumes that the correlation and changes in market rates/prices included in our historical databases are independent and identically distributed, and provide a good estimate of correlation and rate/price changes in the future.

- We compute VaR at the close of business, and trading positions may change substantially during the course of the trading day.

- A one-day time horizon may not fully capture the market risk positions that cannot be liquidated or hedged within one day. For this reason, we adjust the volatility by the market liquidity or the liquidation period.

Event Risk. Event risk is the estimated potential loss due to extreme changes in risk factors resulting from maintaining prevailing positions after the close of a day. Regardless of the exercises conducted in order to simulate several potential events (known as stress testing), the most adverse event possible is defined as a price variation that is extreme but still realistic. In this manner, the range of daily price variations beyond the 95% confidence level defined for normal overnight volatility is covered. Its definition is based on historical analyses of past events that occurred within a period of several years. This measured event is approved by the ALCO and its risk is measured with the same periodicity and methodology as the overnight risk.

We set limits for both risks (overnight and event), understanding that normal risk refers to a relatively low potential loss with a high likelihood of occurrence any day, while event risk refers to a much higher potential loss with a very low likelihood of occurrence any day.

Equivalent Position. We use the most liquid instrument on the local market to convert the measured event risk into an equivalent position. This instrument is an eight-year, UF-denominated Central Bank bond in equal biannual capital-plus-interest installments (of four-year duration). The purpose is to calculate how much of this newly issued bond's position would generate the same calculated event risk, in the case of an event.

Asset and Liability Management. Our policy with respect to asset and liability management is to maximize net interest revenue and return on assets and equity with a view to managing interest rate, liquidity and foreign exchange risks, while complying with limits imposed by Chilean banking regulations and those set internally by us. To that end, we have in place interest rate mismatch limits in local and foreign currency, global mismatch limits in foreign currency and rate mismatch limits for our overseas branch, each of which is in compliance with restrictions established by the Chilean Superintendency of Banks and the Central Bank. Local interest rate mismatch limits with respect to peso-denominated and foreign currency denominated investments are based on asset and liability durations that seek to neutralize the impact that results from variations in interest rates and in the gaps that exist in the different maturities. The limits for the different positions are defined based on VaR, events risk and maximum notional amounts by position. We also have limits in our positions in financial investments in terms of risk equivalents to the *Pagare Reajustable del Banco Central*, or PRC, with a term of eight years. The PRC is the most liquid bond traded in Chile.

Our asset and liabilities management policies are determined by the finance committee of the board of directors based on recommendations from our ALCO and are implemented by senior members of our finance division. The finance committee sets general market risk policies and limits, reviews the information concerning asset and liability evolution and risks and generally performs the functions of the ALCO at a senior level. The Executive Vice President of our finance division makes presentations on a monthly basis to the finance committee and to our ALCO.

Our financial division is responsible for managing interest rate, maturity and currency gaps through direct transactions with the market and for defining internal financial transfer prices, especially minimum and maximum fund raising rates and the cost of funds for each of our active transactions. For this purpose, this division internally buys and sells all matched funds, so that business areas do not have to assume the transaction's financial risks. We only take mismatched positions as to interest rates and foreign currencies in accordance with the policies and procedures established by the finance committee. The composition of our assets, liabilities and shareholders' equity at December 31, 2001 by currency and term was as follows:

	At December 31, 2001				
	Ch$	UF	Foreign Currency(2)	Total	Percentage
	(in millions of constant Ch$ as of December 31, 2001, except for percentages)				
Assets(3):					
Cash and due from banks	Ch$ 382,037	Ch$ —	Ch$ 145,912	Ch$ 527,949	8.3%
Other assets(1)					
Less than one year	1,035,232	859,798	917,918	2,812,948	44.6
From one to three years	134,815	847,232	287,523	1,269,570	20.1
More than three years	30,383	1,166,322	229,311	1,426,016	22.7
Total financial assets	Ch$ 1,582,467	Ch$ 2,873,352	Ch$ 1,580,664	Ch$ 6,036,483	95.7
Other	297,320	1,647	17,361	316,328	5.0
Bank premises and equipment	83,552	—	1,554	85,106	1.3
Investment in other companies	3,417	—	—	3,417	0.1
Allowance for loan losses	(128,358)	—	(4,014)	(132,372)	(2.1)
Total assets	Ch$ 1,838,398	Ch$ 2,874,999	Ch$ 1,595,565	Ch$ 6,308,962	100.0%
Percentage of total financial assets by currency	26.21%	47.60%	26.19%	100.00%	
Liabilities and shareholders' equity(3):					
Non-interest bearing demand deposits	Ch$ 801,909	Ch$ 6,555	Ch$ 253,957	Ch$ 1,062,421	16.8%
Other liabilities(1)					
Less than one year	1,149,570	1,324,862	855,747	3,330,179	52.8
From one to three years	16,342	210,596	118,611	345,549	5.5
More than three years	620	825,270	20,906	846,796	13.4
Total financial liabilities	Ch$ 1,968,441	Ch$ 2,367,283	Ch$ 1,249,221	Ch$ 5,584,945	88.5
Other	46,134	1,793	277,821	325,748	5.2
Shareholders' equity	311,301	—	—	311,301	4.9
2001 net income	86,968	—	—	86,968	1.4
Total liabilities and shareholders' equity	Ch$ 2,412,844	Ch$ 2,369,076	Ch$ 1,527,042	Ch$ 6,308,962	100.0%
Percentage of total financial liabilities and shareholders' equity by currency	35.24%	42.39%	22.37%	100.00%	
Asset/liability gap	Ch$ (574,446)	Ch$ 505,923	Ch$ 68,523		

(1) Mortgage finance bonds issued by us are included as other liabilities, and mortgage finance bonds held by us in our financial investment portfolio whether issued by us or by third parties) are included as other assets.
(2) Includes assets and liabilities payable in Chilean pesos that are indexed according to the U.S. dollar exchange rate.
(3) Includes forward contracts.

We have generally maintained more peso-denominated liabilities than peso-denominated assets and more UF-denominated assets than UF-denominated liabilities. Nevertheless, even though fixed assets and shareholders' equity are denominated in pesos, under Chilean GAAP the excess of shareholders' equity over fixed assets is readjusted monthly depending on the variation in the Consumer Price Index, and, since shareholders' equity must always exceed fixed assets as required by applicable Chilean law, the net effect of inflation is partially offset for financial accounting purposes. In addition, since we finance UF-denominated assets using peso-denominated non-interest bearing demand deposits, the losses resulting from increases in inflation are significantly reduced, although this practice increases the volatility of our interest rate revenue.

Exchange Rate Sensitivity Analysis. Central Bank regulations 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 U.S. dollars but payable in pesos, as well as those denominated in pesos and adjusted by the variation of the U.S. dollar exchange rate) to exceed 20% of a bank's paid-in capital and reserves (on an unconsolidated basis). At December 31, 2001, our unconsolidated foreign currency-denominated assets exceeded our consolidated foreign currency-denominated liabilities by Ch$29,481 million, equivalent to 9.5% of our paid-in capital and reserves. The positive unconsolidated position also includes assets less liabilities payable in Chilean pesos but indexed to the Chilean peso exchange rate versus the U.S. dollar amounting to Ch$295,096 million. At December 31, 2001, our consolidated foreign currency-denominated assets and liabilities were denominated principally in U.S. dollars, as the following table demonstrates:

	At December 31, 2001		
	Assets	Liabilities	Net
	(in millions of constant Ch$ as of December 31, 2001)		
U.S. dollar[1]	Ch$ 1,577,021	Ch$ 1,508,655	Ch$ 68,366
Euro	18,190	18,504	(314)
Pound sterling	287	152	135
Deutsche mark	520	409	111
Swiss franc	707	669	38
Spanish peseta	—	2	(2)
Japanese yen	7,072	7,018	54
Italian lira	61	63	(2)
Other	469	332	137
Total	Ch$ 1,604,327	Ch$ 1,535,804	Ch$ 68,523

(1) Includes Ch$296,056 million in assets and Ch$960 million in liabilities denominated in foreign currencies and payable in Chilean pesos indexed to the U.S. dollar exchange rate.

In recent years, our results of operations have benefited from fluctuations in the exchange rate between the Chilean peso and the U.S. dollar in part due to our 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 U.S. dollar is expected to have the following material effects:

- If we maintain a net asset position in U.S. dollars and a devaluation of the peso against the dollar occurs, we would record a related gain, and if an appreciation of the peso occurs we would record a related loss.

- If we maintain a net liability position in U.S. dollars and a devaluation of the peso against the dollar occurs, we would record a related loss, and if an appreciation of the peso occurs, we would record a related gain.

- If the inflation rate for a period exceeds the devaluation of the peso against the U.S. dollar, we would record a related gain if we maintain a net asset position in UFs that exceeds a net liability position in U.S. dollars, and we would record a loss if we maintain a net liability position in U.S. dollars that exceeds a net asset position in Ufs. The same effect would occur if there were an appreciation of the peso against the U.S. dollar.

- If the inflation rate for a period is lower than the rate of devaluation of the peso against the U.S. dollar, we would record a related gain if we maintain a net asset position in U.S. dollars and a net liability position in Ufs and would record a related loss if we maintain a net liability position in U.S. dollars and a net asset position in Ufs. The same effect would occur if there were an appreciation of the peso against the U.S. dollar.

In calculating our asset and liability positions and measuring asset/liability gaps, we include fees and expenses generated from foreign exchange contracts. The bulk of foreign exchange trading that we undertake is intended to hedge the exposure of our customers to the prevailing rate of exchange. It is our policy to make foreign currency-denominated loans only to customers whose activities generate foreign currency-denominated cash flow or that are indexed to a foreign currency, or if the market value of such customer's assets is indexed to the rate of exchange. We do not enter into foreign exchange contracts with customers who do not have exchange rate exposure. We then enter into foreign contracts with third parties to adjust the net position to levels of risk that comply with our limits. To date, we have participated in such activity within this limited scope. To the extent we maintain net positive or negative exposures denominated in foreign currency, sudden fluctuations in the rate of exchange could have a material adverse impact on our financial condition and results of operations. At December 31, 2001, approximately 20% of our consolidated total loan portfolio was denominated in foreign currencies.

We enter into forward exchange contracts that are essentially of two types:

- transactions covering U.S. dollars against other foreign currencies; and
- transactions covering only Chilean pesos and Ufs against U.S. dollars.

We use the first type for hedging purposes, such as when we take a liability position in foreign currency other than the U.S. dollar; we use the second type, which is carried out only in the Chilean market, to hedge and to take foreign currency positions subject to the regulatory requirement that the foreign currency forward exposure must be included in the maximum net foreign currency position permitted by applicable regulations. See "Item 4. Information on the Company—Selected Statistical Information."

Derivatives. We enter into foreign exchange forward contracts and interest rate swaps as part of our asset and liability management. The Central Bank requires that foreign exchange forward contracts we enter into are made in U.S. dollars against the Chilean peso or the UF. In May 2000, the Central Bank changed its regulations with respect to foreign currency forward contracts to allow Chilean banks to enter into foreign currency forward contracts with companies organized and located outside of Chile, including foreign subsidiaries of Chilean companies.

The following table presents notional amounts of our derivatives contracts as of December 31, 2001:

	At December 31, 2001 Notional Amount	
Exchange rate forwards denominated in foreign currency	Ch$	18,513
Foreign currency futures (purchased)		190,344
Foreign currency futures (sold)		407,068
Chilean currency futures (purchased)		813
Chilean currency futures (sold)		813
Interest rate swaps		72,554
Total	Ch$	690,105

The following table presents foreign currency exchange rate risk instruments as of December 31, 2001, in notional amounts, and weighted average exchange rates by expected (contractual) maturity dates, for the next five years.

	As of December 31, 2001					
	2002	2003	2004	2005	2006	Total
	(in millions of constant Ch$ as of December 31, 2001)					
Exchange rate forwards denominated in foreign currency						
Purchased:						
Pay U.S. dollars/receive Norwegian Krona	Ch$ 74	—	—	—	—	Ch$ 74
Average contractual exchange rate(1)	73.0125	—	—	—	—	
Pay U.S. dollars/receive Euros	4,030	—	—	—	—	4,030
Average contractual exchange rate(1)	598.0453	—	—	—	—	
Pay U.S. dollars/Japanese Yen	51	—	—	—	—	51
Average contractual exchange rate(1)	5.5352	—	—	—	—	
Sold:			—	—	—	
Pay Norwegian Krona/receive U.S. dollars	74	—	—	—	—	74
Average contractual exchange rate(1)	73.3102	—	—	—	—	
Pay Euros /receive U.S. dollars	7,410	—	—	—	—	7,410
Average contractual exchange rate(1)	726.6107	—	—	—	—	
Pay Japanese yen /receive U.S. dollars.......	6,874	—	—	—	—	6,874
Average contractual exchange rate(1)	5.5352	—	—	—	—	
Total..	Ch$ 18,513	—	—	—	—	Ch$ 18,513
Foreign currency futures						
Purchased:						
Pay Chilean pesos/receive U.S. dollars.......	88,108	—	—	—	—	88,108
Average contractual exchange rate(1)	700.2246	—	—	—	—	
Pay UF/receive U.S. dollars	94,493	6,759	984	—	—	102,236
Average contractual exchange rate(1)	689.2550	689.1403	709.9057	—	—	
Total..	Ch$ 182,601	Ch$ 6,759	Ch$ 984	—	—	Ch$ 190,344
Sold:						
Pay Euro dollars/receive Chilean pesos......	84	—	—	—	—	84
Average contractual exchange rate(1)	637.6014	—	—	—	—	
Pay U.S. dollars/receive Chilean pesos.......	272,049	—	—	—	—	272,049
Average contractual exchange rate(1)	679.5479	—	—	—	—	
Pay U.S. dollars/receive UF	123,505	10,446	984	—	—	134,935
Average contractual exchange rate(1)	677.0031	659.1417	726.6784	—	—	
Total..	Ch$ 395,638	Ch$ 10,446	Ch$ 984	—	—	Ch$ 407,068
Chilean currency futures						
Purchased:						
Pay UF/receive Chilean pesos	813	—	—	—	—	813
Average contractual rate(1).........................	16,262.66	—	—	—	—	
Total..	Ch$ 813	—	—	—	—	Ch$ 813
Sold						
Pay Chilean pesos/receive UF	813	—	—	—	—	813
Average contractual rate(1).........................	16,262.66	—	—	—	—	—
Total..	Ch$ 813	—	—	—	—	Ch$ 813

(1) The average contractual exchange rate represents the amount of specified currency equal to U.S.$1.00.

Limit Control

The ALCO sets our limits for financial risk management and control. There are limits for each financial risk measured in terms of overnight risk, event risk and equivalent position as well as maximum daily and monthly real loss limits. Our risk control area and our financial division jointly define the limits for a given position and submit these limits for approval by the ALCO. Our finance committee must subsequently ratify the limits for these limits to be operative. Limits are reviewed once a year.

Limit monitoring is performed with the same timing as the measurement of the relevant risks. Risk reports, including limit control, are distributed on a monthly basis to the officers responsible for risk management and to the ALCO and the finance committee. When a limit is about to be exceeded, our risk control area warns the officers responsible for risk management as well as the ALCO. If a limit is exceeded, the responsible officers must explain why the limit was exceeded, and the ALCO must meet to decide whether to eliminate the excess or grant a provisional limit increase.

Foreign Branches

We apply the same policies and procedures described above with respect to the New York branch and the Miami agency. The only difference is the participation of their respective general managers on the proposal of limits and flow distribution standards. The senior vice president of the international division is a permanent member of the ALCO. We place particular emphasis on monitoring interest rate risk over the total financial position and market risk of the portfolio of sovereign and corporate bonds maintained by the branch and the agency. The New York branch and the Miami agency do not maintain any other positions significant enough to warrant risk calculation. We perform control over the New York branch and the Miami agency individually and on a consolidated basis with the head office in Chile.

Central Bank Gap Requirements

The Central Bank has also implemented a limit regarding our overall interest rate risk that a bank may run, which cannot exceed 8% of a bank's total capital. The calculation is based on a table per time period compounded by fixed changes in interest rates (100 basis points for the short term and 75 basis points for the longer terms) and fixed sensitivity factors (from 0 up to 30 days, up to 5.95 for 20 years and longer). In our case, this indicator ranges from 3.80% to 5.36%.

Item 12. Description of Securities other than Equity Securities

Not Applicable.

PART II

Item 13. Defaults, Dividends, Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. [Reserved]

Item 16. [Reserved]

PART III

Item 17. Financial Statements

Our financial statements have been prepared in accordance with Item 18 hereof.

Item 18. Financial Statements

Our financial statements are included in this annual report beginning at page F-1.

Item 19. Exhibits

LIST OF EXHIBITS

Exhibit No.	Exhibit
1.1	*Estatutos* of Banco de Chile, which serve as the bank's articles of incorporation and bylaws, together with an English translation thereof.
2.1	Form of Deposit agreement among Banco de Chile, JPMorgan Chase Bank as depositary, and the holders from time to time of ADSs (incorporated by reference to our registration statement on Form F-4 (File No. 333-14020) filed on October 18, 2001).
2.2	Form of Foreign Investment Contract among Banco de A. Edwards, Citibank, N.A. and the Central Bank of Chile relating to the foreign exchange treatment of an investment in ADSs, together with an English translation thereof (incorporated by reference to Banco de A. Edwards' registration statement on Form F-1 (Registration No. 33-97594) filed on September 29, 1995).
2.3	Amendment to Foreign Investment Contract among Banco de Chile (as successor to Banco de A. Edwards), Morgan Guaranty Trust Company of New York and the Central Bank of Chile, dated January 2, 2002, together with an English translation thereof.
4.1	Merger Agreement between Banco de Chile and Banco de A. Edwards, dated October 3, 2001 (incorporated by reference to our registration statement on Form F-4 (File No. 333-14020) filed on October 18, 2001).
8.1	List of subsidiaries.
99.1	Letter from Banco de Chile to the SEC regarding Langton Clarke Auditores Consultores Ltda.

SIGNATURE

The registrant, Banco de Chile, hereby certifies that it meets all of the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this annual report on its behalf.

BANCO DE CHILE

By /s/ Pablo Granifo
Name: Pablo Granifo
Title: General Manager

Date: June 27, 2002

INDEX TO EXHIBITS

Exhibit No.	Exhibit	Page
1.1	*Estatutos* of Banco de Chile, which serve as the bank's articles of incorporation and bylaws, together with an English translation.	
2.1	Form of Deposit agreement among Banco de Chile, JPMorgan Chase Bank as depositary, and the holders from time to time of ADSs (incorporated by reference to our registration statement on Form F-4 (File No. 333-14020) filed on October 18, 2001).	
2.2	Form of Foreign Investment Contract among Banco de A. Edwards, Citibank, N.A. and the Central Bank of Chile relating to the foreign exchange treatment of an investment in ADSs, together with an English translation thereof (incorporated by reference to Banco de A. Edwards' registration statement on Form F-1 (Registration No. 33-97594) filed on September 29, 1995).	
2.3	Amendment to Foreign Investment Contract among Banco de Chile (as successor to Banco de A. Edwards), Morgan Guaranty Trust Company of New York and the Central Bank of Chile, dated January 2, 2002, together with an English translation thereof.	
4.1	Merger Agreement between Banco de Chile and Banco de A. Edwards, dated October 3, 2001 (incorporated by reference to our registration statement on Form F-4 (File No. 333-14020) filed on October 18, 2001).	
8.1	List of subsidiaries.	
99.1	Letter from Banco de Chile to the SEC regarding Langton Clarke Auditores Consultores Ltda.	