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**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 33-97594

**BANCO DE A. EDWARDS**

(Exact name of Registrant as specified in its charter)

**A. EDWARDS BANK**

(Translation of Registrant's name into English)

**Republic of Chile**

(Jurisdiction of incorporation or organization)

**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:**

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
American Depositary Shares, each representing 165 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: **7,381,507,854**

**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

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In this Annual Report on Form 20-F, “We,” “the Bank” and “Banco Edwards” refer to Banco de A. Edwards. **Effective as of January 1, 2002 we merged with and into Banco de Chile, a Chilean bank. As a consequence of the merger, Banco Edwards no longer exists.** Banco de Chile continued as the surviving entity and is our legal successor for all purposes. **Unless otherwise indicated, all information included herein regarding Banco Edwards, including information regarding our business, operations and customers, is as of or prior to December 31, 2001, as subsequent to that date Banco Edwards no longer exists.**

## PRESENTATION OF FINANCIAL INFORMATION

We are a Chilean bank and maintain our financial books and records in Chilean pesos and prepare our consolidated financial statements in conformity with generally accepted accounting principles in Chile and the related rules of the *Superintendencia de Bancos e Instituciones Financieras* (the “Superintendency of Banks and Financial Institutions”), which together differ in certain significant respects from generally accepted accounting principles in the United States (“U.S. GAAP”). References to “Chilean GAAP” in this annual report are to generally accepted accounting principles in Chile, as supplemented by the applicable rules of the Superintendency of Banks and Financial Institutions. See Note 28 to our financial statements as of December 31, 2000 and 2001 and for the years ended December 31, 1999, 2000 and 2001 in Item 18 for a description of the principal differences between Chilean GAAP and U.S. GAAP as they relate to us 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 included in our financial statements contained elsewhere in this annual report have been restated in constant Chilean pesos as of December 31, 2001. See Note 1c) to the financial statements in Item 18.

Unless otherwise specified, all references herein (except in our financial statements) to loans are to loans and financial leases before deduction of allowances for loan losses, and, except as otherwise specified, all market share data presented herein is based on information published periodically by the Superintendency of Banks and Financial Institutions. For the fiscal years 1995, 1996 and up to April 1997, past due loans included the entire outstanding balance of any loan as to which any payment of principal or interest was 90 days or more overdue, except that in the case of mortgage loans, only the amount of any payments which was overdue 90 days or more was included in past due loans until such time as legal foreclosure proceedings were commenced, at which time the entire outstanding balance was included. References to past due loans as of December 31, 1998, 1999, 2000 and 2001, generally include, with respect to any loan, the portion of principal or interest that is 90 or more days overdue, and do not include the portion of loans that is not overdue or that is less than 90 days overdue, unless legal proceedings have been commenced for the entire outstanding balance according to the terms of the loan.

Unless otherwise specified, all references to “shareholders’ equity” (except in our financial statements) as of December 31 of any year are to shareholders’ equity after deducting our net income for that year, but all references to “average shareholders’ equity” for any year are to average shareholders’ equity including our net income for that year.

Outstanding loans and the related percentages of our loan portfolio made up of loans to high income individuals and middle-market and large corporate loans in “Item 4. Information on the Company—Business Overview” are categorized based on the nature of the borrower. In “Item 4. Information on the Company—Selected Statistical Information” outstanding loans and related percentages of our loan portfolio made up of such individual and corporate loans are categorized in accordance with the reporting requirements of the Superintendency of Banks and Financial Institutions which are based on the type and term of loans.

## CURRENCY OF PRESENTATION

Unless otherwise specified, all 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* (“UF”) is an inflation-indexed, Chilean peso-denominated monetary unit. The UF rate is set once a month for daily adjustments for the period beginning on the tenth day of the month through the ninth day of the succeeding month based on changes in the previous month’s Chilean consumer price index (“CPI”) as determined by *Instituto Nacional de Estadísticas* (the “Chilean National Institute of Statistics” or “INE”). See

Note 1d) to our 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 the convenience of the reader. These translations should not be construed as representations that the Chilean peso amounts actually represent the U.S. dollar amounts, were converted from U.S. dollars at the rates used in the preparation of our financial statements or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, these U.S. dollar amounts have been translated from Chilean pesos based on the Observed Exchange Rate (as defined in “Exchange Rates”) reported by the Central Bank for December 31, 2001, which was Ch\$656.20 = U.S.\$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

## **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 selected consolidated and other financial and operating information about us as of the dates and for each of the periods indicated. This information should be read in conjunction with, and is qualified in its entirety by reference to, our financial statements in Item 18, “Item 4. Information on the Company—Selected Statistical Information” and “Item 5. Operating and Financial Review and Prospects.” The selected consolidated financial information as of and for each of the years ended December 31, 1997, 1998, 1999 and 2000 has been derived from financial statements in Item 18 audited by PricewaterhouseCoopers, independent accountants and as of and for the year ended December 31, 2001 has been derived from financial statements audited by Arthur Andersen–Langton Clarke, independent accountants.

Our financial statements have been prepared in accordance with Chilean GAAP and the rules of the Superintendency of Banks and Financial Institutions, which differs in certain significant respects from U.S. GAAP. Note 28 to our financial statements in Item 18 provides a description of the principal differences between Chilean GAAP and U.S. GAAP and a reconciliation to U.S. GAAP of net income and shareholders’ equity for the years and as of the dates covered thereby.

Pursuant to Chilean GAAP, the financial data in the following table as of and for all full-year periods through December 31, 2001 is restated in constant Chilean pesos as of December 31, 2001. See Note 1c) to the financial statements.

	Years Ended December 31,					
	1997	1998	1999	2000	2001	2001
	(in millions of constant Ch\$ of December 31, 2001) <sup>(1)</sup>					
	(in thousands of U.S.\$) <sup>(2)</sup>					
<b>CONSOLIDATED INCOME STATEMENT DATA</b>						
<b>Chilean GAAP:</b>						
Interest revenue.....	Ch\$ 276,295	Ch\$ 336,974	Ch\$ 276,836	Ch\$ 303,485	Ch\$ 276,362	U.S.\$ 421,155
Interest expense.....	(179,228)	(233,646)	(166,894)	(195,471)	(155,720)	(237,306)
Net interest revenue.....	97,067	103,328	109,942	108,014	120,642	183,849
Provision for loan losses.....	(13,235)	(29,549)	(68,962)	(36,427)	(44,661)	(68,060)
Other Income:						
Income from services, net.....	13,650	14,069	14,607	17,286	25,487	38,840
Gains on financial instruments net.....	1,126	1,068	1,940	2,366	2,580	3,932
Foreign exchange transactions, net.....	3,300	8,197	4,822	6,849	2,259	3,443
Other income and expenses.....	3,507	2,985	1,708	(1,148)	7,075	10,782
Subtotal.....	21,583	26,319	23,077	25,353	37,401	56,997
Operating expenses.....	(68,339)	(70,192)	(70,984)	(87,128)	(97,402)	(148,434)
Loss from price-level restatement.....	(5,604)	(4,219)	(2,526)	(7,199)	(4,173)	(6,359)
Minority interest in consolidated subsidiaries.....	(847)	(722)	(534)	(365)	-	-
Income before income taxes.....	30,625	24,965	(9,987)	2,248	11,807	17,993
Income taxes.....	(4,052)	(4,679)	2,863	1,026	(1,704)	(2,597)
Net income (loss).....	26,573	20,286	(7,124)	3,274	10,103	15,396
Net income (loss) per share <sup>(3)</sup> .....	4.59	3.51	(1.21)	0.44	1.37	0.0021
Net income (loss) per ADS <sup>(3)(4)</sup> .....	757.35	579.15	(199.65)	72.60	226.05	0.3445
Dividend per share <sup>(5)</sup> .....	2.00	2.24	1.70	-	0.22	0.0003
Dividend per ADS <sup>(4)(5)</sup> .....	330.00	369.60	280.50	-	36.30	0.0553
Weighted average shares outstanding (in millions).....	5,790	5,790	5,912	7,381	7,382	7,382
<b>U.S. GAAP:</b>						
Net interest income.....	87,044	97,132	110,637	105,330	126,022	192,048
Provision for loan losses.....	(10,507)	(26,817)	(65,792)	(35,045)	(28,841)	(43,952)
Net income (loss).....	24,098	23,674	8,529	1,242	17,402	26,519
Net income (loss) per share <sup>(3)</sup> .....	4.15	4.09	(1.44)	0.17	2.36	0.0036
Net income (loss) per ADS <sup>(3)(4)</sup> .....	684.75	674.85	(237.60)	28.05	389.40	0.5934
<b>CONSOLIDATED BALANCE SHEET DATA</b>						
<b>Chilean GAAP:</b>						
Cash and due from banks.....	179,492	249,493	169,761	199,759	243,920	371,716
Investments.....	184,034	121,387	285,167	303,413	360,397	549,218
Loans, net.....	1,920,919	2,082,501	2,069,287	2,262,932	2,124,912	3,238,208
Other assets.....	82,827	106,386	93,709	148,472	167,241	254,863
Total assets.....	2,367,272	2,559,767	2,617,924	2,914,576	2,896,470	4,414,005
Deposits.....	1,420,360	1,609,995	1,585,792	1,748,797	1,713,101	2,610,638
Borrowings.....	655,830	644,523	670,055	749,725	801,567	1,221,529
Other liabilities.....	126,441	133,015	130,572	185,107	142,431	217,055
Minority interest in consolidated subsidiaries.....	3,040	3,530	3,846	-	-	-
Shareholders' equity <sup>(6)</sup> .....	135,028	148,417	234,783	227,673	229,268	349,387
<b>U.S. GAAP:</b>						
Total assets.....	2,441,934	2,444,887	2,500,110	2,633,272	3,229,481	4,921,489
Borrowings.....	639,603	638,892	662,353	748,274	787,591	1,200,230
Shareholders' equity <sup>(7)</sup> .....	Ch\$ 153,967	Ch\$ 166,456	Ch\$ 230,480	Ch\$ 230,425	Ch\$ 244,054	371,920
<b>CONSOLIDATED RATIOS</b>						
<b>Chilean GAAP:</b>						
<b>Profitability and Performance</b>						
Net interest margin <sup>(8)</sup> .....	5.39%	4.73%	4.88%	4.44%	4.63%	4.63%
Return on average total assets <sup>(9)</sup> .....	1.29	0.83	(0.28)	0.12	0.34	0.34
Return on average shareholders' equity <sup>(10)</sup> .....	18.34	12.97	(4.21)	1.48	4.30	4.30
<b>Capital</b>						
Average shareholders' equity as a percentage of average total assets.....	7.06	6.36	6.59	8.07	7.93	7.93
Ratio of basic capital to total assets <sup>(11)</sup> .....	6.01	6.03	9.31	7.91	8.05	8.05
Ratio of total capital to risk adjusted assets <sup>(12)(13)</sup> .....	9.35	8.68	12.53	10.80	12.62	12.62
<b>Credit Quality</b>						
Category B-, C and D loans as a percentage of total loans <sup>(15)</sup> .....	1.09	2.71	6.85	6.74	6.53	6.53
Non-performing loans as a percentage of total loans <sup>(16)</sup> .....	1.32	2.94	6.23	5.17	6.90	6.90
Allowance for loan losses as a percentage of nonperforming loans <sup>(16)</sup> .....	85.94	57.55	58.51	65.97	61.19	61.19
Allowance for loan losses as a percentage of past due loans <sup>(14)</sup> .....	188.86	150.48	132.82	120.95	127.92	127.92
Allowance for loan losses as a percentage of sub-standard loans B-, C and D <sup>(15)</sup> .....	103.26	62.24	53.21	50.62	64.60	64.60
Allowance for loan losses as a percentage of total loans.....	1.13	1.69	3.65	3.41	4.22	4.22
Past due loans as a percentage of total loans <sup>(14)</sup> .....	0.60	1.12	2.74	2.82	3.30	3.30
Past due loans as a percentage of Shareholders' equity <sup>(6)</sup> .....	8.61%	16.02%	25.11%	29.04%	31.91%	31.91%
<b>Productivity</b>						
Loans per employee (net of allowances).....	Ch\$ 789.20	Ch\$ 819.88	Ch\$ 788.00	Ch\$ 769.97	Ch\$ 780.93	1,190.08
<b>Operating ratios</b>						
Operating expenses.....	68,339	70,192	70,984	87,128	97,402	148,434
Operating revenues.....	Ch\$ 115,143	Ch\$ 126,662	Ch\$ 131,311	Ch\$ 134,515	Ch\$ 150,968	230,064
Operating expenses as a percentage of operating revenues (17).....	59.35%	55.42%	54.06%	64.77%	64.52%	64.52%
Operating expenses/average total assets.....	3.33	2.86	2.77	3.18	3.29	3.29

## CONSOLIDATED RATIOS

### U.S. GAAP

#### Profitability and Performance

Net interest margin <sup>(6)</sup> .....	4.83	4.44	4.91	4.33	4.83	4.83
Return on average total assets <sup>(19)</sup> .....	1.15%	1.01%	(0.35)%	0.05%	0.59%	0.59%

- (1) Except per share and per ADS data, percentages, ratios, number of shares and number of employees.
- (2) Except per share and per ADS data, percentages and ratios. Amounts stated in U.S. dollars as of or at December 31, 2001 have been translated from Chilean pesos at Ch\$656.20 = U.S.\$1.00 for December 31, 2001.
- (3) Net income (loss) per share and per ADS data under both Chilean and U.S. GAAP have been calculated by dividing net income (loss) by the weighted average shares outstanding during the year. As of December 31, 2001, we had one series of shares outstanding.
- (4) Calculated on the basis of 165 shares per ADS.
- (5) Dividends per share and per ADS data are calculated by dividing the amount of the dividend paid by the weighted average of shares outstanding during the year.
- (6) Shareholders' equity excludes net income (loss) for the year then ended, as applicable. The amounts excluded were Ch\$26,573 million, Ch\$20,286 million, Ch\$(7,124) million, Ch\$3,274 million and Ch\$10,103 million for the years ended 1997, 1998, 1999, 2000 and 2001, respectively.
- (7) After giving effect to the mandatory dividend described in Note 28(1)(c) to the financial statements.
- (8) Net interest revenue divided by average interest earning assets.
- (9) Net income (loss) divided by average total assets.
- (10) Net income (loss) divided by average shareholders' equity. Our return on average shareholders' equity (calculated based on net income (loss) divided by average shareholders' equity) for the years ended December 31, 1999, 2000 and 2001 is (4.21)%, 1.48% and 4.30%, respectively. Average shareholders' equity used in the calculation includes our net income (loss) for the applicable year.
- (11) Basic capital divided by total assets. "Basic capital" represents our estimate of the amount of capital that constitutes Tier 1 capital under the General Banking Law. Basic capital is similar to Tier 1 capital, as defined under the Basle Committee Guidelines, with the significant difference being that current year net income (loss) is excluded from basic capital. The minimum ratio of total capital to total assets is 3.0%.
- (12) "Total capital" means the aggregate of: (a) a bank's paid-in capital and reserves, excluding capital attributed to subsidiaries and foreign branches, (b) its subordinated bonds, calculated at the issue price, but not exceeding 50% of its basic capital, provided that the value of the bonds decreases 20% for each year that lapses for the period commencing six years prior to their maturity, and (c) its voluntary allowances for loan losses, up to 1.25% of its risk adjusted assets. The minimum ratio of total capital to risk adjusted assets is 8.0%.
- (13) Total capital divided by risk adjusted assets. "Risk adjusted assets" are based on total assets on an unconsolidated basis, which, in accordance with the General Banking Law, are then classified into five categories, each of which has a different weight.
- (14) Past due loans includes the entire outstanding balance of any loan as to which any payment of principal or interest is 90 days or more overdue, except that in the case of mortgage loans, only the amount of any payments which are overdue 90 days or more is included in past due loans until such time as legal foreclosure proceedings are commenced, at which time the entire outstanding balance is included.
- (15) All loans in categories B-, C and D are substandard loans. See "Information on the Company—Selected Statistical Information—Classification of Loan Portfolio."
- (16) Non-performing loans consist of non-accrual loans and restructured loans earning interest at a rate below the market rate (spread < 1%). Pursuant to regulations of the Superintendency of Banks and Financial Institutions, our loans cease to accrue interest as soon as they become overdue as to any payment of principal or interest.
- (17) Operating revenue consists of net interest revenue, income from services (net) and other operating income (net).
- (18) Net income (loss) divided by average total assets. Average total assets were calculated as an average of the beginning and ending balance for each year.

## 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 transacted 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.

Until 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 effected 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. dollar.

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.

<u>Year</u>	<u>Daily Observed Exchange Rate Ch\$ per U.S.\$<sup>(1)</sup></u>			
	<u>Low<sup>(2)</sup></u>	<u>High<sup>(2)</sup></u>	<u>Average<sup>(3)</sup></u>	<u>Period End</u>
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 <sup>(4)</sup> .....				
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.....	Ch\$646.44	Ch\$659.14	Ch\$653.91	Ch\$654.44

Source: Central Bank.

<sup>(1)</sup> Nominal figures.

<sup>(2)</sup> Exchange rates are the actual low and high, on a day-by-day basis for each period.

<sup>(3)</sup> The average of monthly average rates during the year.

<sup>(4)</sup> 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**

Effective as of January 1, 2002 we merged with and into Banco de Chile. As a consequence of the merger, Banco Edwards no longer exists. Pursuant to the merger, holders of our common stock received 3.135826295 Banco de Chile F shares for each of their Banco Edwards common stock, and received 0.862352231125 Banco de Chile ADSs for each Banco Edwards ADS they owned, in each case with cash paid instead of fractional shares or ADSs. As we are no longer in existence and none of our shares or ADSs still exist, there are no risks regarding future activities or results of operations to be disclosed herein.

#### **ITEM 4. INFORMATION ON THE COMPANY**

Prior to our merger with Banco de Chile, we were an open stock corporation (*sociedad anonima bancaria*) organized according to the laws of Chile. We were domiciled in Santiago, Chile. Effective as of January 1, 2002, we merged with and into Banco de Chile. As a consequence of the merger, we no longer exist. Banco de Chile continued as the surviving entity and is our legal successor for all purposes. Banco de Chile is domiciled at Ahumada 251, Santiago, Chile.

*Unless otherwise indicated, all information included herein regarding Banco Edwards, including information regarding our business, operations and customers, is as of or prior to December 31, 2001, as subsequent to that date we no longer exist, and therefore do not carry out any operations.*

#### **HISTORY AND DEVELOPMENT**

##### **Introduction**

Banco Edwards, which traces its roots to the founding of one of the first Chilean private bank in 1866, was a leading Chilean commercial bank that focuses on providing a broad range of financial services to corporations and individual customers throughout Chile. In addition to offering traditional banking services such as lending and deposit taking, we delivered to our 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.

As of December 31, 2001, we 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
- shareholders' equity of Ch\$239,371 million (U.S.\$365 million).

As of December 31, 2001, we were the fifth largest private bank, in terms of total loans (excluding interbank loans), reaching a market share of 7.4% at that date, according to the Superintendency of Banks and Financial Institutions. At the same time, our unconsolidated past due loans as a percentage of our total loans was 3.3%, compared to 1.6% for the Chilean financial system. In addition, our 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.

As of December 31, 2001 we had:

- 2,721 employees;
- a network of 86 branches which we operated in markets representing over 95% of the national market for banking services, measured in terms of total loans;
- a network of 290 ATMs owned and operated by us together with 2,355 ATMs that we 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.

##### **History**

In 1866, Agustin Edwards Ossandon founded the first private bank in Chile, establishing a banking tradition in the Edwards family. In 1913, the Edwards family established Banco de A. Edwards y Compañia, which was nationalized and liquidated in 1972 in connection with a nationalization program implemented by the

government of President Salvador Allende. In 1980, the Edwards family and certain other investors acquired an interest in the Banco de Constitucion, which had been founded in 1912, and changed the name of the bank to Banco de A. Edwards. In 1986, Jacob and Isaac Ergas acquired a controlling interest in us, with the Edwards family also retaining an important ownership interest.

The change in our controlling shareholders in 1986 was accompanied by the implementation of a growth strategy emphasizing modernization of our operations, strengthening of our image, enhancement of customer service and expansion of geographical coverage. Beginning in 1987, our growth strategy enabled us to triple our number of branches, while our loan portfolio grew almost seven times and the number of debtors grew almost eight times, maintaining an annual return on average shareholders' equity of 19.5%.

In September 1999, part of the Ergas family, the Edwards family and other minority shareholders sold their shares to the Luksic group and the Luksic group acquired a controlling interest equivalent to 44.14% of our total shares outstanding through its holding company, Quiñenco S.A. (and later through L.Q. Inversiones Financieras S.A., a subsidiary of Quiñenco S.A.). Quiñenco S.A. is one of the largest diversified Chilean companies engaged in the industrial and financial services sectors. During the rest of 1999, Quiñenco S.A. continued purchasing shares, most of them acquired in a December 1999 public offering. As a result, by December 31, 1999, Quiñenco S.A. owned 51.18% of our total shares outstanding and as of December 31, 2001 L.Q. Inversiones Financieras S.A. owned 51.17%. See "Item 7. Major Shareholders and Related Party Transactions."

During 2000 we expanded and relocated our network by 15 branches, installed 133 new automatic teller machines and 11 auxiliary cashiers' desks. Also during 2000, a new internet gateway was launched. Along with the new distribution channels and technological development, we expanded our number of customers, mainly in large corporations and high income individuals, and we developed new products and services. As a result of these efforts, as well as the incorporation of lease contracts into our operations, we increased our market share to 8.3% as of December 31, 2000 from 7.7% as of December 31, 1999, according to the Superintendency of Banks and Financial Institutions. During 2001 we did not increase the size of our network.

Between 1986 and 2001 we increased our shareholders' equity by an aggregate of U.S.\$311 million, in order to support our growth. This increase in shareholders' equity was accomplished by six issuances of new common shares between 1986 and 2000, and the retention of a significant portion of our net income after 1992.

### **Merger with Banco de Chile**

Effective as of January 1, 2002 we merged with and into Banco de Chile, pursuant to the corresponding authorizations of the shareholders meetings of both banks. As a consequence of the merger, Banco Edwards no longer exists. Banco de Chile continued as the surviving entity and is our legal successor for all purposes.

Following discussions with Banco de Chile initiated in mid-March of 2001, at special board meetings held on August 18, 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 18, 2001, our shareholders approved the merger with Banco de Chile which became effective on January 1, 2002.

Upon completion of the merger, holders of our common stock received 3.135826295 Banco de Chile F shares for each share of our common stock they owned, and received 0.862352231125 Banco de Chile ADSs (each such ADS representing 600 Banco de Chile F shares) for each of our ADS (which represents 165 shares of our common stock) they owned, in each case with cash paid instead of fractional shares or ADSs. Accordingly, an aggregate of 23,147,126,425 Banco de Chile F shares were issued to our shareholders upon consummation of the merger. The F shares had all of the same rights as the Banco de Chile common stock, except that they entitled holders to receive dividends in 2002 with respect to our 2001 income. Once these dividends were declared and paid on March 21, 2002, the F shares automatically converted on a one-for-one basis into shares of Banco de Chile common stock.

## **Banco de Chile**

Banco de Chile was established in 1893 as a result of a merger of Banco Nacional de Chile, Banco Agrícola and Banco de Valparaíso. To the best of our knowledge, Banco de Chile was the largest privately held bank in Chile from its inception until the mid-1990's. Banco de Chile is a full-service financial institution providing, directly and indirectly through its subsidiaries and affiliates, a wide variety of credit and non-credit products and services to all segments of the Chilean financial market.

At December 31, 2001, it had:

- total assets of Ch\$6,087,452 million (U.S.\$9,277 million),
- loans outstanding of Ch\$3,858,820 million (U.S.\$5,881 million),
- deposits of Ch\$3,705,693 million (U.S.\$5,647 million), and
- shareholder's equity of Ch\$398,269 million (U.S.\$607 million).

As of December 31, 2001, it was the second largest Chilean private sector bank in terms of total loans (excluding interbank loans), with a market share of 12.1% at that date, as reported by the Superintendency of Banks. As of December 31, 2001, its unconsolidated past due loans as a percentage of its total loans was 1.3%, compared to 1.6% for the Chilean financial system as a whole. In addition, its allowances for loan losses to total loans was 3.54% at December 31, 2001, compared to the 2.68% registered by the Chilean financial system as a whole.

Banco de Chile is headquartered in Santiago and at December 31, 2001, it had:

- 4,535 employees,
- a network of 171 branches operating in markets representing over 99% of the national market for banking services, measured in terms of total loans, and
- a network of 392 ATMs owned and operated by it, together with 2,253 ATMs owned jointly with a group of 16 other private-sector financial institutions.

## BUSINESS OVERVIEW

The following table provides information as to the composition of our loan portfolio and our consolidated operating income as of December 31, 2001, allocated among our principal business segments.

	At December 31, 2001		
	Consolidated loans	Percent of Consolidated loans	Percent of Consolidated Operating Income <sup>(1)</sup>
	(in millions of Ch\$, except for percentages)		
<b>Individual Banking</b>			
High Income.....	Ch\$ 535,224	24.1%	30.0%
Lower middle income .....	124,677	5.6	11.1
Subtotal .....	659,901	29.7	41.1
<b>Corporate Banking</b>			
Middle-market.....	Ch\$1,121,789	50.6	30.1
Large corporations .....	420,269	19.0	4.4
Subtotal .....	1,542,058	69.6	34.5
Subsidiaries <sup>(2)</sup> .....	11,500	0.5	8.0
Treasury <sup>(3)</sup> .....	5,049	0.2	16.4
Total .....	Ch\$2,218,508	100.0%	100.0%

<sup>(1)</sup> Consolidated operating income consists of the sum of our net interest revenue, income from services, net, and other operating income, in each case prior to deduction for operating expenses. We use the operating income breakdown shown for internal reporting, planning and marketing purposes and it is based on, among other things, our estimated funding cost allocations. This breakdown may differ in certain respects from breakdowns of our consolidated operating income for financial reporting and regulatory purposes. Percentages have been calculated without considering the effect of reconciling items. See Note 28 paragraph 2e) to our financial statements in Item 18.

<sup>(2)</sup> Separate information as to the operations, assets and income of our seven financial services subsidiaries is provided below under "Financial Services Subsidiaries".

<sup>(3)</sup> Consolidated operating income from treasury operations include principally earnings associated to the investment portfolio, the management of the foreign currency position and interest rate gaps.

As of December 31, 2001 we had approximately 392,200 banking customers. We defined "customers" as any client with at least one of the following products: loan, current account, time deposit, saving account or sight account. We used traditional and non-traditional marketing channels. Among marketing channels, we used our team of account executive officers who, through our national branch network, offered a personalized and specialized service. We also used an external sales force which supported the sale of our key products such as current accounts, credit lines, credit cards and consumer loans. Among our less traditional marketing channels were our internet website, BankDirect sites (which provided 24-hour service), Call Center, Mobile Bank (mobile phone service) and Edwards Mobile (a vehicle equipped to offer ATM services and internet access). We supported the launch of new products and services and communication with our customers through advertising campaigns, direct marketing, sponsoring events and public relations campaigns.

### Individual Banking

As of December 31, 2001, we had approximately 373,500 individual banking customers. Loans to individuals represented approximately 29.7% of our total loans as of December 31, 2001. Approximately 41.1% of consolidated operating income at December 31, 2001 was accounted for by the individual banking sector. According to statistics maintained by the Superintendency of Banks and Financial Institutions, our market share of financial system loans to individuals (excluding standby letters of credit, mortgage loans, bank guarantees and past due loans) grew to 9.3% as of December 31, 2001 from 8.5% as of December 31, 1996.

The following table sets forth information as to the composition of our individual banking loan portfolio at December 31, 2001.

	<b>At December 31, 2001</b>	
	<b>Consolidated Loans</b>	<b>Percentage of Consolidated Loans</b>
<b>(in millions of Ch\$, except for percentages)</b>		
<b>High income individuals</b>		
Residential loans .....	Ch\$ 256,656	11.6%
Lines of credit and consumer loans .....	136,245	6.1
Credit cards .....	18,259	0.8
Other loans .....	<u>124,064</u>	<u>5.6</u>
Subtotal .....	<u>535,224</u>	<u>24.1</u>
<b>Lower and middle income individuals – Finandes</b>		
Residential loans .....	58,859	2.7
Lines of credit and consumer loans .....	60,637	2.7
Credit cards .....	4,320	0.2
Other loans .....	<u>861</u>	<u>0.0</u>
Subtotal .....	<u>124,677</u>	<u>5.6</u>
Total .....	<u>Ch\$ 659,901</u>	<u>29.7%</u>

### High Income Individuals

Our retail banking business was principally oriented towards meeting the needs of high income individuals in Chile. We defined a high income individual as a person with annual income in excess of U.S.\$21,000 (compared to average per capita annual income in Chile of approximately U.S.\$4,300). We had Ch\$535,224 million of outstanding loans to high income individuals at December 31, 2001, representing approximately 24.1% of our total loans at that date. High income individuals accounted for approximately 30.0% of our consolidated operating income at December 31, 2001.

We offered our high income individual customers a broad range of retail banking products, including:

- residential mortgage loans;
- lines of credit and other consumer loans;
- credit cards;
- checking accounts; and
- saving accounts and time deposits.

We also offered mutual funds, brokerage services and insurance brokerage services to individuals as described under “Financial Services Subsidiaries” below. At December 31, 2001, we had outstanding extensions of credit to approximately 96,400 high income individuals, including approximately 8,800 residential loans, 83,900 lines of credit, 48,700 consumer loans and 94,700 credit card accounts. At the same date, we maintained approximately 91,200 checking accounts, 92,500 savings accounts, 70,700 time deposits and 21,600 mutual fund accounts for high income individuals.

We provided services to our individual customers through a network of 86 branches, 142 self-service terminals and 2,645 ATMs located throughout Chile (including 290 ATMs owned and operated by us and 2,355 ATMs owned jointly with a group of 16 other private-sector financial institutions through a network system known as Redbank). Through this network, we operated in markets representing over 95% of the national market for banking services, measured in terms of total loans.

We also offered service through our internet website. Beginning in 1998, we used our website to offer several transactional alternatives to our clients. During 2000, we decided to expand the operations offered through the internet and launched a new internet gateway. This gateway offered a distribution channel for a variety of banking solutions, and a better means of communicating with our clients.

In addition, we offered nationwide phone-banking services that permitted our customers to receive balances and other account-related information, transfer funds between accounts and effect a wide variety of credit transactions. In addition, we set up a Call Center during 2000 which offered personalized service by trained staff for transactions by phone or electronic mail based on a CRM platform.

We also launched the Mundo Edwards Loyalty Program for our cardholder clients. This was a program of incentives created to reward loyalty and preferential use among customers who used credit and debit cards issued by us. The program offered benefits, supplied directly by the companies or commercial centers that provide them, and encouraged customers to use these technology intensive forms of payment, reducing our operational costs.

### ***Residential Mortgage Loans***

We had outstanding residential loans to high income individuals of Ch\$256,656 million at December 31, 2001, which represented approximately 38.9% of our total loans to individuals and 11.6% of our total loans.

Our residential mortgage loans generally had maturities between five and 20 years and were denominated in UF. To reduce our exposure to interest rate fluctuations and inflation with respect to our residential loan portfolio, a majority of our residential mortgage loans were funded through our issuance of mortgage finance bonds, which were recourse obligations with payment terms that were matched to the residential mortgage loans and which bore a fixed interest rate over the rate of change in the UF inflation index. Chilean banking regulations limit the amount of a residential mortgage loan that may be financed with mortgage finance bonds to the lesser of 75% of (i) the purchase price of the property securing the loan and (ii) the appraised value of such property. In addition, we generally required that the monthly payments on a residential mortgage loan not exceed 25% of the borrower's monthly household after-tax income.

### ***Lines of Credit and Consumer Loans***

We had outstanding advances to high income individuals under lines of credit and other consumer loans of Ch\$136,245 million at December 31, 2001, which represented approximately 20.6% of our total loans to individuals and 6.1% of our total loans.

Our individual lines of credit were generally available on a revolving basis, up to an approved credit limit, and could be used for any purpose. Advances under lines of credit were denominated in pesos and generally bore interest at a fixed rate for a one-month term which, at the customer's option, could be renewed and repriced for successive monthly periods, in each case subject to minimum monthly payments.

Our consumer loans to high income individuals were 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 were denominated in both pesos and UF, bore interest at fixed or variable rates of interest and generally were repayable in installments over terms of up to 36 months.

### ***Credit Cards***

We had non-exclusive agreements with Visa International Service Association ("Visa") and MasterCard International Inc. ("MasterCard"), pursuant to which we issued Visa and MasterCard credit cards. Visa and MasterCard are the two largest credit card companies in Chile and collectively had a 93.2% market share during 2001 in terms of total domestically issued credit card charge volume. We earned interest revenue on outstanding credit card balances, transaction commissions from merchants, late fees for overdue payments and annual fees from cardholders.

At December 31, 2001, we had approximately 94,700 credit card accounts outstanding with high income individuals, which we estimate represents approximately 4.9% of the total credit card accounts outstanding of the Chilean banking system at that date. At December 31, 2001, total outstanding balances on our credit cards issued to high income individuals was Ch\$18,259 million, representing approximately 2.8% of our total loans to individuals.

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

### ***Deposit Products***

We offered a broad range of checking accounts, time deposits and savings accounts to our individual customers. Checking accounts were peso-denominated, non-interest bearing accounts, and savings accounts were denominated in UF and bore interest at a fixed rate of interest. Time deposits were denominated in pesos, UF and U.S. dollars and most bore interest at a fixed rate with a term of 30 to 360 days. We developed a variety of special types of deposit accounts designed to appeal to various segments of the high income individual market, including the “Youth Account” and “Woman’s Account” checking accounts and the “Child’s Account,” “AhorroEdwards account” and “Future account” savings accounts.

As of December 31, 2001, our checking account, time deposits and savings account balances with high income individual clients totaled approximately Ch\$814,085 million and represented approximately 30.6% of our total liabilities at that date.

### **Lower-Middle Income Individuals—Finandes Division**

Improved economic conditions in Chile in the last decade and the growth of the Chilean middle class have led to increased demand for consumer credit by lower-middle income individuals. We defined lower-middle income individual as persons with annual income between U.S.\$2,500 and U.S.\$12,000.

In order to respond to the consumer credit needs of lower-middle income customers, which differed in certain respects from those of our high income individual customers, we established the Finandes consumer credit division in 1992. The Finandes division operated under its own trade name through a network of 17 branches and eight other points of sale and offered a variety of consumer credit products, including residential mortgage loans, consumer loans and credit cards. The Finandes division employed its own credit scoring system and other criteria to evaluate and monitor credit risk.

At December 31, 2001, our Finandes division had outstanding extensions of credit to approximately 106,000 customers, including approximately 91,200 consumer credit loans (generally denominated in pesos, with fixed interest rates and having maturities between 12 and 36 months) and outstanding balances on approximately 17,800 MasterCard credit card accounts. At the same date, our outstanding loans to lower-middle individuals totaled Ch\$124,677 million, representing approximately 5.6% of our total loans at that date. At December 31, 2001, lower-middle income individuals accounted for approximately 11.1% of our consolidated operating income.

### **Corporate Banking**

Our corporate banking business focused on the needs of middle-market companies by offering a broad range of products and services tailored to their specific needs. We also provided selected banking products and services to large corporations, with an emphasis on fee generating services. Our corporate customers, who were mainly domestic clients, were engaged in a broad range of commercial activities including construction, trade, manufacturing and financial services. Our cross-border loans were mainly granted to foreign financial institutions and to Chilean companies’ subsidiaries abroad. See “Item 4. Information on the Company— Selected Statistical Information—Foreign Country Outstandings.” We earned interest revenue on extensions of credit to corporate customers, as well as fee income from payment services, corporate financial advisory services and the sale and purchase of currency forward products.

As of December 31, 2001, we had approximately 18,700 corporate banking customers with approximately 18,300 corporate banking checking accounts and 8,900 time deposit accounts, and loans outstanding to approximately 9,100 corporate borrowers. Loans to corporate borrowers represented 69.6% of our total loan portfolio. Approximately 34.5% of our consolidated operating income at December 31, 2001 was accounted for by the corporate banking customers. According to statistics published by the Superintendency of Banks and Financial Institutions, our market share of loans to private corporate borrowers (excluding standby letters of credit, mortgage loans, bank guarantees and past due loans) decreased to 7.5% as of December 31, 2001 from 8.6% as of December 31, 1996.

The following table sets forth information as to the composition of our corporate banking loan portfolio as of December 31, 2001.

<b>At December 31, 2001</b>		
	<b>Consolidated Loans</b>	<b>Percentage of Consolidated Loans</b>
<b>(in million of Ch\$, except for percentages)</b>		
<b>Middle-market companies</b>		
Working capital loans.....	Ch\$ 521,012	23.5%
Construction loans.....	159,729	7.2
Foreign trade loans.....	83,674	3.8
Other loans.....	<u>357,374</u>	<u>16.1</u>
Subtotal.....	<u>1,121,789</u>	<u>50.6</u>
<b>Large corporations</b>		
Working capital loans.....	308,333	13.9
Construction loans.....	10,594	0.5
Foreign trade loans.....	55,627	2.5
Other loans.....	<u>45,715</u>	<u>2.1</u>
Subtotal.....	<u>420,269</u>	<u>19.0</u>
Total.....	<u>Ch\$ 1,542,058</u>	<u>69.6%</u>

### ***Middle-Market Companies***

Our corporate banking products and services were primarily oriented towards the needs of middle-market companies in Chile, which we generally defined as those with annual sales of less than U.S.\$40 million. Each of our middle-market customers was serviced by an account executive who was the primary contact for that customer. We had Ch\$1,121,789 million of outstanding loans to middle-market companies at December 31, 2001, representing approximately 50.6% of our total loan portfolio at that date. Middle-market corporate customers accounted for approximately 30.1% of our consolidated operating income at December 31, 2001.

We offered our middle-market corporate customers a broad range of banking products and services including working capital financing, lines of credit, corporate financial advisory services, foreign trade financing, letters of credit in domestic and foreign currencies, commercial mortgage loans, payment and asset management services, checking accounts and time deposits, leasing, brokerage, mutual fund and investment funds management services. At December 31, 2001, we had outstanding extensions of credit to approximately 8,900 middle market companies and maintained approximately 18,000 checking accounts and 8,100 time deposits for such customers.

***Working Capital Loans.*** Our working capital loans were denominated in pesos or UFs, had fixed or variable rates of interest and generally had maturities between one and 36 months. As of December 31, 2001, we had outstanding working capital loans of Ch\$521,012 million to middle-market companies, representing approximately 23.5% of our total loans at that date.

***Construction Loans.*** The construction sector in Chile grew at an average annual rate of approximately 3.8% in the 2000-2001 period. We participated in this growth by providing financing for the construction of private and public housing developments, civil works and infrastructure projects. Our construction loans were denominated both in pesos and UFs and generally had maturities between nine and 24 months. These loans typically were secured by the real property of the relevant project and were limited in amount to 80% of the anticipated

construction cost of the project. At December 31, 2001, construction loans to middle-market companies totaled Ch\$159,729 million, representing approximately 7.2% of total loans at that date.

***Foreign Trade and International Services.*** We offered our corporate customers a range of international services, primarily for the purpose of facilitating export and import operations, including such traditional foreign trade products and services as letters of credit, credit lines from foreign banks, funds transfers and foreign exchange transactions. For this purpose, we maintained relationships with more than 100 correspondent banks worldwide. At December 31, 2001, outstanding foreign trade loans to middle-market companies were Ch\$83,674 million, representing approximately 3.8% of our total loans at such date.

***Investment Banking Services.*** We established an Investment Banking Division in 1986, the first of its kind to be formed by a Chilean bank. We created the Investment Banking Division to complement our traditional commercial banking activities and to take advantage of what we perceived to be an increasing demand for sophisticated financial services offered by specialized and fully dedicated professionals. This unit's activities initially focused on debt-equity conversions relating to Chilean external debt but grew to include a variety of additional financial services, such as debt restructurings, syndication of credit facilities and merger and acquisition advisory services. The investment banking services were provided by our subsidiary Banedwards Asesoría Financiera S.A.

***Other Services.*** We also provided a number of payment, financial management and financial leasing services to our middle-market corporate customers. We generally provided payment and financial leasing services directly, whereas the financial management and factoring services were typically provided by our subsidiaries. At December 31, 2001, we provided payment services to approximately 1,764 corporate customers. The payment services offered by us included, among others, payroll processing, dividend payments, supplier payments and billing services.

### ***Large Corporations***

We classified as large corporations those companies with annual sales in excess of U.S.\$40 million and as a result our large corporate customers included domestic companies, multinational corporations, financial institutions and governmental entities. We offered these corporate customers a broad range of products and services tailored to their specific needs. These services included deposit-taking and a broad range of banking products and services including working capital financing, lines of credit, corporate financial services, foreign trade financing, letters of credit and commercial mortgage loans. In recent years we placed special emphasis on services generating fees, such as payroll processing, dividend payments and billing services.

As of December 31, 2001, our outstanding loans to large corporations totaled approximately Ch\$420,269 million, representing approximately 19.0% of our total loans at that date. At December 31, 2001, large corporations accounted for approximately 4.4% of our consolidated operating income.

### **Distribution Channels**

Our distribution network provided integrated financial services and products to our customers through a wide range of channels. This network included 86 branches, the ownership of 290 ATMs owned and 142 own self-service terminals throughout the Santiago metropolitan area and Chile's other principal business centers. Among our less traditional channels were our internet website, BankDirect sites, call centers, Edwards Mobile and telephone banking. We supported the launch of new products and services and communication with our customers through advertising campaigns, direct marketing, sponsoring events and public relations campaigns.

During 2001, our main goal was to expand the network of contacts between our clients and us. Our website, known as "Portal Mundo Edwards", extended the range of financial and non-financial services we and our subsidiaries offered. These services included inter-bank transfers, receiving personalized e-mail and mobile phone messages, providing tax certificates, offering direct purchase of obligatory personal accident insurance, pre-approving consumer loans and taking payment instructions and delivering check books. In September 2001, we began to operate a virtual store on which our customers could use their credit cards to shop online.

Almost all of our branches had automatic service facilities known as BankDirect sites which provided cash withdrawals, check books, balances, statements and other services 24 hours a day. We also had BankDirect sites that were independent of the branches and offered account executive services in addition to the automatic service facilities.

Our call centers were a 24 hour year-round service. During 2001, the unit took more than 400,000 calls, solved 70% of them on line, and coordinated with other units to solve the other 30%.

We also offered the “Edwards-mobile”, a vehicle equipped to offer ATM services and instant statements and information on transactions with Statement Express as well as access to our website.

In August 2001 our telephone banking services began offering a “balance express” operation, which offered information to the customer on current account, line of credit and credit card balances, among other things.

We introduced Telemarketing. During 2001, we carried out more than 120 different types of campaigns and made 86,686 marketing surveys.

### **Financial Services Subsidiaries**

Prior to its amendment by Law No. 19,528, the Chilean General Banking Law restricted the ability of Chilean banks to provide non-banking financial services. In 1986, banks were first permitted to offer, through subsidiaries, services deemed to be complementary to commercial banking activities. In accordance with our strategy of providing a broad range of financial services to corporations and individuals, we established seven subsidiaries that provide the full range of financial products and services that could indirectly be offered by Chilean banks under Chilean law. These products and services included:

- stock brokerage services;
- financial advisory services;
- mutual funds services;
- investment funds services;
- insurance brokerage services;
- factoring services; and
- securitization services.

The following table sets forth information with respect to our financial services subsidiaries

	<b>As of December 31, 2001<sup>(1)</sup></b>		
	<b>Assets</b>	<b>Shareholders' equity<sup>(2)</sup></b>	<b>Net Income</b>
	(in millions of Chilean Pesos)		
Banedwards S.A. Corredores de Bolsa .....	Ch\$ 65,485	Ch\$ 7,379	Ch\$ 1,455
Banedwards S.A. Asesoría Financiera .....	597	347	180
Banedwards S.A. Administradora de Fondos Mutuos <sup>(3)</sup> .....	153,829	2,792	959
Banedwards Administradora de Fondos de Inversión S.A. <sup>(3)</sup> .....	5,972	164	(90)
Banedwards Corredora de Seguros Ltda. ....	1,451	1,237	791
Banedwards S.A. Factoring .....	11,640	1,806	473
Banedwards S.A. Securitizadora .....	1,928	438	240
Total .....		<u>Ch\$ 14,163</u>	<u>Ch\$ 4,008</u>

<sup>(1)</sup> As of December 31, 2001 we owned at least 99% of all our subsidiaries.

<sup>(2)</sup> Shareholders' equity includes net income for the purposes of this table.

<sup>(3)</sup> Represents the value of fund assets under management.

### ***Stock Brokerage Services***

Banedwards S.A. Corredores de Bolsa ("Banedwards Corredores") commenced operations in 1988 to complement our strategy in both individual and corporate banking by offering a variety of investment alternatives to high income individuals as well as financial management services to our corporate customers. Banedwards Corredores provided securities brokerage services, fixed-rate investments and foreign exchange products to individuals and businesses through our branch network, as well as asset management services, market research and certain options and futures contracts. Banedwards Corredores also acted as placement agent for new issuances of debt and equity and was a member of the Santiago Stock Exchange and the Chilean Electronic Stock Exchange. At December 31, 2001, Banedwards Corredores' net income was Ch\$1,455 million, and its contribution represented 36.3% of the total net income generated by our subsidiaries.

### ***Financial Advisory Services***

Banedwards S.A. Asesoría Financiera ("Banedwards Asesoría") commenced operation in 1990. Its primary activities consisted in credit restructuring, loan syndications and merger and acquisition advisory services for corporate clients. See "Item 4. Information on the Company—Business Overview—Investment Banking Services." In 2001, Banedwards Asesoría's net income was Ch\$180 million, and its contribution represented 4.3% of the total net income generated by our subsidiaries.

### ***Mutual Fund Management Services***

Banedwards S.A. Administradora de Fondos Mutuos ("Banedwards Fondos Mutuos") was formed in 1992 to complement the financial services offered to our individual and corporate customers. It sponsored, advised and administered mutual funds. At December 31, 2001, Banedwards Fondos Mutuos operated thirteen funds (four of which were fixed income funds and nine of which were equity investment funds) and managed Ch\$148,113 million in assets on behalf of 20,100 customers. In 2001, Banedwards Fondos Mutuos' net income was Ch\$959 million, and its contribution represented 23.9% of the total net income generated by our subsidiaries.

### ***Investment Funds Management Services***

Management established Banedwards Administradora de Fondos de Inversión S.A. ("Banedwards Fondos de Inversión") in November 1996 to address the need in Chile for new investment alternatives. The establishment of this subsidiary also reflected our policy of offering the greatest coverage possible of financial products and services to corporate clients. During 2001 this subsidiary incurred a net loss of Ch\$90 million.

### ***Insurance Brokerage Services***

Banedwards S.A. Corredores de Seguros (“Banedwards Corredores de Seguros”) initiated its operations in August 1998. Banedwards Corredora de Seguros provided primarily vehicle, life and fire insurance related to mortgage loans, credit cards, consumer loans and lines of credit. It also offered other general insurance related to installation and equipment, and in addition health insurance. At December 31, 2001, Banedwards Corredora de Seguros’ net income was Ch\$791 million, and its contribution represented 19.7% of the total net income generated by our subsidiaries.

### ***Factoring Services***

Banedwards S.A. Factoring (“Banedwards Factoring”) initiated its operations in April 2000 in order to complement the portfolio of products and services offered to the middle market companies. Banedwards Factoring provided companies with a source of alternative financing for working capital. Its main function was to make advances against receivables by the ceding of its clients’ credit documents to Banedwards Factoring, which also took charge of administration and debt collection on these findings. For 2001, Banedwards Factoring had a net income of Ch\$473 million, and its contribution represented 11.8% of the total net income generated by our subsidiaries.

### ***Securitization Services***

Banedwards S.A. Securitizadora (“Banedwards Securitizadora”) was set up in September 2000 and offered new investment products to meet the demand of institutional investors such as private pension funds and insurance companies. The company’s function was to securitize financial assets, a process that involves the issuance of a debt instrument, with a credit rating, which can be traded in the Chilean marketplace, backed by a bundle of revenue-producing assets of the issuing company. The Banedwards Securitizadora performed its first securitization transaction during the fourth quarter of 2001 for an amount of UF 1,546,000. For the year ended December 31, 2001, Banedwards Securitizadora had a net income of Ch\$240 million, and its contribution represented 6.0% of the total net income generated by our subsidiaries.

### **Treasury and Money Market Operations**

Our treasury department was responsible for management of our assets and liabilities. In addition, it bought and sold fixed-income instruments and related repurchase agreements, foreign currencies (in the spot and forward markets), negotiable mortgage instruments and other securities traded in the secondary markets. During 2001 we traded an aggregate of U.S.\$930 million in long-term financial investments and purchased and sold approximately U.S.\$30,300 million of foreign currencies. Treasury and money market operations accounted for approximately 16.4% of our consolidated operating income at December 31, 2001.

We participated in the markets for foreign exchange and forward currencies agreements. These activities included purchases and sales mainly to our corporate clients and in the inter-bank market. In addition, in 2001, we held Central Bank securities that represented an average of 61.4% of our financial investments during the year. See “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources.”

The activities of our treasury officers were monitored by the Market Risk Committee and our Finance Committee. The Market Risk Committee, which met once a month, established risk management policies, such as credit limits for treasury positions and authorization processes. The Finance Committee, which met daily on an informal basis, was in charge of implementing our asset and liability management policies and reported weekly to our senior management. In addition, since 1996 we had a risk management unit to further measure, control and report on our exposure to both market and credit risk. For information regarding our holdings of financial investments, including Central Bank securities, See “Item 4. Information on the Company—Selected Statistical Information—Investment Portfolio” and “Quantitative and Qualitative Disclosure About Market Risk.”

## Dependence on Customers and Suppliers

Transbank S.A., Nexus S.A. and Redbank S.A. (companies owned by several banks) provided us and other Chilean banks with important services which were necessary for our business and operations. Transbank S.A. and Nexus S.A. provide credit card administration and processing services, while Redbank S.A. provides electronic transfer and automatic teller machines services.

As of December 31, 2001 no client had more than 0.6% of our total loan portfolio, so we did not depend on any particular client to develop our business. See “Item 4. Information on the Company—Regulation and Supervision—Lending Limits.”

## Information and Telecommunication System

The total amount invested during 2001 in technology (communication equipment, hardware and software) related to our information and telecommunications systems and in intensive-technology distribution channels was Ch\$3,911 million. Our information systems provided our executives and clients with on-line access to information regarding current accounts, loans, collection services and saving accounts. Our management and account executives used the system to quantify the profitability of each of our products and client relationships. Our computer network system included computers which are “fault tolerant” and which provided 24 hour service. Our telecommunications systems consisted of a digital telecommunications network connecting each of our offices and branches to our headquarters, facilitating prompt access to centralized services.

## Competition

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 de Chile. 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.

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

	Assets		Loans <sup>(1)</sup>		Deposits		Shareholders' Equity <sup>(2)</sup>	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
	(in millions of Ch\$, except for percentages)							
Banco del Estado .....	Ch\$ 5,729,501	12.8%	Ch\$ 3,554,215	11.9%	Ch\$ 3,398,194	12.8%	Ch\$ 351,874	9.3%
Domestically-owned private sector banks.....	17,815,890	39.7	12,693,863	42.5	10,976,261	41.2	1,380,815	36.5
Foreign owned private sector 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
Total banks .....	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: Superintendency of Banks and Financial Institutions.

<sup>(1)</sup> Net of interbank loans.

<sup>(2)</sup> Shareholders' equity includes net income for purposes of this table.

Foreign-owned banks have been operating in Chile since the 1930s. Although more than half of all Chilean banks are foreign-owned, the Chilean-owned banks account for the majority of the loan market share. As of December 31, 2001, the Chilean financial system had a total of Ch\$29,851,141 million in outstanding loans, net of interbank loans, of which the Chilean-owned banks accounted for 54.4%, foreign-owned banks for 45.0% and a finance company for 0.6%. As of December 31, 2001, no single bank had a market share greater than 16.1% of aggregate outstanding loans, net of interbank loans, and the three largest banks taken together accounted for 40.1% of aggregate outstanding loans, net of interbank loans.

The second largest bank in Chile in terms of assets, as reported by the Superintendency of Banks, is Banco del Estado, which is the only bank owned by the Republic of Chile. Banco del Estado operates under the same

regulatory regime as Chilean private-sector banks and at December 31, 2001 had outstanding loans, net of interbank loans, of Ch\$3,554,215 million, representing an 11.9% market share.

In the middle-market corporate business, our strongest competitors included Banco de Chile, Banco de Credito e Inversiones, Banco Santiago and Banco Santander-Chile. In the individual banking sector, particularly with respect to high income individuals, we competed with both private Chilean and foreign-owned banks. Our strongest competitors in this market include Banco de Chile, Banco de Credito e Inversiones and Banco Santiago.

As of December 2001, commercial banks in Chile competed in the retail market with each other and with one finance company, which focused primarily on offering consumer loans to lower and middle income individuals. Chilean finance companies may engage in certain banking activities and are supervised by the same regulatory authorities as commercial banks, but are prohibited from engaging in foreign trade finance, offering checking accounts and engaging in foreign currency operations. Nevertheless, banks have begun to extend their credit services to these markets, as the bank did through Finandes.

Commercial banks in Chile also face increasing competition from other financial intermediaries, which can provide larger companies with access to the capital markets as an alternative to traditional bank financing.

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 fourth largest banks in Chile as reported by the Superintendency of Banks, respectively, announced their intention to merge. In May 2002, the Superintendency of Banks and Financial Institutions gave the authorization to merge of Banco Santiago and Banco Santander-Chile. 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.

### *Loans*

The following illustrates our market share in terms of loans (excluding interbank loans), our principal competitors and the Chilean financial system, in each case as of December 31 in each of the last five years.

	Loans <sup>(1)</sup> at December 31,					Ranking <sup>(2)</sup> at December 31,
	1997	1998	1999	2000	2001	2001
Banco de A. Edwards .....	7.5%	7.9%	7.7%	8.3%	7.4%	5
Banco Santiago .....	17.2	17.3	16.1	15.8	16.1	1
Banco de Chile.....	12.0	11.7	12.4	12.7	12.1	2
Banco Santander Chile.....	12.3	11.7	12.3	11.5	11.7	3
Banco de Credito e Inversiones.....	7.9	7.8	8.1	7.9	9.0	4
Principal competition.....	49.4	48.5	48.9	47.9	48.9	
Rest of financial system.....	43.1%	43.6%	43.4%	43.8%	43.7%	

Source: Superintendency of Banks and Financial Institutions

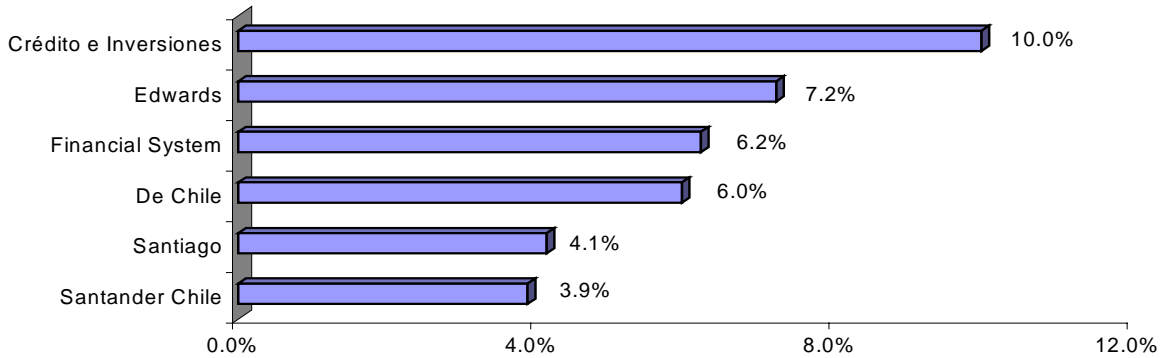
<sup>(1)</sup> For ease of comparison, interbank loans have been eliminated. In addition, for each of the periods shown, the percentages for Banco Santiago include loans made by Banco O'Higgins (which merged with Banco de Santiago in January 1997).

<sup>(2)</sup> The ranking considers private-sector banks.

As of December 31, 2001, our unconsolidated loan portfolio (excluding interbank loans) was Ch\$2,205,170 million, ranking us fifth among Chilean private-sector banks, as reported by the Superintendency of Banks. The three private largest banks in terms of total loans (excluding interbank loans) were Banco Santiago, Banco de Chile and Banco Santander-Chile, with 16.1%, 12.1% and 11.7% market shares, respectively. These three banks were followed by Banco de Credito e Inversiones and ourselves, with 9.0% and 7.4% market shares, respectively. According to the Superintendency of Banks, the three largest foreign banks in Chile in terms of total loans as of December 31, 2001 were Banco Santiago, Banco Santander-Chile and BBVA Banco Bhif, which ranked first, third and sixth, respectively, among private-sector banks in Chile.

Between December 31, 1996 and December 31, 2001, our volume of outstanding loans (on an unconsolidated basis) grew at an average annual rate of 7.2%, compared to 6.2% for the Chilean financial system as a whole during the same period. The following graph illustrates the growth of our loan portfolio (on an unconsolidated basis) compared to our principal competitors and the Chilean financial system as a whole between December 31, 1996 and December 31, 2001.

**Average Annual Loan Volume Growth  
(Unconsolidated Data)  
December 31, 1996-December 31, 2001<sup>(1)</sup>**



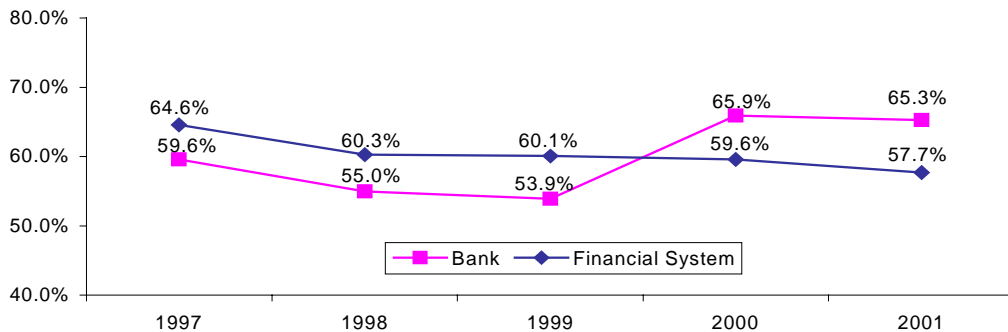
Source: Superintendency of Banks

<sup>(1)</sup> For ease of comparison, interbank loans have been eliminated. In addition, the percentages for Banco Santiago include loans made by Banco O'Higgins (which merged with Banco Santiago in January 1997).

### *Efficiency*

The following graph illustrates the five year history of our efficiency ratio compared to the same indicator of the Chilean financial system.

**Efficiency Ratio  
(Unconsolidated Data)**



Source: Superintendency of Banks

Our operating expenses to operating revenues fell from 59.6% in 1997 to 53.9% in 1999. However, in 2000, after the Luksic group acquired a controlling interest on Banco Edwards, we initiated a strategy to improve our profitability and efficiency. Accordingly, during 2000 we invested heavily in technology, branch network and ATMs, as well as in the improvement of our internet website, increasing our efficiency ratio from 60.1% in 1999 to 65.9% and 65.3% in 2000 and 2001, respectively.

### *Return on Average Shareholders' Equity*

Our return on average shareholders' equity (net income divided by average shareholders' equity) at December 31, 2001 was 4.3%. The following table sets forth the return on our average shareholders' equity, as well as those of our principal competitors and the Chilean financial system, in each case at December 31 in each of the last five years.

<b>Return on Average Shareholders' Equity<sup>(1)(2)</sup></b>					
<b>For the year ended December 31,</b>					
	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Banco de A. Edwards.....	18.3%	13.0%	(4.2)%	1.5%	4.3%
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
Principal competition.....	18.7	17.6	15.6	21.5	23.3
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: Superintendency of Banks and Financial Institutions

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

<sup>(2)</sup> For the 1997 period, with respect to banks that maintain subordinated debt with the Chilean Central Bank, the ratio of return on average shareholders' equity includes income before charges for such subordinated debt instead of net income. We repaid our Central Bank subordinated debt in 1995.

## **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 Superintendency of Banks and Financial Institutions 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 Superintendency of Banks and Financial Institutions 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 organica 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 Superintendency of Banks and Financial Institutions**

Banks are supervised and controlled by the Superintendency of Banks and Financial Institutions, an independent Chilean governmental agency. The Superintendency of Banks and Financial Institutions 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 Superintendency of Banks and Financial Institutions 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 Superintendency of Banks and Financial Institutions examines all banks from time to time, generally at least once a year. Banks are also required to submit monthly financial statements to the Superintendency of Banks and Financial Institutions, 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 Superintendency of Banks and Financial Institutions. A bank’s annual financial statements and the opinion of its independent auditors must also be submitted to the Superintendency of Banks and Financial Institutions.

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 Superintendency of Banks and Financial Institutions. Without this approval the holder of the acquired shares will not have the right to vote such shares. The Superintendency of Banks and Financial Institutions may refuse to grant its approval, based on specific grounds set forth in the General Banking Law.

The prior authorization of the Superintendency of Banks and Financial Institutions 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 Superintendency of Banks and Financial Institutions to be more than 15.0% of all loans in the Chilean banking system. The intended purchase may be denied by the

Superintendency of Banks and Financial Institutions; 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 Superintendency of Banks and Financial Institutions, the following ownership disclosures are required:
  - banks are required to inform the Superintendency of Banks and Financial Institutions 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 Superintendency of Banks and Financial Institutions as to 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 Superintendency of Banks and Financial Institutions 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. Also, the Central Bank authorized insurance and reinsurance companies, to issue credit cards through affiliates established under the supervision of the Superintendency of Banks and Financial Institutions.

### **Deposit Insurance**

In Chile, the State guarantees up to 90.0% of the principal amount of certain time and demand deposits held by natural persons. 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 (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 this 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 (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 basico*, or Net Capital Base, of at least 3.0% of their 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 Superintendency of Banks and Financial Institutions 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. According to the Superintendency of Banks, our unconsolidated risk index was 3.23% compared with an average for the Chilean financial system as a whole (*i.e.*, all banks and finance companies) of 1.90%, as of October 31, 2001.

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 Superintendency of Banks and Financial Institutions has ruled that in the case of past due loans, individual loans loss reserves 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 26.6% 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:

- 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 net foreign currency liabilities having an original maturity of less than 30 days cannot exceed Net Capital Base and (2) the aggregate amount of net foreign currency liabilities having an original maturity of less than 90 days cannot exceed twice Net Capital Base; and
- after June 30, 2000, the interest rate mismatches of foreign currency liabilities may not exceed 8.0% of 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 Superintendency of Banks and Financial Institutions 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 Superintendency of Banks and Financial Institutions 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 Superintendency of Banks and Financial Institutions, 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 Superintendency of Banks and Financial Institutions, 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 Superintendency of Banks and Financial Institutions, which shall determine if the bank is solvent.

## Dissolution and Liquidation of Banks

The Superintendency of Banks and Financial Institutions 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 Superintendency of Banks and Financial Institutions must revoke a bank's authorization to exist and order its mandatory liquidation, subject to agreement by the Central Bank. The Superintendency of Banks and Financial Institutions must also revoke a bank's authorization if the reorganization plan of such bank has been rejected twice. The resolution by the Superintendency of Banks and Financial Institutions 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:

<u>Rating Agency</u>	<u>Short Term</u>	<u>Long Term</u>
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:

<u>Rating Agency</u>	<u>Short Term</u>	<u>Long Term</u>
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:

<u>Rating Agency</u>	<u>Short Term</u>	<u>Long Term</u>
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 Superintendency of Banks and Financial Institutions 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 Superintendency of Banks and Financial Institutions or a private information service, even if the borrower is not in default vis-à-vis the bank.

## SELECTED STATISTICAL INFORMATION

The following information is given as of December 31, 2001, is included for analytical purposes and should be read in conjunction with and is qualified in its entirety by our financial statements in Item 18 as well as "Item 5. Operating and Financial Review and Prospects." Pursuant to Chilean GAAP, including the rules of the Superintendency of Banks and Financial Institutions, the financial data in the following tables as of all year-ends and for all year-end periods have been restated in constant Chilean pesos of December 31, 2001. See Note 1c) to our financial statements in Item 18.

### Average Balance Sheets and Interest Rate Data

The average balances for interest earning assets and interest bearing liabilities have been calculated on the basis of our daily balances and on the basis of monthly balances for our subsidiaries. Such average balances are presented in pesos (Ch\$), in UF and in foreign currencies (principally U.S.\$). The UF is a unit of account which is linked to, and which changes daily to reflect changes in, the CPI over the previous month. See Note 1c) to our 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:

$$R_p = \frac{1 + N_p}{1 + I} - 1 \quad R_d = \frac{(1 + N_d)(1 + D)}{1 + I} - 1$$

Where:

$R_p$  = real average rate for peso-denominated assets and liabilities (in Ch\$ and UF) for the period;

$R_d$  = real average rate for foreign currency-denominated assets and liabilities for the period;

$N_p$  = nominal average rate for peso-denominated assets and liabilities for the period;

$N_d$  = 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 CPI).

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 ( $R_d$ ) reflects a gain or loss in purchasing power caused by the difference between the devaluation rate of the 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-denominated asset bearing a nominal annual interest rate of 10% ( $N_d = 0.10$ ), assuming a 5% annual devaluation rate ( $D = 0.05$ ) and a 12% annual inflation rate ( $I = 0.12$ ):

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

In the example, because 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 was 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 was greater than 15.5%, the real rate would be negative.

Contingent loans (consisting of guarantees and outstanding and undrawn letters of credit) have been treated as interest earning assets. Although the nature of the income derived from such assets is similar to a fee, Chilean banking regulations require that such income be accounted for as interest revenue. As a result of this treatment, the comparatively low rates of interest earned on these assets has a distorting effect on the average interest rate earned on total earning assets.

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

Non-performing loans that were not yet 90 days or more overdue, as well as restructured loans earning interest at a rate below the market rate (spread < 1%) have been included in each of the various categories of loans, and therefore affect the various averages. Non-performing loans that were 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.

For 1996 and up to April 1997, past due loans included the entire outstanding balance of any loan as to which any payment of principal or interest was 90 days or more overdue, except that in the case of mortgage loans only the amount of any payments which were overdue 90 days or more was included in past due loans until such time as legal foreclosure proceedings were commenced, at which time the entire outstanding balance was included. In May 1997 the Superintendency of Banks and Financial Institutions instructed us to conform our definition of past due loans to the less stringent definition contained in the rules of the Superintendency of Banks and Financial Institutions. Accordingly, past due loans at December 31, 1999, 2000 and 2001 generally include, with respect to any loan, installments of principal or interest that are 90 or more days overdue. The entire outstanding balance of any loan is also recorded under past due loans within a period of 90 days since legal collection procedures commence.

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 (1) balances maintained in the Central Bank only receive interest on the amounts which are legally required to be held for liquidity purposes and (2) balances maintained in overseas banks earn interest only for certain accounts in certain countries. Consequently, the average interest earned on such assets was comparatively low. We maintained these deposits in such 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, interest amounts and nominal rates for our interest earning assets and interest bearing liabilities for the years ended December 31, 1999, 2000 and 2001.

## At 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 for percentages)												
<b>ASSETS</b>												
<b>INTEREST EARNING ASSETS</b>												
<b>Interbank deposits</b>												
Ch\$.....	Ch\$ -	Ch\$ -	0.0%	0.0%	Ch\$ -	Ch\$ -	0.0%	0.0%	Ch\$ -	Ch\$ -	0.0%	0.0%
UF.....	-	-	0.0	0.0	-	-	0.0	0.0	(2)	-	0.0	(3.0)
Foreign currency ..	16,641	944	5.7	15.0	8,319	769	9.2	13.6	18,033	839	4.7	16.3
Total.....	16,641	944	5.7	15.0	8,319	769	9.2	13.6	18,033	839	4.7	16.3
<b>Investments</b>												
Ch\$.....	31,503	4,559	14.5	11.9	44,306	4,753	10.7	6.1	56,234	3,053	5.4	2.3
UF.....	80,659	8,944	11.1	8.6	126,495	15,003	11.9	7.1	140,275	12,173	8.7	5.4
Foreign currency ..	66,287	5,572	8.4	18.0	108,755	7,596	7.0	11.2	93,868	5,297	5.6	17.4
Total.....	178,449	19,075	10.7	12.7	279,556	27,352	9.8	8.5	290,377	20,523	7.1	8.7
<b>Commercial loans</b>												
Ch\$.....	201,397	25,967	12.9	10.3	186,881	24,819	13.3	8.5	265,439	29,396	11.1	7.7
UF.....	880,908	100,600	11.4	8.9	818,276	98,910	12.1	7.4	708,418	54,311	7.7	4.4
Foreign currency ..	30,720	6,285	20.5	31.1	55,263	5,293	9.6	13.9	148,184	5,168	3.5	15.0
Total.....	1,113,025	132,852	11.9	9.8	1,060,420	129,022	12.2	7.9	1,122,041	88,875	7.9	6.6
<b>Consumer loans</b>												
Ch\$.....	119,625	34,675	29.0	26.1	123,310	34,808	28.2	22.8	150,500	40,017	26.6	22.8
UF.....	7,194	1,478	20.6	17.8	8,635	1,901	22.0	16.9	10,490	1,970	18.8	15.2
Foreign currency ..	-	-	0.0	0.0	-	-	0.0	0.0	-	-	0.0	0.0
Total.....	126,819	36,153	28.5	25.6	131,945	36,709	27.8	22.4	160,990	41,987	26.1	22.3
<b>Mortgage loans</b>												
Ch\$.....	-	-	0.0	0.0	-	-	0.0	0.0	-	-	0.0	0.0
UF.....	335,223	35,224	10.5	8.0	414,577	51,088	12.3	7.6	443,010	49,497	11.2	7.8
Foreign currency ..	-	-	0.0	0.0	-	-	0.0	0.0	-	-	0.0	0.0
Total.....	335,223	35,224	10.5	8.0	414,577	51,088	12.3	7.6	443,010	49,497	11.2	7.8
<b>Foreign trade loans</b>												
Ch\$.....	-	-	0.0	0.0	-	-	0.0	0.0	-	-	0.0	0.0
UF.....	-	-	0.0	0.0	-	-	0.0	0.0	-	-	0.0	0.0
Foreign currency ..	137,402	11,775	8.6	18.2	147,108	14,720	10.0	14.3	187,872	19,321	10.3	22.6
Total.....	137,402	11,775	8.6	18.2	147,108	14,720	10.0	14.3	187,872	19,321	10.3	22.6
<b>Interbank loans</b>												
Ch\$.....	11,402	950	8.3	5.9	14,986	1,439	9.6	5.0	18,743	1,359	7.3	4.0
UF.....	-	-	0.0	0.0	-	-	0.0	0.0	89	6	6.7	3.5
Foreign currency ..	-	-	0.0	0.0	7	1	14.3	18.8	21	26	123.8	148.7
Total.....	11,402	950	8.3	5.9	14,993	1,440	9.6	5.0	18,853	1,391	7.4	4.2
<b>Lease contracts</b>												
Ch\$.....	-	-	0.0	0.0	24	4	17.4	12.4	73	7	9.6	6.3
UF.....	49,234	8,300	16.9	14.2	43,456	8,101	18.6	13.6	57,711	8,442	14.6	11.2
Foreign currency ..	9,776	2,162	22.1	33.0	6,841	860	12.6	17.0	11,660	2,686	23.0	36.8
Total.....	59,010	10,462	17.7	17.3	50,321	8,965	17.8	14.1	69,444	11,135	16.0	15.5
<b>Other outstanding loans</b>												
Ch\$.....	74,389	16,789	22.6	19.8	73,001	18,173	24.9	19.6	70,708	17,351	24.5	20.8
UF.....	64,241	6,194	9.6	7.2	73,560	8,074	11.0	6.3	56,951	17,548	30.8	26.9
Foreign currency ..	3	-	0.0	0.0	18	-	0.0	0.0	9	-	0.0	0.0
Total.....	138,633	22,983	16.6	13.9	146,579	26,247	17.9	12.9	127,668	34,899	27.3	23.5
<b>Past due loans</b>												
Ch\$.....	13,223	2,119	16.0	13.4	15,909	1,675	10.5	5.9	19,721	2,618	13.3	9.9
UF.....	21,016	2,771	13.2	10.6	52,311	4,194	8.0	3.5	51,449	4,124	8.0	4.8
Foreign currency ..	1,854	-	0.0	0.0	2,854	-	0.0	0.0	1,868	-	0.0	0.0
Total.....	36,093	4,890	13.5	11.1	71,074	5,869	8.3	3.9	73,038	6,742	9.2	6.0
<b>Contingent loans</b>												
Ch\$.....	12,550	368	2.9	2.9	10,945	311	2.8	2.8	11,938	297	2.5	2.5
UF.....	26,527	618	2.3	2.3	21,415	472	2.2	2.2	28,250	534	1.9	1.9
Foreign currency ..	62,970	542	0.9	0.9	77,234	521	0.7	0.7	56,562	322	0.6	0.6
Total.....	102,047	1,528	1.5	1.5	109,594	1,304	1.2	1.2	96,750	1,153	1.2	1.2
<b>Total interest earning Assets</b>												
Ch\$.....	464,089	85,427	18.4	15.7	469,362	85,982	18.3	13.3	593,356	94,098	15.9	12.4
UF.....	1,465,002	164,129	11.2	8.7	1,558,725	187,743	12.0	7.3	1,496,641	148,605	9.9	6.6
Foreign currency ..	325,653	27,280	8.4	18.0	406,399	29,760	7.3	11.6	518,077	33,659	6.5	18.4
Total.....	2,254,744	276,836	12.3	11.5	2,434,486	303,485	12.5	9.2	2,608,074	276,362	10.6	10.3

## At 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 for percentages)												
<b>ASSETS</b>												
<b>NON-INTEREST EARNING ASSETS</b>												
<b>Cash and due from banks</b>												
Ch\$.....	Ch\$225,430	-	-	-	Ch\$227,876	-	-	-	Ch\$ 229,067	-	-	-
UF.....	-	-	-	-	2	-	-	-	-	-	-	-
Foreign currency .....	34,192	-	-	-	12,567	-	-	-	24,524	-	-	-
Total.....	259,622	-	-	-	240,445	-	-	-	253,591	-	-	-
<b>Allowance for loan losses</b>												
Ch\$.....	(43,867)	-	-	-	(76,298)	-	-	-	(77,711)	-	-	-
UF.....	-	-	-	-	(239)	-	-	-	(1,611)	-	-	-
Foreign currency .....	(592)	-	-	-	(1,148)	-	-	-	(2,163)	-	-	-
Total.....	(44,459)	-	-	-	(77,685)	-	-	-	(81,485)	-	-	-
<b>Bank premises and equipment</b>												
Ch\$.....	47,984	-	-	-	52,785	-	-	-	61,062	-	-	-
UF.....	-	-	-	-	-	-	-	-	-	-	-	-
Foreign currency .....	-	-	-	-	14	-	-	-	7	-	-	-
Total.....	47,984	-	-	-	52,799	-	-	-	61,069	-	-	-
<b>Other assets</b>												
Ch\$.....	27,819	-	-	-	62,784	-	-	-	75,644	-	-	-
UF.....	-	-	-	-	71	-	-	-	2,506	-	-	-
Foreign currency .....	17,570	-	-	-	22,773	-	-	-	43,661	-	-	-
Total.....	45,389	-	-	-	85,628	-	-	-	121,811	-	-	-
<b>Total non-interest earning assets</b>												
Ch\$.....	257,366	-	-	-	267,147	-	-	-	288,062	-	-	-
UF.....	-	-	-	-	(166)	-	-	-	895	-	-	-
Foreign currency .....	51,170	-	-	-	34,206	-	-	-	66,029	-	-	-
Total.....	308,536	-	-	-	301,187	-	-	-	354,986	-	-	-
<b>Total Assets</b>												
Ch\$.....	721,455	85,427	-	-	736,509	85,982	-	-	881,418	94,098	-	-
UF.....	1,465,002	164,129	-	-	1,558,559	187,743	-	-	1,497,536	148,605	-	-
Foreign currency .....	376,823	27,280	-	-	440,605	29,760	-	-	584,106	33,659	-	-
Total.....	Ch\$2,563,280	Ch\$276,836	-	-	Ch\$2,735,673	Ch\$303,485	-	-	Ch\$2,963,060	Ch\$ 276,362	-	-

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 for percentages)												
<b>LIABILITIES</b>												
<b>INTEREST BEARING LIABILITIES</b>												
<b>Savings accounts</b>												
Ch\$.....	—	—	0.0%	0.0%	—	—	0.0%	0.0%	—	—	0.0%	0.0%
UF.....	58,778	4,586	7.8	5.4	66,870	6,616	9.9	5.3	71,498	4,831	6.8	3.5
Foreign currency .....	—	—	0.0	0.0	—	—	0.0	0.0	—	—	0.0	0.0
Total.....	58,778	4,586	7.8	5.4	66,870	6,616	9.9	5.3	71,498	4,831	6.8	3.5
<b>Time deposits</b>												
Ch\$.....	476,147	40,400	8.5	6.0	459,827	41,302	9.0	4.4	468,211	28,343	6.1	2.9
UF.....	675,362	62,057	9.2	6.7	653,860	67,547	10.3	5.7	637,916	47,131	7.4	4.2
Foreign currency .....	89,214	4,425	5.0	14.3	100,782	5,705	5.7	9.8	216,308	8,718	4.0	15.6
Total.....	1,240,723	106,882	8.6	7.0	1,214,469	114,554	9.4	5.5	1,322,435	84,192	6.4	5.6
<b>Central Bank Borrowings</b>												
Ch\$.....	2,632	207	7.9	5.4	1,699	160	9.4	4.8	6,897	470	6.8	3.6
UF.....	3,347	189	5.6	3.3	2,595	200	7.7	3.2	2,148	132	6.1	3.0
Foreign currency .....	—	—	0.0	0.0	3	—	0.0	0.0	—	—	0.0	0.0
Total.....	5,979	396	6.6	4.2	4,297	360	8.4	3.8	9,045	602	6.7	3.4
<b>Repurchase agreements</b>												
Ch\$ .....	33,578	3,083	9.2	6.7	50,923	5,503	10.8	6.1	44,077	3,176	7.2	4.0
UF.....	22,921	3,337	14.6	12.0	35,087	4,760	13.6	8.8	24,615	2,107	8.6	5.3
Foreign currency .....	11,479	685	6.0	15.4	9,483	597	6.3	10.5	30,197	865	2.9	14.3
Total.....	67,978	7,105	10.5	9.9	95,493	10,860	11.4	7.5	98,889	6,148	6.2	7.5
<b>Mortgage finance bonds</b>												
Ch\$.....	—	—	0.0	0.0	—	—	0.0	0.0	—	—	0.0	0.0
UF.....	346,002	31,591	9.1	6.7	430,768	48,566	11.3	6.6	471,261	46,212	9.8	6.5
Foreign currency .....	—	—	0.0	0.0	—	—	0.0	0.0	—	—	0.0	0.0
Total.....	346,002	31,591	9.1	6.7	430,768	48,566	11.3	6.6	471,261	46,212	9.8	6.5
<b>Other interest bearing liabilities</b>												
Ch\$.....	117,933	8,838	7.5	5.1	109,408	9,151	8.4	3.8	86,334	10,001	11.6	8.2
UF.....	103,304	4,489	4.3	2.0	89,275	3,867	4.3	(0.1)	102,393	1,872	1.8	(1.2)
Foreign currency .....	29,962	3,007	10.0	19.8	20,551	1,497	7.3	11.5	32,010	1,862	5.8	17.6
Total.....	251,199	16,334	6.5	5.6	219,234	14,515	6.6	2.9	220,737	13,735	6.2	5.2
<b>Total interest bearing liabilities</b>												
Ch\$.....	630,290	52,528	8.3	5.9	621,857	56,116	9.0	4.4	605,519	41,990	6.9	3.7
UF.....	1,209,714	106,249	8.8	6.3	1,278,455	131,556	10.3	5.6	1,309,831	102,285	7.8	4.6
Foreign currency .....	130,655	8,117	6.2	15.6	130,819	7,799	6.0	10.1	278,515	11,445	4.1	15.7
Total.....	1,970,659	166,894	8.5	6.9	2,031,131	195,471	9.6	5.6	2,193,865	155,720	7.1	5.7
<b>NON-INTEREST BEARING LIABILITIES</b>												
<b>Non-interest bearing demand deposits</b>												
Ch\$.....	266,747	—	—	—	291,987	—	—	—	340,351	—	—	—
UF.....	9	—	—	—	—	—	—	—	—	—	—	—
Foreign currency .....	19,109	—	—	—	23,466	—	—	—	26,848	—	—	—
Total.....	285,865	—	—	—	315,453	—	—	—	367,199	—	—	—
<b>Contingent obligation</b>												
Ch\$.....	12,549	—	—	—	10,945	—	—	—	11,930	—	—	—
UF.....	26,527	—	—	—	21,415	—	—	—	28,258	—	—	—
Foreign currency .....	62,980	—	—	—	77,303	—	—	—	56,719	—	—	—
Total.....	102,056	—	—	—	109,663	—	—	—	96,907	—	—	—
<b>Other non-interest bearing</b>												
Ch\$.....	16,754	—	—	—	15,269	—	—	—	15,694	—	—	—
UF.....	267	—	—	—	286	—	—	—	477	—	—	—
Foreign currency .....	18,652	—	—	—	43,005	—	—	—	54,036	—	—	—
Total.....	35,673	—	—	—	58,560	—	—	—	70,207	—	—	—

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 for percentages)												
<b>Shareholders' equity</b>												
Ch\$ .....	Ch\$ 169,030	—	—	—	Ch\$220,865	—	—	—	Ch\$234,882	—	—	—
UF.....	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency .....	—	—	—	—	—	—	—	—	—	—	—	—
Total .....	169,030	—	—	—	220,865	—	—	—	234,882	—	—	—
<b>Total non-interest bearing liabilities and shareholders' equity</b>												
Ch\$ .....	465,080	—	—	—	539,066	—	—	—	602,857	—	—	—
UF.....	26,803	—	—	—	21,701	—	—	—	28,735	—	—	—
Foreign currency .....	100,741	—	—	—	143,774	—	—	—	137,603	—	—	—
Total .....	592,624	—	—	—	704,541	—	—	—	769,195	—	—	—
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>												
Ch\$ .....	1,095,370	52,528	—	—	1,160,923	56,116	—	—	1,208,376	41,990	—	—
UF.....	1,236,517	106,249	—	—	1,300,156	131,556	—	—	1,338,566	102,285	—	—
Foreign currency .....	231,396	8,117	—	—	274,593	7,799	—	—	416,118	11,445	—	—
Total .....	Ch\$2,563,283	Ch\$166,894	—	—	Ch\$2,735,672	Ch\$195,471	—	—	Ch\$2,963,060	Ch\$155,720	—	—

### Interest Earning Assets — Net Interest Margin

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

	At December 31,		
	1999	2000	2001
(in millions of constant Ch\$ of as December 31, 2001 except for percentages)			
Total average interest earning assets			
Ch\$ .....	Ch\$ 464,089	Ch\$ 469,362	Ch\$ 593,356
UF.....	1,465,002	1,558,725	1,496,641
Foreign currency .....	325,653	406,399	518,077
Total.....	Ch\$ 2,254,744	Ch\$ 2,434,486	Ch\$ 2,608,074
Net interest earned(1)			
Ch\$ .....	Ch\$ 32,899	Ch\$ 29,866	Ch\$ 52,108
UF.....	57,880	56,187	46,320
Foreign currency .....	19,163	21,961	22,214
Total.....	Ch\$ 109,942	Ch\$ 108,014	Ch\$ 120,642
Net interest margin(2)			
Ch\$ .....	7.09%	6.36%	8.78%
UF.....	3.95	3.60	3.09
Foreign currency .....	5.88	5.40	4.29
Total.....	4.88%	4.44%	4.63%

(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 from 1999 to 2000 and from 2000 to 2001. Volume and rate variances have been calculated based on movements in average balances over the year and changes in nominal interest rates, average interest earning assets and average interest-bearing liabilities. The net change attributable to changes in both volume and rate has been allocated proportionately to the change due to volume and the change due to rate.

	Increase (decrease) from 1999 to 2000 due to changes in		Net change from 1999 to 2000	Increase (decrease) from 2000 to 2001 due to changes in		Net change from 2000 to 2001
	Volume	Rate		Volume	Rate	
(in millions of constant Ch\$ as of December 31, 2001)						
<b>INTEREST EARNING ASSETS</b>						
<b>Interbank deposits</b>						
Ch\$.....	Ch\$ -	Ch\$ -	Ch\$ -	Ch\$ -	Ch\$ -	Ch\$ -
UF.....	-	-	-	-	-	-
Total.....	(769)	594	(175)	121	(51)	70
Foreign currency .....	(769)	594	(175)	121	(51)	70
<b>Investments</b>						
Ch\$.....	1,373	(1,179)	194	2,049	(3,749)	(1,700)
UF.....	5,436	623	6,059	1,905	(4,735)	(2,830)
Foreign currency .....	2,966	(942)	2,024	(952)	(1,347)	(2,299)
Total.....	9,775	(1,498)	8,277	3,002	(9,831)	(6,829)
<b>Commercial loans</b>						
Ch\$.....	(1,928)	780	(1,148)	7,604	(3,027)	4,577
UF.....	(7,571)	5,881	(1,690)	(11,960)	(32,639)	(44,599)
Foreign currency .....	2,351	(3,343)	(992)	(201)	76	(125)
Total.....	(7,148)	3,318	(3,830)	(4,557)	(35,590)	(40,147)
<b>Consumer loans</b>						
Ch\$.....	1,040	(907)	133	7,030	(1,821)	5,209
UF.....	318	105	423	216	(147)	69
Foreign currency .....	-	-	-	-	-	-
Total.....	1,358	(802)	556	7,246	(1,968)	5,278
<b>Mortgage loans</b>						
Ch\$.....	-	-	-	-	-	-
UF.....	9,779	6,085	15,864	4,733	(6,324)	(1,591)
Foreign currency .....	-	-	-	-	-	-
Total.....	9,779	6,085	15,864	4,733	(6,324)	(1,591)
<b>Foreign trade loans</b>						
Ch\$.....	-	-	-	-	-	-
UF.....	-	-	-	-	-	-
Foreign currency .....	971	1,974	2,945	4,173	428	4,601
Total.....	971	1,974	2,945	4,173	428	4,601
<b>Interbank loans</b>						
Ch\$.....	344	145	489	(3,352)	3,272	(80)
UF.....	-	-	-	-	6	6
Foreign currency .....	1	-	1	5	20	25
Total.....	345	145	490	(3,347)	3,298	(49)
<b>Lease contracts</b>						
Ch\$.....	4	-	4	4	(1)	3
UF.....	(1,077)	878	(199)	977	(636)	341
Foreign currency .....	(369)	(933)	(1,302)	839	987	1,826
Total.....	(1,442)	(55)	(1,497)	1,820	350	2,170
<b>Other outstanding loans</b>						
Ch\$.....	(345)	1,729	1,384	(562)	(260)	(822)
UF.....	1,023	857	1,880	(1,358)	10,832	9,474
Foreign currency .....	-	-	-	-	-	-
Total.....	678	2,586	3,264	(1,920)	10,572	8,652
<b>Past due loans</b>						
Ch\$.....	281	(725)	(444)	448	495	943
UF.....	2,510	(1,087)	1,423	(79)	9	(70)
Foreign currency .....	-	-	-	-	-	-
Total.....	2,791	(1,812)	979	369	504	873
<b>Contingent loans</b>						
Ch\$.....	(45)	(12)	(57)	61	(75)	(14)
UF.....	(112)	(34)	(146)	111	(49)	62
Foreign currency .....	97	(118)	(21)	(117)	(82)	(199)
Total.....	(60)	(164)	(224)	55	(206)	(151)
<b>Total interest earning assets</b>						
Ch\$.....	724	(169)	555	13,282	(5,166)	8,116
UF.....	10,306	13,308	23,614	(5,455)	(33,683)	(39,138)
Foreign currency .....	5,248	(2,768)	2,480	3,868	31	3,899
Total.....	16,278	10,371	26,649	11,695	(38,818)	(27,123)

	Increase (decrease) from 1999 to 2000 due to changes in		Net change from 1999 to 2000	Increase (decrease) from 2000 to 2001 due to changes in		Net change from 2000 to 2001
	Volume	Rate		Volume	Rate	
(in millions of constant Ch\$ as of December 31, 2001)						
<b>INTEREST BEARING LIABILITIES</b>						
Savings accounts						
Ch\$ .....	Ch\$ -	Ch\$ -	Ch\$ -	Ch\$ -	Ch\$ -	Ch\$ -
UF .....	800	1,230	2,030	498	(2,283)	(1,785)
Foreign currency .....	-	-	-	-	-	-
Total .....	800	1,230	2,030	498	(2,283)	(1,785)
Time deposits						
Ch\$ .....	(1,466)	2,368	902	764	(13,723)	(12,959)
UF .....	(2,221)	7,711	5,490	(1,621)	(18,795)	(20,416)
Foreign currency .....	655	625	1,280	4,047	(1,034)	3,013
Total .....	(3,032)	10,704	7,672	3,190	(33,552)	(30,362)
Central Bank borrowings						
Ch\$ .....	(88)	41	(47)	340	(30)	310
UF .....	(58)	69	11	(31)	(37)	(68)
Foreign currency .....	-	-	-	-	-	-
Total .....	(146)	110	(36)	309	(67)	242
Securities sold under agreements to						
Repurchase						
Ch\$ .....	1,874	546	2,420	(670)	(1,657)	(2,327)
UF .....	1,651	(228)	1,423	(1,183)	(1,470)	(2,653)
Foreign currency .....	(126)	38	(88)	357	(89)	268
Total .....	3,399	356	3,755	(1,496)	(3,216)	(4,712)
Mortgage finance bonds						
Ch\$ .....	-	-	-	-	-	-
UF .....	9,557	7,418	16,975	5,792	(8,146)	(2,354)
Foreign currency .....	-	-	-	-	-	-
Total .....	9,557	7,418	16,975	5,792	(8,146)	(2,354)
Other interest bearing liabilities						
Ch\$ .....	(713)	1,026	313	(1,066)	1,916	850
UF .....	(607)	(15)	(622)	685	(2,680)	(1,995)
Foreign currency .....	(686)	(824)	(1,510)	574	(209)	365
Total .....	(2,006)	187	(1,819)	193	(973)	(780)
Total interest bearing liabilities						
Ch\$ .....	(393)	3,981	3,588	(632)	(13,494)	(14,126)
UF .....	9,122	16,185	25,307	4,140	(33,411)	(29,271)
Foreign currency .....	(157)	(161)	(318)	4,978	(1,332)	3,646
Total .....	8,572	20,005	28,577	8,486	(48,237)	(39,751)

## Return on Equity and Assets

The following table presents certain of our selected financial ratios for the periods indicated:

	At December 31,		
	1999	2000	2001
(in millions of constant Ch\$ as of December 31, 2001 except for percentages)			
Net income (loss) .....	Ch\$ (7,124)	Ch\$ 3,274	Ch\$ 10,103
Average total assets .....	2,563,280	2,735,673	2,963,060
Average shareholders' equity .....	169,030	220,865	234,882
Net income (loss) as a percentage of:			
Average total assets .....	(0.28)%	0.12%	0.34%
Average shareholders' equity .....	(4.21)%	1.48%	4.30%
Average shareholders' equity as a percentage			
of average total assets .....	6.59%	8.07%	7.93%
Dividend paid ratio (as a percentage)(1) .....	-	50%	100%

(1) Calculated dividing dividends declared per share by net income per share. No dividend was paid with respect to 1999.

## Investment Portfolio

The following table sets forth our investments in Chilean government and corporate securities and certain other investments as of December 31, 1999, 2000 and 2001. Investments which have a secondary market (and a remaining maturity of more than one year in 1999 and 2000) are carried at market value. All other investments are valued at historical cost, plus accrued interest and monetary correction, as applicable.

	December 31,			December 31, 2001 Weighted Average Nominal Rate
	1999	2000	2001	
(in millions of constant Ch\$ as of December 31, 2001, except for percentages)				
Government securities				
Central Bank Securities.....	Ch\$66,936	Ch\$62,061	Ch\$174,438	5.7%
Other.....	<u>579</u>	<u>478</u>	<u>405</u>	5.0
Subtotal .....	<u>67,515</u>	<u>62,539</u>	<u>174,843</u>	5.7
Investments purchased under agreements to resell.....	28,725	32,694	20,341	7.2
Investment collateral under agreements to repurchase <sup>(1)</sup>				
Central Bank securities .....	41,636	57,685	61,763	5.9
Time deposits in Chilean financial institutions.....	8,339	20,773	9,553	5.7
Other marketable securities.....	<u>5,182</u>	<u>-</u>	<u>9,932</u>	6.3
Subtotal .....	<u>55,157</u>	<u>78,458</u>	<u>81,248</u>	5.9
Other investments				
Time deposits in Chilean financial institutions.....	23,507	32,258	5,580	5.6
Mortgage finance bonds issued by the Bank .....	7,703	1,451	13,976	7.0
Investment in foreign countries.....	94,921	78,131	51,127	6.6
Other marketable securities.....	<u>7,641</u>	<u>17,882</u>	<u>13,282</u>	4.8
Subtotal .....	<u>133,772</u>	<u>129,722</u>	<u>83,965</u>	6.3
Total financial investments.....	<u>Ch\$285,169</u>	<u>Ch\$303,413</u>	<u>Ch\$360,397</u>	6.0%

(1) Under Chilean GAAP, securities subject to agreements to repurchase are reclassified from their investment category to "Investment collateral under agreements to repurchase." Under U.S. GAAP, no such reclassification would be made since, in substance, the investment securities serve only as collateral for the borrowing.

The investments we held as of December 31, 2001 have the following maturity dates:

	Due in one year	Weighted Average Nominal Rate	Due from one year to five years	Weighted Average Nominal Rate	Due from five years to ten years	Weighted Average Nominal Rate	Due after ten years	Weighted Average Nominal Rate	Total
(In millions of constant Ch\$ as of December 31, 2001)									
Government securities									
Central Bank Securities .....	Ch\$57,695	6.5%	Ch\$78,194	5.4%	Ch\$38,549	5.3%	—	—	Ch\$174,438
Other .....	<u>107</u>	<u>5.0</u>	<u>298</u>	<u>5.0</u>	—	—	—	—	<u>405</u>
Subtotal .....	<u>57,802</u>	<u>6.5</u>	<u>78,492</u>	<u>5.4</u>	<u>38,549</u>	<u>5.3</u>	—	—	<u>174,843</u>
Investments purchased under agreements to resell.....	20,341	7.2	—	—	—	—	—	—	20,341
Investment collateral under agreements to repurchase									
Central Bank securities .....	31,744	6.4	26,596	5.4	3,423	5.5	—	—	61,763
Time deposits in Chilean financial institutions.....	9,553	5.7	—	—	—	—	—	—	9,553
Other marketable securities .....	<u>9,932</u>	<u>6.3</u>	—	—	—	—	—	—	<u>9,932</u>
Subtotal .....	<u>51,229</u>	<u>6.3</u>	<u>26,596</u>	<u>5.4</u>	<u>3,423</u>	<u>5.5</u>	—	—	<u>81,248</u>
Other investments									
Time deposits in Chilean financial institutions.....	3,489	4.8	2,091	7.1	—	—	—	—	5,580
Mortgage finance bonds issued by the Bank .....	988	6.7	12,988	7.0	—	—	—	—	13,976
Investment in foreign countries .....	19,443	5.9	5,052	7.1	26,632	7.0	—	—	51,127
Other marketable securities .....	<u>9,120</u>	<u>3.9</u>	<u>931</u>	<u>6.6</u>	<u>3,231</u>	<u>7.0</u>	—	—	<u>13,282</u>
Subtotal .....	<u>33,040</u>	<u>5.2</u>	<u>21,062</u>	<u>7.0</u>	<u>29,863</u>	<u>7.0</u>	—	—	<u>83,965</u>
Total financial investments.....	<u>Ch\$162,412</u>	<u>6.2%</u>	<u>Ch\$126,150</u>	<u>5.6%</u>	<u>Ch\$71,835</u>	<u>6.0%</u>	—	—	<u>Ch\$360,397</u>

As of December 31, 2001, other than Chilean Central Bank securities, we did not hold securities of one issuer where the aggregate book value of the investment exceeded 10% of stockholders' equity.

## Loan Portfolio

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

	December 31,				
	1997	1998	1999	2000	2001
	(in million of constant Ch\$ as of December 31, 2001)				
Commercial loans:					
Working capital, capital expenditure and other Loans.....					
	Ch\$ 785,052	Ch\$ 895,956	Ch\$ 890,070	Ch\$ 956,225	Ch\$ 916,728
Construction loans.....	<u>324,217</u>	<u>299,154</u>	<u>224,951</u>	<u>193,710</u>	<u>174,348</u>
Subtotal .....	<u>1,109,269</u>	<u>1,195,110</u>	<u>1,115,021</u>	<u>1,149,935</u>	<u>1,091,076</u>
Mortgage loans:					
Residential loans .....	73,267	77,919	104,018	138,468	164,688
Other .....	<u>198,684</u>	<u>229,450</u>	<u>288,599</u>	<u>306,405</u>	<u>291,298</u>
Subtotal .....	<u>271,951</u>	<u>307,369</u>	<u>392,617</u>	<u>444,873</u>	<u>455,986</u>
Consumer loans.....	<u>137,153</u>	<u>132,485</u>	<u>129,942</u>	<u>156,534</u>	<u>179,292</u>
Foreign trade loans.....	<u>143,157</u>	<u>141,056</u>	<u>125,839</u>	<u>191,442</u>	<u>143,408</u>
Interbank loans.....	<u>2,333</u>	<u>3,336</u>	<u>14,089</u>	<u>9,292</u>	<u>5,049</u>
Lease contracts.....	<u>66,329</u>	<u>65,657</u>	<u>55,843</u>	<u>52,003</u>	<u>80,858</u>
Other outstanding loans:					
Lines of credit – individuals .....	37,003	41,428	42,304	43,989	40,176
Lines of credit – companies.....	26,115	30,516	26,915	24,343	23,666
Mortgages financed by Central Bank lines of Credit.....	4,208	3,492	3,019	2,219	1,830
Mortgages financed by our general Borrowings.....	30,939	59,479	69,212	74,668	39,526
Other .....	<u>207</u>	<u>447</u>	<u>676</u>	<u>591</u>	<u>1,181</u>
Subtotal .....	<u>98,472</u>	<u>135,362</u>	<u>142,126</u>	<u>145,810</u>	<u>106,379</u>
Past due loans.....	<u>11,629</u>	<u>23,782</u>	<u>58,951</u>	<u>66,109</u>	<u>73,170</u>
Subtotal .....	<u>1,840,293</u>	<u>2,004,157</u>	<u>2,034,428</u>	<u>2,215,998</u>	<u>2,135,218</u>
Contingent loans.....	<u>102,589</u>	<u>114,131</u>	<u>113,157</u>	<u>126,891</u>	<u>83,290</u>
Total Loans .....	<u>Ch\$ 1,942,882</u>	<u>Ch\$ 2,118,288</u>	<u>Ch\$ 2,147,585</u>	<u>Ch\$ 2,342,889</u>	<u>Ch\$ 2,218,508</u>

Our loan categories were as follows:

**Working capital, capital expenditure and other loans** were long-term and short-term loans made in Chilean pesos, on a variable or fixed rate basis, primarily to finance working capital or capital expenditures. Loans to individuals and businesses with terms that did not meet the definitions of any of the other loan categories below were classified as “working capital, capital expenditures and other loans.”

**Construction loans** were inflation-indexed, generally with a term of up to 24 months and normally made in UF to finance construction of public and private housing projects, commercial developments, civil works and infrastructure projects. Typically, they were disbursed in installments to finance continuing construction and were collateralized by the real property and other assets of the relevant project. At the time of approval, the amount of a construction loan could not exceed 80% of the anticipated construction and completion costs of the construction (these costs did not include property costs or other expenses).

**Mortgage loans** were inflation-indexed, fixed rate, long-term loans financed specifically by mortgage finance bonds, with monthly payments of principal and interest collateralized by real property mortgages. At the time of approval, for endorsable mutual mortgages the amount of a mortgage loan could not be more than 75% and 80% of the lower of the purchase price or appraised value of the mortgaged property. Residential mortgage loans related to loans to individuals for housing and other mortgage loans that were made for financing the purchase of undeveloped land, office buildings and other real estate.

**Consumer loans** were 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 included credit card balances financed by customers and were thus subject to interest charges.

**Foreign trade loans** were fixed or variable rate, short-term loans made in foreign currencies (principally U.S.\$) to finance imports and exports.

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

**Lease contracts** were agreements for direct financing leases relating to capital equipment and other property.

**Other outstanding loans** included checking account lines of credit, bills of exchange, loans acquired from third parties (principally for the financing of cemetery plots) and mortgage loans which were financed by our general borrowings (as opposed to mortgage finance bonds).

**Past due loans** generally included with respect to any loan, installments of principal or interest that were 90 days or more overdue. The entire outstanding balance of any loan was recorded under past due loans within a period of 90 days after legal collection procedures commence. However, for 1996 and up to April 1997 past due loans included the entire outstanding balance of any loan as to which any payment of principal or interest was 90 days or more overdue, except that in the case of mortgage loans only the amount of any payments which were overdue 90 days or more was included in past due loans until such time as legal foreclosure proceedings were commenced, at which time the entire outstanding balance was included.

**Contingent loans** are guarantees we granted in Ch\$, UF and foreign currencies (principally U.S.\$), as well as outstanding and undrawn letters of credit. Unlike U.S. GAAP, Chilean GAAP requires such loans to be included on a bank's balance sheet.

Commercial loans include all loans other than consumer loans and residential mortgage loans.

Any collateral provided generally consisted of a mortgage on real estate, a pledge of marketable securities, third party letters of credit, equipment or inventory. The existence and amount of collateral generally varies from loan to loan.

### **Risks of the Loan Portfolio**

Our management believes that certain of our principal loan products had the following risk characteristics as of December 31, 2001:

**Commercial loans.** Our loans for working capital, capital expenditures and similar purposes experienced an increase in the risk index, which as of December 31, 2000 was approximately 3.09% and as of December 31, 2001 was approximately 3.66%. See "Information on the Company— Selected Statistical Information—Allocation of the Allowance for Loan Losses"

The risk index for our construction loans averaged approximately 4.39% for the last five years, but as of December 31, 2001 the index was 7.32%. One of the principal risks of loans for the construction of housing developments relates to the difficulty of accurately projecting sales which will depend on, among other factors, the perceived price-quality relationship of the units. Loans for the construction of offices and buildings share this risk and have an additional risk relating to the preparation of a realistic city-planning project. Borrowers of other construction loans frequently work with general contractors, which means that a principal risk of such loans is the technical capacity of the contractor to comply with quality standards and finish the project within budgeted costs.

Most economic sectors and especially the construction industry have been strongly affected by the decrease in the rate of growth of sales as a result of the restricted economic situation and particularly due to the high interest rates prevailing during the second half of 1998 and the economic recession that impacted Chile during 1999. During 2001 the Chilean economy suffered a significant slow down. Gross domestic product grew by 2.8% in 2001, compared to 4.4% in 2000 and the average Chilean economic growth during the 1990s, which was close to 6.0%.

The risk on our commercial loans granted to corporate customers depended to a large extent on variations in the GDP of Chile, variations in interest rates, regulations which had an impact on specific companies and business

sectors (income taxes, tax incentives and other regulations), the level of debt of the economy, the level of productivity and other economic conditions.

**Mortgage loans.** Our residential mortgage loans showed a level of risk not exceeding 0.48% at the end of each of the last five years. As of December 31, 2001, the risk index for our residential mortgage loans was approximately 0.48%.

Chilean banking regulations currently limit the amount of a residential mortgage loan that is financed with mortgage finance bonds to the lesser of 75%, or 80% for endorsable mutual mortgages of (1) the purchase price of the property securing the loan or (2) the appraised value of such property. In addition, we generally required that the monthly payments on a residential mortgage loan not exceed 25% of the borrower's monthly household after-tax income.

**Consumer loans.** The level of risk in our consumer loans increased from 3.25% as of December 31, 1997 to 3.36% as of December 31, 2001. This increase is mainly a consequence of the restrictive monetary policy applied by the Chilean Central Bank during the last years as well as the economic recession, which also brought a high unemployment rate. It is also a result of the increase in the proportion of consumer loans granted to the lower-middle income sector.

The risks associated with both residential mortgages and consumer loans are affected by, among other things, the following variables: the unemployment rate, the change in real salaries, the level of economic activity and the overall level of credit in the Chilean economy. These indices affect both high income and lower middle-income individuals but have a faster impact on the latter sector. Consumer credit risk also depends on the quality of financial information obtained about the individual debtor. We received relevant credit information from DICOM and SINACOFI (Chilean credit bureaus) with respect to existing and potential customers.

**Foreign trade loans.** Our loans for foreign trade were made to finance working capital requirements of exporters and importers and accordingly, risk factors are similar to commercial loans for working capital. At December 31, 2001, the risk index for our foreign trade loans was approximately 0.60%. Additional variables which specifically affect risk for our foreign trade loans include, without limitation, fluctuations in real exchange rates and international commodity prices as well as international foreign trade policies (including tariffs and other barriers).

**Leasing.** The risk index from our leasing operations reached approximately 3.19% at December 31, 2001 (at December 31, 2000, this index was 2.54%), which is below the risk index shown by our commercial loans at the same date.

## 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:							
Working capital, capital expenditures and other loans.....	Ch\$ 916,728	Ch\$ 220,189	Ch\$ 358,367	Ch\$ 134,706	Ch\$ 132,385	Ch\$ 44,738	Ch\$ 26,343
Construction loans.....	<u>174,348</u>	<u>63,559</u>	<u>100,703</u>	<u>3,746</u>	<u>1,073</u>	<u>5,267</u>	<u>—</u>
Subtotal.....	<u>1,091,076</u>	<u>283,748</u>	<u>459,070</u>	<u>138,452</u>	<u>133,458</u>	<u>50,005</u>	<u>26,343</u>
Mortgage loans:							
Residential.....	164,688	1,029	4,291	5,334	21,066	20,887	112,081
Other .....	<u>291,298</u>	<u>2,820</u>	<u>10,705</u>	<u>13,033</u>	<u>53,581</u>	<u>54,933</u>	<u>156,226</u>
Subtotal.....	<u>455,986</u>	<u>3,849</u>	<u>14,996</u>	<u>18,367</u>	<u>74,647</u>	<u>75,820</u>	<u>268,307</u>
Consumer loans .....	179,292	34,309	31,933	33,098	69,345	9,927	680
Foreign trade loans .....	143,408	50,902	86,064	6,381	—	—	61
Interbank loans .....	5,049	2,027	2,006	1,016	—	—	—
Lease contracts .....	80,858	1,046	7,598	9,117	21,752	14,913	26,432
Other outstanding loans .....	106,379	65,290	892	1,036	4,418	4,484	30,259
Past due loans .....	<u>73,170</u>	<u>73,170</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Subtotal.....	<u>2,135,218</u>	<u>514,341</u>	<u>602,559</u>	<u>207,467</u>	<u>303,620</u>	<u>155,149</u>	<u>352,082</u>
Contingent loans.....	<u>83,290</u>	<u>17,523</u>	<u>44,854</u>	<u>12,276</u>	<u>7,651</u>	<u>985</u>	<u>1</u>
Total loans .....	<u>Ch\$ 2,218,508</u>	<u>Ch\$ 531,864</u>	<u>Ch\$ 647,413</u>	<u>Ch\$ 219,743</u>	<u>Ch\$ 311,271</u>	<u>Ch\$ 156,134</u>	<u>Ch\$ 352,083</u>

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). See “Item 5. Operating and Financial Review and Prospects—Asset and Liability Management” and “Item 11. Quantitative and Qualitative Disclosure About Market Risk—Interest Rate Sensitivity.”

	As of December 31, 2001 (in millions of constant Ch\$ as of December 31, 2001)
Variable rate	
Ch\$ .....	Ch\$ 11
UF.....	130,839
Foreign currency.....	<u>55,427</u>
Subtotal.....	<u>186,277</u>
Fixed rate	
Ch\$ .....	94,605
UF.....	522,468
Foreign currency.....	<u>7,501</u>
Subtotal.....	<u>624,574</u>
Total .....	<u>Ch\$ 810,851</u>

## 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.

	December 31,					
	1999		2000		2001	
	Loan portfolio	Percentage of loan portfolio	Loan portfolio	Percentage of loan portfolio	Loan portfolio	Percentage of loan portfolio
(in millions of constant Ch\$ as of December 31, 2001, except for percentages)						
Agriculture, Livestock, Forestry,						
Fishing						
Agriculture .....	Ch\$ 42,899	2.11%	Ch\$ 37,794	1.71%	Ch\$ 34,691	1.62%
Livestock .....	17,198	0.85	27,348	1.23	26,303	1.23
Forestry .....	7,584	0.37	18,315	0.82	16,328	0.76
Fishing .....	38,515	1.89	43,101	1.95	33,210	1.56
Subtotal .....	106,196	5.22	126,558	5.71	110,532	5.17
Mining						
Coal, stone and clay extraction .....	6,840	0.34	5,684	0.26	3,139	0.15
Metallic mineral extraction .....	5,443	0.27	20,455	0.92	27,351	1.28
Extraction of other minerals .....	15,057	0.73	29,245	1.32	20,847	0.97
Subtotal .....	27,340	1.34	55,384	2.50	51,337	2.40
Manufacturing						
Automobile industry .....	860	0.04	1,723	0.07	1,316	0.06
Food, beverages and tobacco .....	95,896	4.71	80,987	3.65	73,143	3.43
Textiles, clothing and leather goods .....	31,051	1.53	29,107	1.31	23,072	1.08
Wood and wood products including furniture .....	19,975	0.98	31,358	1.42	16,025	0.75
Paper, paper products, printing and publishing .....	21,275	1.04	19,434	0.88	16,380	0.77
Chemical products derived from oil, coal, rubber And plastic .....	44,675	2.20	34,131	1.54	30,295	1.42
Production of non-mineral products .....	19,634	0.97	15,068	0.68	12,742	0.60
Basic metal industries .....	20,425	1.00	14,606	0.66	7,613	0.36
Production of machines, equipment and other Metal goods .....	12,616	0.62	12,988	0.59	13,972	0.65
Other manufacturing industries .....	8,481	0.42	6,238	0.28	4,997	0.23
Subtotal .....	274,888	13.51	245,640	11.08	199,555	9.35
Electricity, Gas and Water						
Electricity, gas and steam .....	28,872	1.42	15,002	0.68	23,622	1.11
Collection and distribution of water .....	19,540	0.96	29,432	1.33	21,629	1.01
Subtotal .....	48,412	2.38	44,434	2.01	45,251	2.12
Construction						
Residential buildings .....	107,393	5.28	104,092	4.70	94,811	4.44
Non-residential buildings .....	129,118	6.34	100,605	4.54	113,028	5.29
Other construction .....	28,865	1.42	25,799	1.16	37,901	1.78
Subtotal .....	265,376	13.04	230,496	10.40	245,740	11.51
Trade						
Wholesale .....	99,679	4.90	124,033	5.60	122,242	5.72
Retail .....	98,255	4.83	76,408	3.45	57,433	2.69
Restaurants and hotels .....	28,356	1.39	22,669	1.02	27,533	1.29
Imports .....	52,619	2.59	54,216	2.45	48,914	2.30
Exports .....	31,994	1.58	45,501	2.05	23,126	1.08
Subtotal .....	310,903	15.29	322,827	14.57	279,248	13.08
Transport, Storage and Communications						
Transport and storage .....	31,507	1.55	29,396	1.32	29,365	1.38
Communications .....	39,696	1.95	39,390	1.78	39,499	1.85
Subtotal .....	71,203	3.50	68,786	3.10	68,864	3.23
Financial Services						
Financial companies .....	136,066	6.69	156,712	7.07	186,692	8.74
Insurance .....	35,051	1.72	44,835	2.03	35,219	1.65
Real estate .....	108,175	5.32	110,668	4.99	117,569	5.51
Other financial services .....	78,623	3.86	109,047	4.92	104,767	4.91
Subtotal .....	357,915	17.59	421,262	19.01	444,247	20.81
Services						
Public administration and defense .....	13,339	0.66	45,021	2.03	13,021	0.61
Health services .....	5,887	0.29	5,803	0.26	4,988	0.23
Social services .....	27,308	1.34	30,154	1.36	30,246	1.42
Leisure services .....	11,955	0.59	13,605	0.61	14,482	0.68
Personal and home services .....	55,638	2.73	68,391	3.09	71,440	3.35
International organizations .....	6	0.00	414	0.02	53	0.00
Other services .....	6,106	0.30	8,129	0.37	10,765	0.50
Subtotal .....	120,239	5.91	171,517	7.74	144,995	6.79
Individuals						

	December 31,					
	1999		2000		2001	
	Loan portfolio	Percentage of loan portfolio	Loan portfolio	Percentage of loan portfolio	Loan portfolio	Percentage of loan portfolio
	(in millions of constant Ch\$ as of December 31, 2001, except for percentages)					
Consumer loans .....	175,945	8.65	203,452	9.18	222,328	10.41
Residential mortgage loans .....	276,011	13.57	325,642	14.70	323,121	15.13
Subtotal .....	451,956	22.22	529,094	23.88	545,449	25.54
TOTAL .....	Ch\$ 2,034,428	100.00%	Ch\$ 2,215,998	100.00%	Ch\$ 2,135,218	100.00%

### Foreign Country Outstandings

Our cross-border loans were mainly granted to foreign financial institutions and to Chilean companies' subsidiaries abroad. The amounts shown below reflect mainly commercial loans and outstanding commercial letters of credit for Chilean exports (32.1% and 67.9% as of December 31, 2001, respectively) for the years ended December 31, 1999, 2000 and 2001.

	December 31,					
	1999		2000		2001	
	Ch\$		Ch\$		Ch\$	
	(in millions of constant Ch\$ as of December 31, 2001)					
United Kingdom .....	Ch\$	–	Ch\$	–	Ch\$	7,560
Argentina .....		80		15,420		1,223
Brazil .....		–		45,703		41,368
Mexico .....		477		138		19,695
Uruguay .....		30		76		85
Peru .....		91		1,177		353
United States .....		74		12,431		52,591
India .....		–		3,382		2,958
Korea .....		–		3,318		–
Others .....		60		296		1,097
Total .....	Ch\$	812	Ch\$	81,941	Ch\$	126,930

We also maintain deposits abroad (primarily demand deposits) as needed to conduct our foreign trade transactions. The table below lists the largest amounts of foreign deposits by country for the years ended December 31, 1999, 2000 and 2001.

	December 31,					
	1999		2000		2001	
	Ch\$		Ch\$		Ch\$	
	(in millions of constant Ch\$ as of December 31, 2001)					
United States .....	Ch\$	1,742	Ch\$	417	Ch\$	13,670
Germany .....		487		514		375
Spain .....		121		156		171
United Kingdom .....		281		211		181
Canada .....		40		78		65
Panama .....		188		199		–
Japan .....		41		115		289
France .....		133		200		180
Others .....		274		259		132
Total .....	Ch\$	3,307	Ch\$	2,149	Ch\$	15,063

### Credit Approval Process

We managed our credit risks by requiring loans to be approved in accordance with certain designated procedures. Under our credit approval system, the approval of a transaction with a customer required the involvement of a credit committee usually composed of three executives (with the exception of loans for individual customers approved by the credit scoring evaluation system), one of whom needed to have sufficient credit approval authority to cover the total exposure with respect to that particular customer. Credit approval evaluation by a credit committee was made on the basis of total risk exposure of the customer and related parties, which took into account not only our direct exposure in relation to such a customer, but also any credit support and undrawn lines of credit to related or affiliated borrowers.

Credit approval authority was established by the Board of Directors and/or the General Manager upon the recommendations of our management. Transactions in which a customer's total risk exposure was more than Ch\$1,500 million required the approval of a Senior Credit Committee, consisting of at least three Directors and the General Manager.

Transactions in which (1) a customer's total risk exposure was less than Ch\$1,500 million or (2) in which a customer's total risk exposure was greater than Ch\$1,500 million but the new transaction represented less than 10% of the total risk exposure and less than Ch\$360 million could be approved by other committees, depending upon the amount involved. The following table lists our committees from which credit approval was required, depending upon total risk exposure levels.

	<u>Limit in millions of Ch\$</u>	<u>Limit in millions of U.S.\$</u>
	<u>Total Risk Exposure</u>	<u>Total Risk Exposure</u>
Level 1 Senior Credit Committee <sup>(1)</sup> .....	Regulatory limit	Regulatory Limit
Level 2 General manager .....	1,000	1.52
Level 3 Credit Committee .....	720	1.10
Level 4 Credit Committee .....	360	0.55
Level 5 Credit Committee .....	180	0.27
Level 6 Credit Committee .....	90	0.14
Level 7 Credit Committee .....	60	0.09
Level 8 Credit Committee .....	40	0.06
Level 9 Credit Committee .....	10	0.02
Level 10 Credit Committee .....	1	0.00

<sup>(1)</sup> The Board of Directors was informed of transactions over Ch\$ 1,000 million.

The total risk exposure approval authorities are increased if both commercial and credit areas jointly approved the operation:

<u>Commercial Area</u>	<u>Credit Area</u>	<u>Amount (millions of Ch\$)</u>
General Manager.....	Credit Division Manager	1,500
Corporate Division Manager.....	Corporate Credit Officer	500
Medium Size Companies Area Manager .....	Medium Size Companies Credit Officer	280

### 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 Chilean banks for such classifications are established by the Superintendency of Banks and Financial Institutions, although banks are given some latitude in devising more stringent classification systems within such guidelines. The Superintendency of Banks and Financial Institutions 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 one of three categories, I, II, or 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 Superintendency of Banks and Financial Institutions' guidelines that clearly reflect inadequacies in the evaluation of the risk and estimated losses associated with loans.

On March 10, 2000, the Superintendency of Banks and Financial Institutions informed us that we were classified in Category II as a result of the examination and evaluation of our credit management process during June 1999. The Superintendency of Banks and Financial Institutions considered that our deficiency resulted from a delay in the timing of credit risk recognition. However, the Superintendency of Banks and Financial Institutions also indicated that the efforts we made at the end of 1999 to increase the levels of provisions showed a favorable attitude towards the correction of this deficiency. As a result, we adjusted our credit policies and credit management process. On February 9, 2001, the Superintendency of Banks and Financial Institutions informed us that we were

classified in Category I as a result of their December 2000 examination and evaluation of our credit management process.

For purposes of classification, loans are divided into consumer loans, residential mortgage loans and commercial loans.

**Consumer Loans:** Include financing arising from the use of credit cards and loans granted to individuals. Their purpose is to finance the acquisition of consumer goods and payment of services. Their repayment is generally made in equal and successive installments.

**Residential Mortgage Loans:** Include loans for residential purposes that are currently funded through our issuance of Mortgage Finance Bonds. Generally, the purpose of these loans is to finance the acquisition, improvement, restoration or construction of a residential home. They are granted to the final user of the property and the collateral covers the entire credit. All the remaining mortgage loans, in particular those granted for general purposes, are considered to be commercial loans.

**Commercial Loans:** Include all loans other than consumer loans and residential mortgage loans.

In the case of consumer loans and residential mortgage loans, the classification is determined by the extent to which payments are overdue. 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 us. Residential mortgage loans are classified in three categories and consumer and commercial loans are classified in five categories as follows:

Classification	Commercial Loans	Residential Mortgage Loans	Consumer Loans	Required Provisions <sup>(1)</sup>
"A"	Loans which are not expected to default	Interest and principal payments are current	Interest and principal payments are current	0%
"B"	Loans with probability of default of less than 5%	Payments are up to 6months overdue	Payments are up to 1 month overdue	1%
"B-"	Loans with probability of default between 5% and 39%	Payments are over 6months overdue	Payments are overdue by 1 to 2 months	20%
"C"	Loans with probability of default between 40% and 79%	Not applicable	Payments are overdue by 2 to 4 months	60%
"D"	Loans with probability of default between 80% and 100%	Not applicable	Payments are overdue by over 4 months	90%

<sup>(1)</sup> Certain commercial loans in excess of UF 25,000 classified as "A" or "B" are deemed to present an additional level of risk and thus require an additional allowance of 5% of the aggregate amount of such loans, even if there is no evident loss. The additional level of risk is deemed to exist when such loans cover over 50% of the total financing of a project or when the loan term exceeds three years and no guarantees exist in addition to those related directly to the project.

On July 22, 1997, the Superintendent of Banks and Financial Institutions issued new rules regarding the classification of consumer loans for purposes of determining the allowance for loan losses. These rules require that (a) all consumer loans to an individual be classified in the same category as the loan with the lowest classification (i.e., highest level of risk and provision requirements); (b) all restructured or renegotiated consumer loans take into consideration the stricter criteria set forth in the new rules of the Superintendent of Banks and Financial Institutions and (c) for all consumer loans, the banks must analyze if additional allowances based on certain factors specified in the new rules are required in excess of those allowances determined based on the aging of such loans.

## Analysis of Our Loan Classifications

The following tables provide statistical data regarding the classification of our loans at the end of each of the last five years. As previously indicated, the Superintendent of Banks and Financial Institutions requires that we prepare a risk analysis that evaluates, for classification purposes only, a portion (but in no event less than 75%) of our total commercial loan portfolio, including past due and contingent loans.

Category	December 31, 1997					Percentage of evaluated loans
	Commercial loans	Consumer loans	Residential Mortgage loans	Total loans		
	(in millions of constant Ch\$ as of December 31, 2001, except for percentages)					
A.....	Ch\$ 762,619	Ch\$ 117,065	Ch\$ 99,764	Ch\$ 979,448		63.57%
B <sup>(1)</sup> .....	522,592	11,892	5,522	540,006		35.05
B-.....	9,173	4,023	601	13,797		0.90
C.....	690	3,126	-	3,816		0.25
D.....	1,789	1,869	-	3,658		0.23
Total of evaluated loans.....	1,296,863	137,975	105,887	1,540,725		100.00%
Total loans.....	Ch\$ 1,699,020	Ch\$ 137,975	Ch\$ 105,887	Ch\$ 1,942,882		
Percentage evaluated.....	76.33%	100.00%	100.00%	79.30%		

(1) Including category B loans aggregating Ch\$13,442 million which require an additional allowance of Ch\$672 million, equivalent to 5% of the balance due.

Category	December 31, 1998					Percentage of evaluated loans
	Commercial loans	Consumer loans	Residential Mortgage loans	Total loans		
	(in millions of constant Ch\$ as of December 31, 2001, except for percentages)					
A.....	Ch\$ 748,94	Ch\$ 108,222	Ch\$ 129,79	Ch\$ 986,963		58.93%
B <sup>(1)</sup> .....	609,29	13,415	7,60	630,311		37.64
B-.....	34,31	5,029	1,16	40,502		2.42
C.....	9,08	4,118		13,199		0.79
D.....	1,30	2,495		3,800		0.22
Total of evaluated loans.....	1,402,93	133,279	138,55	1,674,775		100.00%
Total loans.....	Ch\$ 1,846,45	Ch\$ 133,279	Ch\$ 138,55	Ch\$ 2,118,288		
Percentage evaluated.....	75.98%	100.00%	100.00%	79.06%		

(1) Including category B loans aggregating Ch\$12,210 million which require an additional allowance of Ch\$610 million, equivalent to 5% of the balance due.

**December 31, 1999**

Category	Commercial loans	Consumer loans	Residential Mortgage loans	Total loans	Percentage of evaluated loans
	(in millions of constant Ch\$ as of December 31, 2001, except for percentages)				
A.....	Ch\$ 545,500	Ch\$ 110,327	Ch\$ 163,789	Ch\$ 819,616	48.13%
B <sup>(1)</sup> .....	718,599	9,641	8,034	736,274	43.23
B-.....	102,596	4,049	2,490	109,135	6.41
C.....	21,016	4,033	-	25,049	1.47
D.....	10,021	2,935	-	12,956	0.76
Total of evaluated loans.....	1,397,732	130,985	174,313	1,703,030	100.00%
Total loans.....	Ch\$1,842,287	Ch\$ 130,985	Ch\$ 174,313	Ch\$2,147,585	
Percentage evaluated.....	75.87%	100.00%	100.00%	79.30%	

(1) Including category B loans aggregating Ch\$ 19,426 million which require an additional allowance of Ch\$971 million, equivalent to 5% of the balance due.

**December 31, 2000**

Category	Commercial loans	Consumer loans	Residential Mortgage loans	Total loans	Percentage of evaluated loans
	(in millions of constant Ch\$ as of December 31, 2001, except for percentages)				
A.....	Ch\$ 780,311	Ch\$ 136,115	Ch\$ 198,252	Ch\$ 1,114,678	59.92%
B <sup>(1)</sup> .....	563,852	11,222	12,497	587,571	31.59
B-.....	115,789	3,703	3,944	123,436	6.64
C.....	21,419	3,654	-	25,073	1.35
D.....	6,514	2,932	-	9,446	0.50
Total of evaluated loans ...	1,487,885	157,626	214,693	1,860,204	100.00%
Total loans.....	Ch\$ 1,970,570	Ch\$ 157,626	Ch\$ 214,693	Ch\$ 2,342,889	
Percentage evaluated.....	75.51%	100.00%	100.00%	79.40%	

(1) Including category B loans aggregating Ch\$20,640 million which require an additional allowance of Ch\$1,068 million, equivalent to 5% of the balance due.

**December 31, 2001**

Category	Commercial loans	Consumer loans	Residential Mortgage loans	Total loans	Percentage of evaluated loans
	(in millions of constant Ch\$ as of December 31, 2001, except for percentages)				
A.....	Ch\$ 692,196	Ch\$ 154,280	Ch\$ 186,389	Ch\$ 1,032,865	58.19%
B <sup>(1)</sup> .....	566,589	14,912	15,909	597,410	33.65
B-.....	79,002	4,377	4,205	87,584	4.93
C.....	39,311	4,125	-	43,436	2.45
D.....	11,014	2,856	-	13,870	0.78
Total of evaluated loans.....	1,388,112	180,550	206,503	1,775,165	100.00%
Total loans.....	Ch\$ 1,831,455	Ch\$ 180,550	Ch\$ 206,503	Ch\$ 2,218,508	
Percentage evaluated.....	75.79%	100.00%	100.00%	80.02%	

(1) Including category B loans aggregating Ch\$16,924 million which require an additional allowance of Ch\$846 million, equivalent to 5% of the balance due.

During 1998 and 1999, the Chilean economy was adversely affected by a decrease in the export prices of domestic goods and by the contraction resulting from measures to reduce the level of spending imposed by the Central Bank through higher interest rates. These factors impacted negatively both the Chilean financial system and the credit quality of our portfolio. As a consequence, our allowances to total loans and risk level increased significantly during the period. During year 2000, the economic situation showed a moderate improvement, which

permitted us to stabilize the levels of provisions and risk. During 2001 the Chilean economy suffered a further slow-down, which adversely affected our provisions and risk factors.

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

Accrued 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 and 30-89 days overdue. For 1996 and up to April 1997, past due loans included the entire outstanding balance of any loan as to which any payment of principal or interest was 90 days or more overdue, except that in the case of mortgage loans, only the amount of any payments which were overdue 90 days or more was included in past due loans until such time as legal foreclosure proceedings were commenced, at which time the entire outstanding balance was included. In May 1997, the Superintendency of Banks and Financial Institutions instructed us to conform our definition of past due loans to the less stringent definition contained in the rules of the Superintendency of Banks and Financial Institutions. Accordingly, past due loans at December 31, 1999, 2000 and 2001, generally include, with respect to any loan, installments of principal or interest that are 90 or more days overdue. The entire outstanding balance of any loan is also recorded under past due loans within a period of 90 days after legal collection procedures commence. 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 individual allowances for loan losses exceed the global allowance for loan losses. See “—Allowance for Loan Losses—Individual Allowance for Loan Losses.”

The following table sets forth as of December 31 of each of the last five years the amounts that were current as to payment 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\$ 1,922,555	Ch\$2,062,191	Ch\$2,030,509	Ch\$ 2,156,983	Ch\$ 1,981,670
Overdue 1-29 days.....	3,068	12,021	25,378	16,060	12,101
Overdue 30-89 days.....	4,396	18,878	31,935	21,796	24,637
Overdue 90 days or more ("past due").....	<u>11,629</u>	<u>23,782</u>	<u>58,951</u>	<u>66,109</u>	<u>73,170</u>
Total loans.....	<u>Ch\$ 1,941,648</u>	<u>Ch\$2,116,872</u>	<u>Ch\$2,146,773</u>	<u>Ch\$ 2,260,948</u>	<u>Ch\$ 2,091,578</u>

#### *Foreign Loans*

	As of December 31,				
	1997	1998	1999	2000	2001
	(in millions of constant Ch\$ as of December 31, 2001)				
Current.....	Ch\$ 1,234	Ch\$ 1,416	Ch\$ 798	Ch\$ 81,922	Ch\$ 126,903
Overdue 1-29 days.....	-	-	14	19	27
Overdue 30-89 days.....	-	-	-	-	-
Overdue 90 days or more ("past due").....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total loans.....	<u>Ch\$ 1,234</u>	<u>Ch\$ 1,416</u>	<u>Ch\$ 812</u>	<u>Ch\$ 81,941</u>	<u>Ch\$ 126,930</u>

## Total Loans

	December 31,				
	1997	1998	1999	2000	2001
	(in millions of constant Ch\$ as of December 31, 2001, except for percentages)				
Current <sup>(1)</sup> .....	Ch\$ 1,923,789	Ch\$2,063,607	Ch\$2,031,307	Ch\$ 2,238,905	Ch\$ 2,108,573
Overdue 1 – 29 days.....	3,068	12,021	25,392	16,079	12,128
Overdue 30 – 89 days.....	4,396	18,878	31,935	21,796	24,637
Overdue 90 days or more ("past due").....	<u>11,629</u>	<u>23,782</u>	<u>58,951</u>	<u>66,109</u>	<u>73,170</u>
Total Loans .....	<u>Ch\$ 1,942,882</u>	<u>Ch\$ 2,118,288</u>	<u>Ch\$ 2,147,585</u>	<u>Ch\$ 2,342,889</u>	<u>Ch\$ 2,218,508</u>
Overdue loans expressed as a Percentage of total loans .....	<u>0.38%</u>	<u>1.46%</u>	<u>2.67%</u>	<u>1.62%</u>	<u>1.66%</u>
Past due loans as a percentage of Total loans.....	<u>0.60%</u>	<u>1.12%</u>	<u>2.74%</u>	<u>2.82%</u>	<u>3.30%</u>

(1) Includes Ch\$ 5,646 million in 1997, Ch\$ 6,376 million in 1998, Ch\$ 13,098 million in 1999, Ch\$ 12,444 million in 2000, and Ch\$ 38,248 million in 2001 of categories C and D loans.

The increase in overdue and past due loans was primarily attributable to the slowdown in the Chilean economy and to the increase in the unemployment rate.

The following table presents the above classification of the loan portfolio as of December 31 of each of the last five years, classifying the entire principal and interest, except for installment loans with past due balances less than 90 days, by the period overdue.

	December 31,				
	1997	1998	1999	2000	2001
	(in millions of constant Ch\$ as of December 31, 2001)				
Current.....	Ch\$ 1,881,576	Ch\$ 2,004,488	Ch\$1,961,198	Ch\$ 2,150,898	Ch\$ 2,026,473
Overdue 1 – 29 days.....	18,993	30,168	41,385	31,520	25,550
Overdue 30 – 89 days.....	22,432	41,601	57,779	57,372	63,704
Overdue 90 days or more ("past due").....	<u>19,881</u>	<u>42,031</u>	<u>87,223</u>	<u>103,099</u>	<u>102,781</u>
Total Loans .....	<u>Ch\$ 1,942,882</u>	<u>Ch\$ 2,118,288</u>	<u>Ch\$ 2,147,585</u>	<u>Ch\$ 2,342,889</u>	<u>Ch\$ 2,218,508</u>

We suspend all accrual of interest on all loans classified in categories C and D and all overdue loans except for installment loans on which payments are less than 90 days overdue. The amount of interest that would have been accrued on such loans at December 31, 2001 was Ch\$29,566 million, of which Ch\$4,321 million corresponded to loans that are 1 to 89 days overdue and Ch\$25,245 million corresponded to loans that are 90 or more days overdue ("past due").

The following table shows the amounts of loans that were restructured at December 31 of each year due to the deterioration in the borrowers' financial situation. Restructured loans consist of loans managed by our Restructured Loans Department which were restructured to a longer term (between 5 and 20 years including possible years of grace) and simultaneously at an interest rate below the market rate (spread < 1%). Debtors in category "C" for more than one year or in category "D" were excluded, as they did not accrue interest in accordance with the regulations of the Superintendency of Banks and Financial Institutions.

	December 31, <sup>(1)</sup>		
	1999	2000	2001
(in millions of constant Ch\$ as of December 31, 2001)			
Ch\$.....	Ch\$ 832	Ch\$ 221	Ch\$ 195
UF .....	3,605	4,555	4,593
Foreign .....	-	-	-
Total .....	<u>Ch\$ 4,437</u>	<u>Ch\$ 4,776</u>	<u>Ch\$ 4,788</u>

(1) We do not have information available for previous periods.

We would have earned interests for Ch\$25 million on these loans as of December 31, 2001, had they been earning a market interest rate.

### Allowance for Loan Losses

Chilean banks are required to maintain allowances for loan losses in amounts determined in accordance with regulations issued by the Superintendency of Banks and Financial Institutions. A bank may also maintain voluntary allowances in excess of the minimum required amount so as to provide additional coverage for potential loan losses. Under these regulations, the minimum amount of required loan loss allowances is the greater of (i) the bank's global loan loss allowances, and (ii) the aggregate amount of its individual allowances 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 (i) the bank's "risk index" (as defined herein) or (ii) 0.75%.

A bank's risk index is based on its classified loans, determined as previously described. See "— Classification of Loan Portfolio." More specifically, the index is computed as follows. First, the aggregate amount of evaluated loans in each category from A through D is multiplied by the corresponding required provision percentage. Such percentages are as follows:

<u>Category</u>	<u>Provision Percentage</u>
A.....	-
B.....	1%
B- .....	20
C.....	60
D .....	90%

The risk index itself is then computed by dividing (1) the aggregate amount so computed by (2) the aggregate amount (i.e., the outstanding principal (whether or not past due) and accrued and unpaid interest) of all evaluated loans.

The following table illustrates the evolution of our consolidated and unconsolidated risk index over the last five years:

<u>Year</u>	<u>Consolidated Risk Index</u>	<u>Unconsolidated Risk Index</u>
1997 .....	0.90%	0.92%
1998 .....	1.54	1.55
1999 .....	3.28	3.29
2000 .....	2.89	2.92
2001 .....	3.49%	3.51%

### Individual Allowance for Loan Losses

Banks in Chile are also required to establish individual allowances for loan losses for loans that are more than 90 days overdue based on an amount equal to 100% of each overdue loan or the part thereof that is unsecured if (and to the extent) they exceed in the aggregate the global allowance for loan losses related to such loans. At December 31, 2001, the aggregate amount of our potential individual allowances for loan losses was 26.58% of our global allowance for loan losses.

### Voluntary Allowance for Loan Losses

We have maintained a voluntary allowance for loan losses from time to time in addition to the allowance for loan losses required by the regulations of the Superintendency of Banks and Financial Institutions. In 2001, we established a voluntary allowance of Ch\$4,250 million.

### 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 allowances for loan losses existing at the dates indicated.

	<u>December 31,</u>									
	<u>1997</u>		<u>1998</u>		<u>1999</u>		<u>2000</u>		<u>2001</u>	
	<b>(in millions of constant Ch\$ as of December 31, 2001 except for percentages)</b>									
Total loans .....	Ch\$	1,942,882	Ch\$	2,118,288	Ch\$	2,147,585	Ch\$	2,342,889	Ch\$	2,218,508
Substandard loans .....		21,271		57,501		147,140		157,955		144,890
Amounts past due <sup>(1)</sup> .....		11,629		23,782		58,951		66,109		73,170
To the extent secured <sup>(2)</sup> .....		4,580		10,600		31,623		42,248		47,493
To the extent unsecured .....		7,049		13,182		27,328		23,861		25,677
Allowance for loan losses .....	Ch\$	21,963	Ch\$	35,787	Ch\$	78,298	Ch\$	79,957	Ch\$	93,596
Substandard loans as a percentage of total loans .....		1.09%		2.71%		6.85%		6.74%		6.53%
Amounts past due as a percentage of total loans .....		0.60		1.12		2.74		2.82		3.30
To the extent secured <sup>(2)</sup> .....		0.24		0.50		1.47		1.80		2.14
To the extent unsecured .....		0.36		0.62		1.27		1.02		1.16
Allowance for loan losses as a percentage of:										
Total loans .....		1.13		1.69		3.65		3.41		4.22
Total loans excluding contingent loans .....		1.19		1.79		3.85		3.61		4.38
Substandard Loans .....		103.26		62.24		53.21		50.62		64.60
Total amounts past due .....		188.87		150.48		132.82		120.95		127.92
Total amounts past due – unsecured .....		311.59%		271.48%		286.52%		335.10%		364.51%

(1) See “—Classification of Loan Portfolio Based on the Borrower’s Payment Performance” for the definition of past due loans.

(2) Security generally consists of a mortgage on real estate or pledges of marketable securities, third party letters of credit, equipment or inventory.

## 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 provisions, provisions released and the effect of price-level restatement on the allowance for loan losses.

	December 31,				
	1997	1998	1999	2000	2001
	(in millions of constant Ch\$ as of December 31, 2001 except for percentages)				
Allowance for loan losses at beginning of Year .....	Ch\$ 20,253	Ch\$ 21,963	Ch\$ 35,786	Ch\$ 78,298	Ch\$ 79,957
Charge-offs .....	(10,324)	(14,821)	(25,555)	(31,268)	(28,617)
Provisions established .....	13,413	29,943	75,693	50,319	52,092
Provisions released <sup>(1)</sup> .....	(178)	(394)	(6,731)	(13,892)	(7,431)
Price-level restatement <sup>(2)</sup> .....	(1,201)	(904)	(895)	(3,500)	(2,405)
Allowance for loan losses at end of the year .....	<u>Ch\$ 21,963</u>	<u>Ch\$ 35,787</u>	<u>Ch\$ 78,298</u>	<u>Ch\$ 79,957</u>	<u>Ch\$ 93,596</u>
Ratio of charge-offs to average loans .....	0.62%	0.74%	1.24%	1.46%	1.24%
Allowance for loan losses at end of the year as a percentage of total loans .....	1.13%	1.69%	3.65%	3.41%	4.22%

- (1) Represents the aggregate amount of the allowance for loan losses released during each year as a result of charge-offs, recoveries or a determination by management that the level of risk existing in the loan portfolio had been reduced.
- (2) Reflects the effect of inflation on the allowances for loan losses at the beginning of each year, adjusted to constant pesos of December 31, 2001.

The table below shows the allowance for loan losses at the dates indicated, consisting of the allowance required by the rules of the Superintendency of Banks and Financial Institutions and, for 1997 and 2001, a voluntary allowance:

	December 31,				
	1997	1998	1999	2000	2001
	(in millions of constant Ch\$ as of December 31, 2001)				
Required allowance for loan losses .....	Ch\$ 21,588	Ch\$ 35,787	Ch\$ 78,298	Ch\$ 79,957	Ch\$ 89,346
Voluntary allowance .....	375	—	—	—	4,250
Total .....	<u>Ch\$ 21,963</u>	<u>Ch\$ 35,787</u>	<u>Ch\$ 78,298</u>	<u>Ch\$ 79,957</u>	<u>Ch\$ 93,596</u>

Our policy with respect to charge-offs followed the regulations established by the Superintendency of Banks and Financial Institutions. Under these regulations, for commercial loans, (i) an unsecured loan (or part thereof) must be charged-off not more than 24 months after being classified as past due and secured loans must be charged-off within 36 months after being classified as past due; (ii) a loan must be charged-off when the relevant bank does not have any right to exercise an action for collection in the courts; and, (iii) in case of consumer loans, the aggregate amount of the loan must be charged-off when one installment is overdue six months.

In 1999, Chile was in an economic recession which negatively impacted the financial condition and results of operations of many Chilean companies across a wide spectrum of economic sectors. The effect of these adverse macroeconomic conditions was to impair the financial condition and results of operations of many of our customers. Moreover, the continuing recession resulted in a general decline in asset values in Chile, causing a decrease in the valuation of collateral (mainly mortgage guarantees connected to residential and industrial projects) securing outstanding loans.

In view of the situation described above, during October 1999 we conducted a special revision of our loan portfolio, focusing on companies with large outstanding balances and those with non-performing loans, which resulted in a downward reclassification of certain of our borrowers. As a result of this review process, we determined that it was necessary to modify the risk assessment category for an important group of debtors, adjusting the allowances for loan losses and for assets received in lieu of payment with a non-recurring charge to income of Ch\$ 23,537 million.

As a consequence of the review of our loan portfolio and after considering the deterioration of the financial situation of certain clients and the decrease in value of their related guarantees, our Board of Directors approved the establishment of additional provisions and charge-offs in the amount of Ch\$16,865 million during May 2000. This charge against results was fully reflected in our April 2000 accounts and resulted in a net loss of Ch\$10,245 million for the four-month period ended April 30, 2000. The total amount of provisions for loan losses during year 2000 totaled Ch\$36,247 million.

During 2001, provisions for loan losses were Ch\$44,661 million, an increase compared to 2000. Our provisions for loan losses on commercial loans increased mainly as a consequence of the downgrade of one telecommunication client's loan risk category from B- to C. Consequently, we established an additional allowance of approximately Ch\$7,641 million in the third quarter of 2001. We made voluntary provisions during the fourth quarter of 2001 of Ch\$4,250 million which was a requirement of the Central Bank of Chile for the approval of the merger with Banco de Chile.

### Allocation of the Allowance for Loan Losses

The following tables set forth, at December 31 of each of the last five years, the manner in which our required minimum allowance was attributable to commercial, consumer and residential mortgage loans, and the amount of allowance which is allocated to any particular category at each such date.

<b>December 31, 1997</b>				
	<b>Allowance Amount as a Percentage of loans in category</b>	<b>Allowance Amount as a Percentage of total loans</b>	<b>Loans in Category as a Percentage of total loans</b>	<b>Allowance (1) amount</b>
Commercial loans:				
Working capital, capital expenditure and other loans .....	0.81%	0.57%	70.76%	Ch\$ 11,151
Construction loans .....	1.02	0.17	16.68	3,308
Consumer loans.....	3.25	0.23	7.10	4,482
Residential mortgage loans .....	0.17	0.01	5.46	176
Total allocated allowance.....	0.98	0.98	100.00	19,117
Renegotiated consumer loans.....	-	0.04	-	723
Voluntary allowance .....	-	0.02	-	375
Additional provision .....	-	0.09	-	1,748
Total allowance .....	1.13%	1.13%	100.00%	Ch\$ 21,963

(1) In millions of constant Ch\$ as of December 31, 2001.

<b>December 31, 1998</b>				
	<b>Allowance Amount as a Percentage of loans in category</b>	<b>Allowance Amount as a Percentage of total loans</b>	<b>Loans in Category as a Percentage of total loans</b>	<b>Allowance (1) amount</b>
Commercial loans:				
Working capital, capital expenditure and other loans .....	1.44%	1.02%	70.75%	Ch\$ 21,637
Construction loans .....	1.56	0.26	16.41	5,424
Consumer loans.....	4.39	0.28	6.29	5,857
Residential mortgage loans .....	0.22	0.01	6.55	307
Total allocated allowance.....	1.57	1.57	100.00	33,225
Renegotiated consumer loans.....	-	0.07	-	1,411
Additional provision .....	-	0.05	-	1,151
Total allowance .....	1.69%	1.69%	100.00%	Ch\$ 35,787

(1) In millions of constant Ch\$ as of December 31, 2001.

**December 31, 1999**

	<b>Allowance amount<sup>(1)</sup></b>	<b>Allowance Amount as a Percentage of loans in category</b>	<b>Allowance Amount as a Percentage of total loans</b>	<b>Loans in Category as a Percentage of total loans</b>
Commercial loans:				
Working capital, capital expenditure and other loans.....	Ch\$ 51,299	3.29%	2.39%	72.70%
Construction loans.....	16,537	5.89	0.77	13.08
Consumer loans.....	5,968	4.56	0.28	6.10
Residential mortgage loans .....	<u>578</u>	0.33	0.02	8.12
Total allocated allowance.....	74,382	3.46	3.46	100.00
Renegotiated consumer loans.....	2,698	-	0.13	-
Additional provision .....	<u>1,218</u>	-	0.06	-
Total allowance .....	<u>Ch\$ 78,298</u>	3.65%	3.65%	100.00 %

(1) In millions of constant Ch\$ as of December 31, 2001.

**December 31, 2000**

	<b>Allowance amount<sup>(1)</sup></b>	<b>Allowance amount as a percentage of loans in category</b>	<b>Allowance Amount as a Percentage of total loans</b>	<b>Loans in Category as a percentage of total loans</b>
Commercial loans:				
Working capital, capital expenditure and other loans.....	Ch\$ 51,602	3.09%	2.20%	71.18%
Construction loans.....	15,382	6.14	0.66	10.68
Lease Contracts.....	1,331	2.54	0.06	2.24
Consumer loans.....	5,684	3.61	0.24	6.73
Residential mortgage loans .....	<u>913</u>	0.43	0.04	9.17
Total allocated allowance.....	74,912	3.20	3.20	100.00
Renegotiated consumer loans.....	2,683	-	0.11	-
Additional provision .....	<u>2,362</u>	-	0.10	-
Total allowance .....	<u>Ch\$ 79,957</u>	3.41%	3.41%	100.00%

(1) In millions of constant Ch\$ as of December 31, 2001.

**December 31, 2001**

	<b>Allowance amount<sup>(1)</sup></b>	<b>Allowance Amount as a Percentage of loans in category</b>	<b>Allowance Amount as a Percentage of total Loans</b>	<b>Loans in Category as a Percentage of total loans</b>
Commercial loans:				
Working capital, capital expenditure and other loans .....	Ch\$ 55,876	3.66%	2.52%	68.74%
Construction loans .....	16,462	7.32	0.74	10.14
Lease contracts.....	2,592	3.19	0.12	3.67
Consumer loans.....	6,070	3.36	0.27	8.14
Residential mortgage loans .....	<u>1,000</u>	0.48	0.05	9.32
Total allocated allowance.....	82,000	3.70	3.70	100.00
Renegotiated consumer loans.....	2,469	-	0.11	-
Additional provision .....	4,877	-	0.22	-
Voluntary allowance .....	<u>4,250</u>	-	0.19	-
Total allowance .....	<u>Ch\$ 93,596</u>	4.22%	4.22%	100.00%

(1) In millions of constant Ch\$ as of December 31, 2001.

We do not collect comprehensive data regarding the allocation of charge-offs or the allowance for loan losses among the various types of economic activities set forth in the table under "Loans by Economic Activity." During the years 1998, 1999, 2000 and 2001 all of our ten largest (per year) loan charge-offs were related to our commercial loans. Such loans were outstanding to borrowers engaged in a wide variety of activities and our management is not otherwise aware of any concentration of loan charge-offs or allowance for loan losses in any particular area of economic activity.

The following table presents the allocation of charge-offs by the major types of loans as of December 31 of each of the last five years:

	<b>December 31,</b>				
	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
(in millions of constant Ch\$ as of December 31, 2001)					
Commercial loans.....	Ch\$ 5,236	Ch\$ 4,815	Ch\$ 11,560	Ch\$ 17,941	Ch\$ 15,780
Mortgage loans.....	172	54	483	507	1,890
Consumer loans.....	3,052	8,083	11,126	9,288	8,419
Foreign trade loans.....	22	11	38	173	366
Lease contracts.....	-	-	55	94	603
Other outstanding loans.....	1,842	1,857	2,279	2,937	1,508
Contingent loans.....	-	1	14	328	51
<b>Total .....</b>	<b>Ch\$ 10,324</b>	<b>Ch\$ 14,821</b>	<b>Ch\$ 25,555</b>	<b>Ch\$ 31,268</b>	<b>Ch\$ 28,617</b>

The following table presents the amounts of loan recoveries by the major types of loans as of December 31 of each of the last five years:

	<b>December 31,</b>				
	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
(in millions of constant Ch\$ as of December 31, 2001)					
Commercial loans.....	Ch\$ 1,132	Ch\$ 366	Ch\$ 942	Ch\$ 1,247	Ch\$ 2,218
Mortgage loans.....	-	99	364	57	41
Consumer loans.....	1,501	1,522	2,468	2,285	3,389
Foreign trade loans.....	-	4	3	-	-
Lease contracts.....	48	87	24	-	299
Other outstanding loans.....	7	8	1	3	1
Contingent loans.....	39	-	-	-	-
<b>Subtotal.....</b>	<b>2,727</b>	<b>2,086</b>	<b>3,802</b>	<b>3,592</b>	<b>5,948</b>
Recoveries and sales of loans reacquired from the Central Bank.....	47	51	16	99	10
<b>Total .....</b>	<b>Ch\$ 2,774</b>	<b>Ch\$ 2,137</b>	<b>Ch\$ 3,818</b>	<b>Ch\$ 3,691</b>	<b>Ch\$ 5,958</b>

Foreign outstanding loans and corresponding allocated allowance were not significant until 2000, and as of December 31, 2001, they amounted only to Ch\$ 126,930 million and Ch\$ 301 million, respectively, which represented 5.7% and 0.3% of total loans and total allowance for loan losses at year end, respectively.

## Composition of Deposits and Other Commitments

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

	December 31,					
	1999		2000		2001	
	Average Balance	Average Nominal Rate	Average Balance	Average Nominal Rate	Average Balance	Average Nominal Rate
(in millions of constant Ch\$ as of December 31, 2001)						
Checking accounts .....	Ch\$ 184,055	–	Ch\$ 198,036	–	Ch\$ 222,239	–
Other demand liabilities .....	101,809	–	117,417	–	144,961	–
Savings accounts .....	58,778	7.8%	66,870	9.9%	71,498	6.8%
Time deposits .....	1,240,723	8.6%	1,214,469	9.4%	1,322,435	6.4%
Other commitments .....	7,093	–	7,610	–	8,314	–
Total .....	<u>Ch\$1,592,458</u>		<u>Ch\$ 1,604,402</u>		<u>Ch\$1,769,447</u>	

## Maturity of Deposits as of December 31, 2001

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 CPI.

	Ch\$	UF	Foreign Currency	Total
Demand deposits .....	39.9%	0.1%	10.7%	21.5%
Saving accounts .....	0.0	11.8	0.0	4.2
Time deposits:				
Maturity within 3 months .....	56.4	62.8	85.0	62.8
Maturity after 3 but within 6 months .....	0.1	19.2	1.0	7.1
Maturity after 6 but within 12 months .....	3.3	5.3	1.9	3.8
Maturity after 12 months .....	<u>0.3</u>	<u>0.8</u>	<u>1.4</u>	<u>0.6</u>
Total time deposits .....	<u>60.1</u>	<u>88.1</u>	<u>89.3</u>	<u>74.3</u>
Total deposits .....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The following table sets forth information regarding the maturity of the outstanding time deposits in excess of U.S.\$100,000 issued by us at December 31, 2001:

	Ch\$	UF	Foreign Currency	Total
(in millions of constant Ch\$ as of December 31, 2001)				
Time deposits:				
Maturity within 3 months .....	Ch\$ 155,398	Ch\$ 246,331	Ch\$ 85,217	Ch\$ 486,946
Maturity after 3 but within 6 months .....	932	114,437	1,121	116,490
Maturity after 6 but within 12 months .....	28,224	29,809	4,408	62,441
Maturity after 12 months .....	<u>2,215</u>	<u>4,859</u>	<u>3,282</u>	<u>10,356</u>
Total deposits in excess of U.S.\$100,000 .....	<u>Ch\$ 186,769</u>	<u>Ch\$ 395,436</u>	<u>Ch\$ 94,028</u>	<u>Ch\$ 676,233</u>

## Minimum Capital Requirements

According to the current General Banking Law, banks should have a minimum ratio of Total Capital to Risk Adjusted Assets of 8%, net of required allowances for loan losses, and a minimum ratio of Basic Capital to Total Assets of 3%, net of required allowances for loan losses. For these purposes, Total Capital means the aggregate of: (a) a bank's paid-in capital and reserves, excluding capital attributed to subsidiaries and foreign branches, (b) its subordinated bonds, calculated at the issue price but not exceeding 50% of its Basic Capital and (c)

its voluntary allowances for loan losses, up to 1.25% of the Risk Adjusted Assets. Basic Capital includes paid-in capital and reserves, but excludes the net income for the period. Risk Adjusted Assets is based on total assets on an unconsolidated basis, which are then classified into five categories, each of which has a different weight.

At December 31, 2001, in accordance with the requirements of the General Banking Law, our ratio of Total Capital to Risk Adjusted Assets was 12.62% or Ch\$ 102,627 million higher than the 8% minimum required by the first test under the Banking Law. Our ratio of Basic Capital to Total Assets was 8.05% or Ch\$ 143,748 million higher than the 3% minimum Basic Capital required by the second test under the General Banking Law.

Banco de A. Edwards' securitization, stock brokerage, investment fund, factoring and mutual fund management subsidiaries were also subject to minimum capital requirements as defined under Chilean regulations. As of December 31, 2001 the minimum capital requirements for the securitization, stock brokerage, investment fund, factoring and mutual fund management subsidiaries were Ch\$163 million, Ch\$228 million, Ch\$163 million, Ch\$488 million and Ch\$1,548 million, respectively. All such minimum regulatory capital requirements were being complied with at December 31, 1999, 2000 and 2001.

### Short-Term Borrowings

Our short-term borrowings (other than "other obligations") totaled Ch\$145,076 million as of December 31, 1999, Ch\$175,932 million as of December 31, 2000 and Ch\$185,044 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 following table presents the amounts outstanding and the weighted average nominal interest rate at the end of each year for each type of short-term borrowing:

	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)					
Securities sold under agreements to repurchase .....	Ch\$ 68,347	8.8%	Ch\$ 91,145	7.1%	Ch\$ 89,467	3.91%
Central Bank borrowings .....	—		—		39,850	6.36
Domestic interbank loans .....	64,360	5.8	41,721	3.4	19,952	4.35
Borrowings under foreign trade credit lines .....	<u>12,369</u>	2.6	<u>43,066</u>	0.3	<u>35,775</u>	0.03
Total short-term borrowings .....	<u>Ch\$ 145,076</u>	6.9%	<u>Ch\$ 175,932</u>	4.5%	<u>Ch\$ 185,044</u>	3.74%

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

	<b>December 31,</b>					
	<b>1999</b>		<b>2000</b>		<b>2001</b>	
	<b>Average balance</b>	<b>Average nominal rate</b>	<b>Average balance</b>	<b>Average nominal rate</b>	<b>Average balance</b>	<b>Average nominal rate</b>
	<b>(in millions of constant Ch\$ as of December 31, 2001)</b>					
Securities sold under agreements to repurchase .....	Ch\$ 67,978	10.5%	Ch\$ 95,493	11.4%	Ch\$ 98,889	6.2%
Central Bank borrowings .....	3,590	5.8	1,704	9.4	6,899	6.8
Domestic Interbank loans .....	<u>136,606</u>	4.5	<u>117,760</u>	3.7	<u>85,545</u>	2.7
Subtotal .....	208,174	6.5	214,957	7.2	191,333	4.7
Borrowings under foreign trade credit lines .....	<u>12,392</u>	3.8	<u>5,886</u>	2.3	<u>17,863</u>	2.5
Total short-term borrowings .....	<u>Ch\$ 220,566</u>	6.3%	<u>Ch\$ 220,843</u>	7.0%	<u>Ch\$ 209,196</u>	4.5%

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

	<b>Maximum 1999 month-end balance</b>	<b>Maximum 2000 month-end balance</b>	<b>Maximum 2001 month-end balance</b>
	<b>(in millions of constant Ch\$ as of December 31, 2001)</b>		
Securities sold under agreements to repurchase .....	Ch\$ 88,344	Ch\$ 148,616	Ch\$ 155,851
Domestic interbank loans .....	194,330	130,341	74,084
Borrowings under foreign trade credit lines .....	42,342	43,066	35,775
Central Bank borrowings .....	Ch\$ 26,907	Ch\$ 7,219	Ch\$ 39,850

## ORGANIZATIONAL STRUCTURE

As of December 31, 2001 L.Q. Inversiones Financieras S.A., a holding company beneficially owned by Quiñenco S.A. was our controlling shareholder, with a 51.17% ownership interest. Quiñenco is a corporation organized under the laws of Chile, engaged primarily in the financial, industrial and services sectors in Chile. Quiñenco's principal business address is Enrique Foster Sur 20, 14th Floor, Santiago, Chile. At December 31, 2001, 82.4% of the common shares of Quiñenco were beneficially owned by affiliates of the Luksic group. The Luksic group is engaged in a wide range of business activities in Chile, including:24

- ownership through Quiñenco of interests in banking and financial services through a controlling interest in Banco de A. Edwards and Banco de Chile;
- the production, bottling and distribution of beer, wine, soft drinks and other beverages (through a 30.8% interest in Compañía Cervecerías Unidas S.A.);
- food processing and distribution (through a controlling interest in Empresas Lucchetti S.A.);
- telecommunications (through ownership of a controlling interest in Compañía Nacional de Teléfonos Telefónica del Sur S.A. and Compañía de Teléfonos de Coyhaique S.A.);
- copper and aluminum manufacturing operations and consumer product packaging (through a controlling interest in Madeco S.A.); and
- hotels and real estate development (through a controlling interest in Hoteles Carrera S.A. and a 50% interest in Habitaria S.A.).

Additionally, the Luksic group holds interests in copper and gold mining operations, including Minera Los Pelambres, the eighth largest copper mine in the world, in railway operations and real estate.

The following table sets forth our subsidiaries, all of which are incorporated in Chile, and our ownership interest in each such subsidiary as of December 31, 2001.

	<b>Ownership Interest</b>	
	<b>Direct</b>	<b>Indirect</b>
Banedwards S.A. Corredores de Bolsa .....	99.16%	0.84%
Banedwards S.A. Asesoría Financiera .....	99.90	0.00
Banedwards S.A. Administradora de Fondos Mutuos .....	99.00	1.00
Banedwards S.A. Administradora de Fondos de Inversión.....	99.51	0.49
Banedwards Corredora de Seguros Ltda. ....	99.00	1.00
Banedwards S.A. Factoring.....	99.00	1.00
Banedwards S.A. Securitizadora.....	99.00%	1.00%

### **Capital**

As of December 31, 2001 our shareholders' equity exceeded the minimum required by the Chilean regulatory requirements. Specifically, according to the current General Banking Law, banks should have a minimum ratio of Total Capital to Risk Adjusted Assets of 8% and a minimum ratio of Basic Capital to Total Assets of 3%. At December 31, 2001, our ratio of Total Capital to Risk Adjusted Assets was 12.6% or Ch\$102,627 million higher than the 8% minimum required. The ratio of Basic Capital to Total Assets was 8.1% or Ch\$143,748 million higher than the 3% minimum Basic Capital required. See Note 14 to our financial statements in Item 18.

### **PROPERTY, PLANTS AND EQUIPMENT**

Our principal properties and equipment consisted of real properties (for management and administrative offices and branches) and computer equipment.

At December 31, 2001 we were domiciled in Chile and we owned our principal executive offices at Huerfanos 740, Santiago, Chile, where we had approximately 15,000 square meters of available space. We also occupied approximately 12,900 additional square meters in other buildings (50% owned and 50% leased) mainly for our subsidiaries and personnel related to the technological and human resources areas.

Also, at December 31, 2001, we had a network of 86 branches, located in 12 of Chile's 13 regions, which occupied approximately 38,900 square meters. We owned 40 properties encompassing approximately 24,500 square meters. The remaining 46 branches were rented and amounted to 14,400 square meters. These branches were subject to continuous maintenance and upgrading. We believed that our existing physical facilities were adequate for our needs in the short and medium term. See "Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Capital Expenditures."

The following chart presents a breakdown of our principal properties and describes the type of property and location. In terms of properties owned, the most significant are the principal executive office building and certain branches, while the main rented properties are branches and two buildings occupied by personnel of the technological and human resources areas.

#### Owned Properties

Use	Area in square meters	Region
Executive Office Building	15,000	Santiago Metropolitan Region
Subsidiaries	2,200	Santiago Metropolitan Region
Warehouse and other properties	4,200	Santiago Metropolitan Region and V, VII and XII Regions
Branches- Central Regions (22 branches)	15,100	Santiago Metropolitan Region and V Region
Branches- North Regions (5 branches)	2,300	I, II, III and IV Regions
Branches- South Regions (13 branches)	7,100	VI, VII, VIII, IX, X and XII Regions

#### Leased Properties

Use	Area in square meters	Region
Technological	2,300	Santiago Metropolitan Region
Human Resources	1,200	Santiago Metropolitan Region
Virtual Bank	680	Santiago Metropolitan Region
Private Banking	670	Santiago Metropolitan Region
Direct Banking	920	Santiago Metropolitan Region
Call Center	310	Santiago Metropolitan Region
Training	400	Santiago Metropolitan Region
Branches- Central Regions (30 branches)	10,200	Santiago Metropolitan Region and V Region
Branches- North Regions (5 branches)	1,100	I, II, III and IV Regions
Branches- South Regions (11 branches)	3,100	VI, VII, VIII, IX, X and XII Regions

We are not aware of any environmental impact of our operations during 2001, and we are not aware of any situation created by our operational facilities that might cause or otherwise generate a violation of applicable environmental regulations. However, there may be situations where properties, assets or facilities received in lieu of payment by us may carry potential environmental contingencies.

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Effective as of January 1, 2002 we merged with and into Banco de Chile. As a consequence of the merger, we no longer exist. Banco de Chile continued as the surviving entity and is our legal successor for all purposes. Banco de Chile is domiciled at Ahumada 251, Santiago, Chile. *Unless otherwise indicated, all information included herein regarding Banco Edwards, including information regarding our business, operations and customers, is as of or prior to December 31, 2001, as subsequent to that date we no longer exist, and therefore do not carry out any operations.*

The following discussion should be read in conjunction with our financial statements in Item 18 and “Item 4. Information on the Company—Selected Statistical Information”. Certain amounts (including percentage amounts) that appear herein have been rounded.

We prepare our financial statements in accordance with Chilean GAAP (including the rules of the Superintendency of Banks and Financial Institutions) which differ in certain significant respects from U.S. GAAP. Note 28 to our financial statements describes the principal differences between Chilean GAAP and U.S. GAAP as they relate to us and includes a reconciliation to U.S. GAAP of our net income and shareholders’ equity for and at the end of each year.

Pursuant to Chilean GAAP, the financial data presented herein for all years are restated in constant Chilean pesos as of December 31, 2001. See Note 1 to our financial statements.

### Overview

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

#### *Chilean Economic Conditions*

All of our operations and most of our customers were located in Chile. Accordingly, our financial condition and results of operations depended substantially upon economic conditions prevailing in Chile. The Chilean economy experienced significant growth from 1989 through 1998 which generally resulted in increased demand for loans and credit facilities, particularly from middle-market businesses and individuals. This growth also resulted in significant wage increases in real terms, leading to increases in both the number and aggregate amount of savings and demand deposits.

However, primarily as a consequence of the Asian crisis and the restrictive monetary policy adopted by the Chilean Central Bank, the Chilean economy has been adversely affected since 1998. The Chilean economy expanded at a real average annual rate of approximately 7.7% in the years 1989 through 1998, while the annual inflation rate decreased from 21.4% to 4.7% over the same period. However, in 1999, Chile’s GDP growth dropped to a negative 1.0% and the average unemployment rate increased to 8.9% during the fourth quarter of 1999. Although since the last quarter of 1999 the main economic indicators have been showing some signs of recovery, resulting in a GDP growth of 4.4% for 2000 and 2.8% for 2001, the average unemployment rate remained at 8.3% during the fourth quarter of 2000 and 7.9% during the fourth quarter of 2001. The reduced level of activity in the Chilean economy and the rise in the unemployment rate have diminished our profitability as our portfolio quality has deteriorated, as has the banking industry’s as a whole. This has led to increased allowances and provisions for loan losses during the last three years.

#### *Effects of Inflation*

We account for the effects of inflation on our financial statements in two different ways, depending on whether an asset or liability is monetary or non-monetary in nature. These adjustments measure the monetary gain or loss in purchasing power from holding monetary assets and liabilities exposed to the effects of inflation, other than those denominated in UFs or foreign currencies.

Because of the nature of our business, substantially all of our assets and liabilities are monetary. Substantially all monetary assets and liabilities in Chile are denominated in (a) UFs, a unit of account developed during the 1960s whose value in pesos is indexed to Chilean inflation, (b) nominal pesos or (c) foreign currencies. The UF is set once a month for daily adjustments in the period beginning the tenth day of the month through the ninth day of the succeeding month based on changes in the previous month's CPI as determined by the INE. At December 31, 2001, one UF was equal to Ch\$16,262.66 (U.S.\$24.78 at the observed exchange rate in effect on that date). A significant portion of the loans we made with a maturity greater than 90 days are denominated in UFs, as are savings deposits and certain time deposits (generally those having maturities in excess of 90 days). The nominal peso value of UF-denominated loans and deposits will increase or decrease with changes in the CPI. The effect of any changes in the nominal peso value of the UF on UF-denominated assets or liabilities is reflected in our statement of income as an increase or decrease in interest revenue or expense.

Our earnings could have been positively affected by an inflationary environment to the extent that our average assets denominated in UFs exceeded our average liabilities denominated in UFs. Our earnings were negatively affected by inflation in any period in which our average liabilities exceeded our average assets denominated in UFs. In addition, we had peso-denominated, non-interest earning assets and non-interest bearing liabilities, the value of which are particularly susceptible to inflation, which caused them to decrease in real terms. Our earnings could have been positively affected by inflation in any period in which our peso-denominated, non-interest bearing liabilities were greater than our peso-denominated, non-interest earning assets and negatively affected by inflation in any period in which our peso-denominated, non-interest earning assets were greater than our peso-denominated, non-interest bearing liabilities.

Chilean GAAP requires that adjustments be made to non-monetary assets and liabilities, primarily to our fixed assets and our shareholders' equity, to reflect the effects of inflation. The net effect of this inflation adjustment is shown as "price-level restatement" on our statement of income. The inflation rate used for purposes of such adjustments is the change in the CPI, with a lag of one month. This was 2.6%, 4.7% and 3.1% for the years ended December 31, 1999, 2000 and 2001, respectively. The actual inflation rate was 2.3%, 4.5% and 2.6% for the years ended December 31, 1999, 2000 and 2001, respectively, with the relatively minor differences resulting from the one-month lag period.

### ***Foreign Exchange Rates***

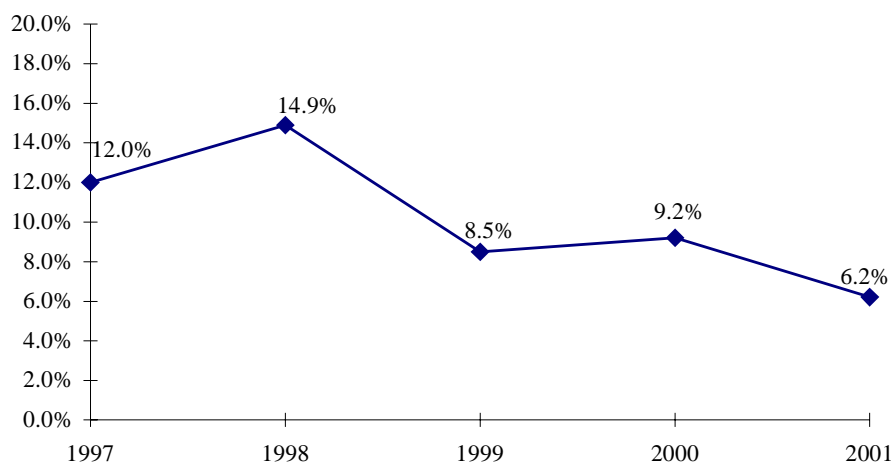
A significant portion of our assets and liabilities were denominated in foreign currencies, principally U.S. dollars, and we historically maintained gaps between the balances of such assets and liabilities. The gap between foreign currency-denominated assets and foreign currency-denominated liabilities was Ch\$(711) million at December 31, 1999, Ch\$(9,398) million at December 31, 2000 and Ch\$(6,245) million at December 31, 2001. See Note 24 to our audited financial statements. This gap included assets and liabilities denominated in foreign currencies and assets and liabilities denominated in Chilean pesos that contained 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 was 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.

### ***Interest Rates***

Net interest revenues of Chilean financial institutions are affected by the level of interest rates prevailing in the economy. Because the interest earning assets of Chilean banks generally exceed their interest bearing liabilities, the net interest revenue will tend to be adversely affected by lower levels in interest rates and, on the contrary, positively affected by higher levels in interest rates.

The following graph sets forth the trend in short-term interest rates in Chile from 1997 to 2001.

### Average annual nominal interest rates for deposits from 30 to 89 days



Source: Central Bank of Chile

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

The following table sets forth the principal components of our net income (loss) for the years ended December 31, 1999, 2000 and 2001.

	Year ended December 31,			% Change	
	1999	2000	2001	2000/1999	2001/2000
(in millions of constant Ch\$ as of December 31, 2001, except for percentages)					
Principal components of net income:					
Net interest revenue.....	Ch\$ 109,942	Ch\$ 108,014	Ch\$ 120,642	(1.8)%	11.7%
Provisions for loan losses.....	(68,962)	(36,427)	(44,661)	(47.2)	22.6
Other income:					
Income from services, net.....	14,607	17,286	25,487	18.3	47.4
Other operating income, net.....	6,762	9,215	4,839	36.3	(47.5)
Other income and expenses.....	<u>1,708</u>	<u>(1,148)</u>	<u>7,075</u>	-	-
Subtotal.....	23,077	25,353	37,401	9.9	47.5
Operating expenses.....	(70,984)	(87,128)	(97,402)	22.7	11.8
Loss from price-level restatement.....	(2,526)	(7,199)	(4,173)	185.0	(42.0)
Minority interest in consolidated subsidiaries.....	<u>(534)</u>	<u>(365)</u>	<u>0</u>	(31.6)	(100.0)
Income (loss) before income taxes.....	(9,987)	2,248	11,807	-	425.2
Income taxes.....	<u>2,863</u>	<u>1,026</u>	<u>(1,704)</u>	(64.2)%	-
Net income (loss).....	<u>Ch\$ (7,124)</u>	<u>Ch\$ 3,274</u>	<u>Ch\$ 10,103</u>	-	208.6%

Our net income for 2001 was Ch\$10,103 million, compared to net income of Ch\$3,274 million in 2000 and a net loss of Ch\$7,124 million in 1999. The increase in results in 2001 was principally due to an increase in net interest revenues and net income from services as well as lower charge-offs on assets received in lieu of payment, partially offset by higher operating expenses and increased provisions for loan losses, including Ch\$4,250 million in voluntary provisions made in the fourth quarter of 2001 which were required by the Central Bank of Chile as a condition for our merger with Banco de Chile.

The improvement in results during 2000 compared to 1999 was principally due to a 47.2% decrease in the provision for loan losses, which was partially offset by the increase of 22.7% in operating expenses.

Return on average total assets for each of the years 1999, 2000 and 2001 was (0.28)%, 0.12% and 0.34%, respectively. Return on average shareholders' equity was 4.3% for 2001, compared to 1.5% for 2000 and (4.2)% for 1999.

### Net Interest Revenue

The following table sets forth the elements of our net interest revenue and net interest margin for the years ended December 31, 1999, 2000 and 2001:

	Year ended December 31,			% Change	
	1999	2000	2001	2000/1999	2001/2000
	(in millions of constant Ch\$ as of December 31, 2001, except for percentages)				
Interest revenue.....	Ch\$ 276,836	Ch\$ 303,485	Ch\$ 276,362	9.6%	(8.9)%
Interest expense.....	(166,894)	(195,471)	(155,720)	17.1	(20.3)
Net interest revenue .....	<u>Ch\$ 109,942</u>	<u>Ch\$ 108,014</u>	<u>Ch\$ 120,642</u>	(1.8)%	11.7%
Net interest margin.....	4.9%	4.4%	4.6%		

The following table sets forth the effects on net interest revenue of the variations observed in terms of volume and in terms of nominal interest rates between the years ended December 31, 1999 and 2000 and also between the years ended December 31, 2000 and 2001. See “Item 4. Information on the Company—Selected Statistical Information”.

	Increase (Decrease) for the Years Ended December 31,					
	2000/1999			2001/2000		
	Volume	Rate	Net	Volume	Rate	Net
	(in millions of constant Ch\$ as of December 31, 2001)					
<b>Interest Revenue</b>						
Loans <sup>(1)</sup> .....	Ch\$ 7,272	Ch\$ 11,275	Ch\$ 18,547	Ch\$ 8,572	Ch\$ (28,936)	Ch\$ (20,364)
Investments .....	9,775	(1,498)	8,277	3,002	(9,831)	(6,829)
Interbank deposits .....	(769)	594	(175)	121	(51)	70
Total.....	<u>16,278</u>	<u>10,371</u>	<u>26,649</u>	<u>11,695</u>	<u>(38,818)</u>	<u>(27,123)</u>
<b>Interest Expense</b>						
Deposits <sup>(2)</sup> .....	(2,232)	11,934	9,702	3,688	(35,835)	(32,147)
Mortgage finance bonds.....	9,557	7,418	16,975	5,792	(8,146)	(2,354)
Others.....	1,247	653	1,900	(994)	(4,256)	(5,250)
Total.....	<u>8,572</u>	<u>20,005</u>	<u>28,577</u>	<u>8,486</u>	<u>(48,237)</u>	<u>(39,751)</u>
<b>Net interest revenue .....</b>	<u>Ch\$ 7,706</u>	<u>Ch\$ (9,634)</u>	<u>Ch\$ (1,928)</u>	<u>Ch\$ 3,209</u>	<u>Ch\$ 9,419</u>	<u>Ch\$ 12,628</u>

(1) Includes loans, contingent loans, mortgage loans and past due loans.

(2) Combines “Savings accounts” and “Time deposits” shown in the table set forth under “Selected Statistical Information”—“Average Balance Sheets and Interest Rate Data”.

Net interest revenue totaled Ch\$120,642 million during 2001, an 11.7% increase compared to the Ch\$108,014 million registered in 2000. This increase was mainly attributable to a 7.1% expansion in the average volume of interest earning assets during the year, and, to a lesser extent, to an increase of 0.19 percentage points in the net interest margin.

The increase in average interest earnings assets during 2001 was principally due to the 7.1% increase in the average loan portfolio and, to a lesser extent, to the growth of 3.9% in the average investment portfolio.

The expansion in our net interest margin from 4.4% in 2000 to 4.6% in 2001 was principally attributable to the following factors:

- an increase in our loan spreads, principally due to an increase in higher margin products such as consumer loans, lease contracts and commercial loans denominated in Chilean pesos instead of UF;
- a lower accounting cost attributable to the management of our foreign currency position through forward contracts and assets/liabilities denominated in local currency, readjusted in accordance with

changes in the U.S. exchange rate (which increased the net interest margin and reduced results shown in the foreign exchange transaction line); see Other Operating Income; and

- earnings obtained in a derivative transaction we structured with Credit Suisse First Boston Investment Bank during the third quarter of 2001.

The impact of those factors was partially offset by the negative impact a lower inflation rate (from 4.5% in 2000 to 2.6% in 2001) had on our net interest margin during 2001, as the lower inflation rate decreased the profitability associated with the interest earning assets financed by non-interest bearing liabilities.

Net interest revenue totaled Ch\$108,014 million (U.S.\$164.6 million) during 2000, a 1.8% decrease compared to the Ch\$109,942 million (U.S.\$167.5 million) registered in 1999. The lower results were mainly attributable to the decline of approximately 44 basis points experienced by the net interest margin, which more than offset the 8.0% expansion in the average interest earning assets.

The increase in average interest earnings assets during 2000 was related to an increase in both our investment and loan portfolios. On the other hand, the decline in our net interest margin (from 4.9% in 1999 to 4.4% in 2000) was driven principally by the following factors:

- a change in the interest earning assets mix towards lower margin and lower risk segments and products (resulting in an increase in average balances in mortgage loans, loans to large corporations and financial investments), as a result of a contraction in general economic activity and the increase in the unemployment rate;
- the positive effect of the declining interest rate environment which benefited the 1999 second and third quarter net interest margin (since our interest bearing liabilities have a shorter repricing period than the interest earning assets);
- a decrease in our loan spreads mainly due to the higher level of overdue loans related to middle market companies; and
- a higher accounting cost attributable to the management of our foreign currency position through forward contracts and assets/liabilities denominated in local currency, readjusted in accordance with changes in the U.S. exchange rate (which reduced the net interest margin but increased results shown in the foreign exchange transactions caption). See “—Other Operating Income, net”.

The above-mentioned factors more than offset the positive impact in the net interest margin during 2000 from:

- the higher proportion of our average interest earning assets financed by non-interest bearing liabilities as a consequence of the capital increase obtained at the end of 1999 and the increase in the average volume of demand deposits between both periods; and
- the higher inflation rate (2.3% in 1999 compared to 4.5% in 2000), which increased the profitability associated with the interest earning assets financed by non-interest bearing liabilities.

**Interest Revenue.** The following table sets forth information as to our interest revenue and average interest earning assets for the years ended December 31, 1999, 2000 and 2001:

	<u>Year ended December 31,</u>			<u>% Change</u>	
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2000/1999</u>	<u>2001/2000</u>
	<u>(in millions of constant Ch\$ as of December 31, 2001, except for percentages)</u>				
Interest revenue .....	<u>Ch\$ 276,836</u>	<u>Ch\$ 303,485</u>	<u>Ch\$ 276,362</u>	9.6%	(8.9)%
Average interest earning assets:					
Loans <sup>(1)</sup> .....	2,059,654	2,146,611	2,299,666	4.2	7.1
Investments .....	178,449	279,556	290,377	56.7	3.9
Interbank deposits .....	<u>16,641</u>	<u>8,319</u>	<u>18,031</u>	(50.0)	116.7
Total .....	<u>Ch\$ 2,254,744</u>	<u>Ch\$ 2,434,486</u>	<u>Ch\$ 2,608,074</u>	8.0%	7.1%
Average nominal rates earned:					
Loans <sup>(1)</sup> .....	12.5%	12.8%	11.1%		
Investments .....	10.7	9.8	7.1		
Interbank deposits .....	5.7	9.2	4.7		
Weighted average .....	12.3%	12.5%	10.6%		

(1) Includes loans, contingent loans, mortgage loans and past due loans.

Interest revenue decreased by 8.9% to Ch\$276,362 million in 2001 from Ch\$303,485 million in 2000, mainly as a result of a decrease in nominal interest rates (10.6% in 2001 compared to 12.5% in 2000). This decrease in nominal interest rates was partially offset by the 7.1% increase in average interest earning assets. The reduction in the nominal interest rates resulted from decreases in the rate of inflation and real interest rates.

Interest revenue of Ch\$303,485 million in 2000 increased 9.6% from Ch\$276,836 million in 1999. This increase was due primarily to the 8.0% increase in the average interest earning assets, which was related mainly to increased levels of financial investments and mortgage loans. The increase in interest revenue was also the result of the increase in the average nominal interest rates to 12.5% in 2000 from 12.3% in 1999, as a consequence of a higher inflation rate.

**Interest Expense.** The following table sets forth our interest expense, average interest bearing liabilities and average non-interest bearing demand deposits for the years ended December 31, 1999, 2000 and 2001.

	<u>Year ended December 31,</u>			<u>% Change</u>	
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2000/1999</u>	<u>2001/2000</u>
	<u>(in millions of constant Ch\$ as of December 31, 2001, except for percentages)</u>				
Interest expense .....	<u>Ch\$ 166,894</u>	<u>Ch\$ 195,471</u>	<u>Ch\$ 155,720</u>	17.1%	(20.3)%
Average interest bearing liabilities:					
Deposits <sup>(1)</sup> .....	1,299,501	1,281,339	1,393,933	(1.4)	8.8
Mortgage finance bonds <sup>(2)</sup> .....	346,002	430,768	471,261	24.5	9.4
Others .....	<u>325,156</u>	<u>319,024</u>	<u>328,671</u>	(1.9)	3.0
Total .....	<u>Ch\$ 1,970,659</u>	<u>Ch\$ 2,031,131</u>	<u>Ch\$2,193,865</u>	3.1%	8.0%
Average non-interest bearing demand deposits	<u>Ch\$ 285,865</u>	<u>Ch\$ 315,453</u>	<u>Ch\$ 367,199</u>	10.4%	16.4%
Average nominal rates paid:					
Deposits <sup>(1)</sup> .....	8.6%	9.5%	6.4%		
Mortgage finance bonds <sup>(2)</sup> .....	9.1	11.3	9.8		
Others .....	7.3	8.1	6.2		
Weighted average .....	8.5%	9.6%	7.1%		

(1) Combines "Savings accounts" and "Time deposits" shown in the tables set forth under "Selected Statistical Information—Average Balance Sheets and Interest Rate Data."

(2) Unsecured bonds with maturities ranging from five to 20 years, the proceeds of which were used to finance mortgage lending.

The interest expense of Ch\$155,720 million in 2001 represented a 20.3% decrease from Ch\$195,471 million in 2000, primarily as a result of lower average nominal interest rates. The decrease in average nominal interest rates was primarily a consequence of the decreases in the rate of inflation and real interest rates between the two periods. The impact of the decrease in nominal interest rates was partially offset by the 8.0% growth of our average interest bearing liabilities in 2000, which were incurred to finance the growth of our interest earning and non-interest earning assets.

Interest expense increased by 17.1% to Ch\$195,471 million in 2000 from Ch\$166,894 million in 1999. This growth was mainly attributable to an increase in the average nominal interest rates paid, from 8.5% in 1999 to 9.6% in 2000, and to a lesser extent, to the expansion of 3.1% in average interest bearing liabilities.

### ***Provision for Loan Losses***

We are required to maintain a loan loss allowance in an amount that at least equals our loans to customers multiplied by the greater of (1) our risk index or (2) 0.75%. In the Chilean banking system, the risk index is used as the primary benchmark for determining the level of risk existing at any time in a loan portfolio. The index is derived from a computational method that classifies loans into five categories of repayment risk, each with a separate provision level. See "Item 3. Key Information—Selected Financial Data", "Item 4. Information on the Company—Selected Statistical Information—Allowance for Loan Losses" and Note 8 to our financial statements.

Since 1998, the Chilean economy has been suffering from the negative effects of the Asian economic crisis. The reduction of the rate of growth, the increase in unemployment and the higher interest rates observed in the last quarter of 1998 and during 1999 have negatively impacted the financial condition and results of operations of many Chilean companies across a wide spectrum of economic sectors, impacting the solvency and the cash flow of some of our customers and consequently, their ability to repay their debts. At the same time, the recession has resulted in a general decline in asset values in Chile, causing a decrease in the value of collateral securing outstanding loans.

Although the Chilean economy has shown signs of recovery since the fourth quarter of 1999, the delay between better macroeconomic conditions and the improvement in the financial condition of Chilean companies required a conservative risk policy in order to cover any deterioration in borrowers' financial positions and collateral.

In response to this scenario, we conducted two special reviews of our loan portfolio in order to analyze and address the increase in customer risk. These reviews focused on commercial loans with large outstanding balances and non-performing loans, and resulted in the increase of allowances during the fourth quarter of 1999 and the second quarter of 2000 through downgrading the risk assessment category of a portion of the loan portfolio.

The amount charged to income as a provision for loan losses was Ch\$68,962 million in 1999, Ch\$36,427 million in 2000 and Ch\$44,661 million in 2001. These amounts represented 3.35%, 1.70% and 1.94% of average total loans, respectively.

The 22.6% increase in provisions for loan losses during 2001 in comparison to 2000 was primarily attributable to (a) higher provisions for loan losses on commercial loans, made mainly as a consequence of the downgrading from B- to C in the risk category of loans related to one client in the telecommunication sector, and (b) voluntary provisions made during the fourth quarter of 2001 in an amount of Ch\$4,250 million, which were required by the Central Bank of Chile as a condition for the merger with Banco de Chile.

During 2000 and 1999, provisions for loan losses were mainly concentrated in commercial loans, and, to a lesser extent, in consumer loans mainly coming from our consumer credit division. In terms of economic sectors, during 2000, provisions for loan losses were primarily related to loans made in the trade and manufacturing sectors. During 1999, provisions for loan losses were principally related to loans granted to the construction, financial services and trade sectors.

Because of the high levels of provisions that we made, our overall risk index remained at high levels. Our risk index was 3.49% in December 2001, 2.89% in December 2000 and 3.28% in December 1999; and the

allowance to total loans ratio was 4.22% in December 2001, 3.41% in December 2000 and 3.65% in December 1999.

### *Other Income*

***Income From Services, Net.*** The following table sets forth the principal components of our income from services, net of third-party fees, for the years ended December 31, 1999, 2000 and 2001:

	<u>Year ended December 31,</u>			<u>% Change</u>	
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2000/1999</u>	<u>2001/2000</u>
	(in millions of constant Ch\$ as of December 31, 2001, except for percentages)				
Checking accounts, lines of credit and deposit accounts.....	Ch\$ 4,454	Ch\$ 5,240	Ch\$ 11,563	17.6%	120.7%
Fees from management of mutual funds ..	2,416	3,277	2,954	35.6	(9.9)
Collections .....	1,825	1,697	1,826	(7.0)	7.6
Consumer loans.....	546	736	815	34.8	10.7
Corporate finance advisory fees .....	811	918	1,664	13.2	81.3
Credit cards .....	160	461	1,020	188.1	121.3
Letters of credit .....	496	424	477	(14.5)	12.5
Insurance brokerage .....	1,615	1,949	2,076	20.7	6.5
Stock brokerage.....	976	1,110	1,064	13.7	(4.1)
Factoring .....	—	61	176	—	188.5
Others.....	1,308	1,413	1,852	8.0	31.1
Total.....	<u>Ch\$ 14,607</u>	<u>Ch\$ 17,286</u>	<u>Ch\$ 25,487</u>	18.3%	47.4%

Net income from services amounted to Ch\$14,607 million in 1999, Ch\$17,286 million in 2000 and Ch\$25,487 million in 2001, which represented an annual increase of approximately 18.3% for 2000 and 47.4% for 2001.

The increase in net income from services during 2001 was principally related to our implementation of a new pricing strategy beginning in the second half of 2000, which led to an increase of 120.7% in fees from current accounts and credit lines (overdraft fees and fees associated with the maintenance of lower volumes in current accounts). In 2001, credit card fees increased 121.3%, which increase is largely due to our fee income plan, which led to higher fees for credit card administration in the first quarter of 2001. Increased collection levels and increases on fees for consumer loans during 2001 were associated to promotional campaigns launched during the year.

In terms of fees from subsidiaries, the principal contributors to the growth in fee income during 2001 were our financial advisory and securitization subsidiaries (accounted for in “Others”) and, to a lesser extent, our factoring and insurance brokerage subsidiaries. Fees from our financial advisory subsidiary were mainly related to the arrangement of two syndicated loans, the management of an acquisition and the arrangement of an agreement between several banks to finance an important construction project. The securitization fees were the result of a mortgage backed securitization transaction, which resulted in fee income of Ch\$313 million.

The 18.3% growth in fee income between 1999 and 2000 was largely the result of our new fee income plan implemented during the second half of 2000, which allowed us to increase our current account and credit line fees by 17.6% during 2000.

During 2000, growth in fee income was also fueled by higher fees earned by subsidiaries, primarily from the management of mutual funds and, to a lesser extent, from insurance brokerage. The increase in mutual fund fees during 2000 was mainly a consequence of the increase in funds under management. The increase in the insurance brokerage fees was principally explained by an increase in life insurance fees, insurance fees related to consumer and mortgage loans, and also to guarantees. Our stock brokerage subsidiary’s fees increased as a consequence of growth in market share, in terms of stock transactions, and also due to higher fees associated with the international brokerage businesses. The increase in the level of corporate finance advisory fees are mainly explained by higher levels of activity associated with the arrangement of syndicated loans and management of acquisitions.

During 2000, we began to apply a new regulation issued by the Superintendency of Banks and Financial Institutions, which meant recognizing fee income on an accrual basis rather than a cash basis. Fee income is recognized over the period of the contract for commissions arising mainly from the use of ATMs, credit lines and demand accounts. This regulation led to a deferral of approximately Ch\$1,100 million in fee income at December 31, 2000 and approximately Ch\$930 million at December 31, 2001.

**Other Operating Income, Net.** The following table sets forth the components of our other operating income, net, for the years ended December 31, 1999, 2000 and 2001:

	<u>Year ended December 31,</u>			<u>% Change</u>	
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2000/1999</u>	<u>2001/2000</u>
	(in millions of constant Ch\$ as of December 31, 2001, except for percentages)				
Gains on financial instruments, net .....	Ch\$ 1,940	Ch\$ 2,366	Ch\$ 2,580	22.0%	9.0%
Foreign exchange transactions, net.....	<u>4,822</u>	<u>6,849</u>	<u>2,259</u>	42.0	(67.0)
Total.....	<u>Ch\$ 6,762</u>	<u>Ch\$ 9,215</u>	<u>Ch\$ 4,839</u>	36.3%	(47.5)%

Our net other operating income was Ch\$6,762 million in 1999, Ch\$9,215 million in 2000 and Ch\$4,839 million in 2001. The decline during 2001 was primarily due to a decrease in foreign exchange transactions, which was in turn largely a result of:

- our decision to maintain a higher net liability position in U.S. dollars in the context of a significant depreciation of the Chilean peso against the U.S. dollar. At the same time, we registered earnings in net interest revenue as a result of our net assets positions in assets denominated in local currency readjusted in U.S. dollars; and
- lower accrual earnings from UF-U.S. dollar forward contracts due to the lower inflation rate (the annual change experienced by the UF index was 4.7% in 2000 and 3.1% in 2001).

The management of our foreign currency financial position through forward contracts and assets and liabilities denominated in local currency, readjusted to U.S. dollars in accordance with changes in the U.S. exchange rate, create accounting asymmetries in both the net interest revenue and the foreign exchange transaction lines. Therefore, the amount shown in this line does not adequately reflect the financial results associated with the management of the foreign exchange position.

The 9.0% increase in gains on sales of financial instruments in 2001 was mainly influenced by gains recorded during the year from the sale of mortgage loans financed by our general borrowings.

The increase of 36.3% in 2000 in total other operating income was mainly a consequence of higher volume in foreign exchange transactions and, to a lesser extent, an increase in gains on sales of financial instruments.

The increase in income from sales of financial instruments during 2000 was mainly a consequence of price differential losses recorded during the first quarter of 1999 of approximately Ch\$1,780 million from sales of loans related to a corporate client which provided services to the mining industry. These losses more than offset the significant gains obtained during 1999 as a consequence of the reductions in the discount rates of Central Bank securities and Yankee Bonds.

The increase in foreign exchange transactions observed during 2000, as compared to 1999, was mainly attributable to increases in earnings from UF-U.S.\$ forward contracts due to both a higher inflation rate (the annual change in the UF index was 2.6% in 1999 and 4.7% in 2000) and higher volume. Our management holds these contracts as part of our strategy of financing our assets in foreign currency with deposits in local currency (UFs). This strategy lowers our funding costs.

**Other Income and Expenses.** The principal components of other income and expenses are: (i) the recovery of loans previously charged-off; (ii) non-operating income; (iii) non-operating expenses and (iv) participation in earnings of equity investments.

Our other income and expenses totaled Ch\$1,708 million in 1999, Ch\$(1,148) million in 2000 and Ch\$7,075 million in 2001. The increase in other income and expenses during 2001 was mainly attributable to a significant reduction in charge-offs on assets received in lieu of payment, and, to a lesser extent, to higher recoveries of loans previously charged off during 2001 (mainly from commercial and consumer loans). The decrease evidenced in 2000 when compared to 1999 was due primarily to higher charge-offs on assets received in lieu of payment arising during the second quarter of 2000.

## Operating Expenses

The following table sets forth the principal components of our operating expenses for the years ended December 31, 1999, 2000 and 2001:

	Year ended December 31,			% Change	
	1999	2000	2001	2000/1999	2001/2000
(in millions of constant Ch\$ as of December 31, 2000, except for percentages)					
Personnel salaries and expenses .....	Ch\$(36,281)	Ch\$ (41,487)	Ch\$ (47,947)	14.3%	15.6%
Administrative and other expenses.....	(29,302)	(39,198)	(40,030)	33.8	2.1
Depreciation and amortization .....	(5,401)	(6,443)	(9,425)	19.3	46.3
Total .....	<u>Ch\$(70,984)</u>	<u>Ch\$ (87,128)</u>	<u>Ch\$ (97,402)</u>	22.7%	11.8%
Efficiency ratio <sup>(1)</sup> .....	54.1%	64.8%	64.5%	–	–
Operating expenses as a percentage of average total assets.....	2.8%	3.2%	3.3%	–	–

<sup>(1)</sup> Operating expenses as a percentage of the sum of interest revenue, income from services, net and other operating income, net.

During 2001, our operating expenses increased by 11.8% to Ch\$97,402 million (U.S.\$148.4 million) mainly as the result of merger-related one-time personnel costs and administrative expenses, which were generally charged during the fourth quarter of 2001. The increase was also the result of higher depreciation and amortization expenses. Excluding merger related expenses, operating expenses would have increased by 5.0% 2001.

Personnel salaries and expenses rose by 15.6% during 2001, mainly as a result of higher severance payments, which amounted to approximately Ch\$4,150 million in merger related expenses during 2001. In addition, year-on-year growth of 2.1% in administrative and other expenses was also due to merger-related expenses. These amounted to approximately Ch\$1,760 million, and were mostly associated to external advisory costs (accounting, legal, outplacement, etc.), technological expenses related to computer equipment and software development and higher refurbishment, maintenance and rental expenses related to some branches.

In addition, the increase in depreciation and amortization expenses during 2001 as compared to 2000 was mainly attributable to higher computer equipment depreciation due to the acquisition and upgrade of ATMs, servers and personal computers acquired during 2000 and higher amortization of software development related mainly to our website. This website investment was made principally during 2000.

The efficiency ratio remained virtually unchanged during the year and was 64.5% as of December 31, 2001. A significant increase in operating revenues more than offset the increase in operating expenses. Excluding the merger costs, the efficiency ratio would have been 60.6% during 2001.

Our operating expenses grew by 22.7% to Ch\$87,128 million (U.S.\$132.8 million) in 2000 from Ch\$70,984 million (U.S.\$108.2 million) in 1999, boosted by an increase in administrative expenses.

The increase in our operating expenses during 2000 was in line with our growth strategy, which sought to improve our profitability and efficiency in the medium term. To achieve this, we invested heavily in the expansion of our branch network and ATMs, as well as in the improvement of our internet website. In addition, we strengthened our market position in large corporations and incorporated new products and businesses such as our factoring and securitization subsidiaries. Efforts by our sales force together with a marketing campaign during this year permitted growth of our customer base.

The 14.3% increase in personnel salary expenses during 2000 was primarily related to our expansion plan, which resulted in a 11.9% increase in headcount. In 2000, headcount increased by 313 employees (from 2,626 to 2,939). This expansion was focused on commercial areas such as new branches, corporate business and the factoring subsidiary, and towards strengthening the Internet project and Credit Division.

The year-to-year growth of 33.8% in administrative and other expenses between 1999 and 2000 was mainly due to the following factors:

- higher advertising expenses relating to corporate campaigns, television campaigns supporting internet products and service innovations (e-card, corporate e-B2B.cl and our website) and the launching and promotion of new products (United triple mileage card, consumer and mortgage loans);
- increased rental and maintenance expenses due to the installation of 133 new ATMs during 2000 and the opening and relocation of 15 branches in order to optimize service to customers;
- higher sales force expenses in line with our aim to increase the number of customers linked principally to current accounts, credit cards, credit lines and mortgage loans;
- increased advisory expenses related, among others things, to technology and software development of our website;
- greater collection expenses related to consumer loans as a consequence of the modification in the collection law (during 1999); and
- a higher level of supplies related to checking accounts due to the expansion of the client base and to the modification of the checkbooks in order to improve safety procedures.

The increase in depreciation and amortization expenses during 2000 compared to 1999 was mainly due to higher depreciation of computer equipment related to ATMs, higher amortization of software development related to our website and, to a lesser extent, to higher depreciation expenses associated with the refurbishing of rented branches and also to the opening of new branches.

As a result of the change in accounting dictated by the Superintendency of Banks and Financial Institutions concerning the recognition of fee income over the life of the respective contract, costs relating to the origination of consumer loans and sales of other products were deferred and are being taken to income over the same period as the respective contract. The net effect was a reduction in expenses of approximately Ch\$1,795 million in year 2000.

Because of the higher level of expenses, the efficiency ratio rose to 64.8% at December 31, 2000, from 54.1% at December 31, 1999, while the ratio of operating expenses to average total assets increased to 3.2% in 2000 from 2.8% in the previous year.

#### ***Loss from Price-Level Restatement***

Nearly all of our assets and liabilities are monetary in nature. Chilean GAAP requires that restatements be made to non-monetary assets and liabilities (primarily fixed assets and shareholders' equity in our case) to express them in constant pesos of purchasing power at the most recent balance sheet date. Gains arise when the restatements made to fixed assets exceed restatements made to equity as a result of inflation. Losses arise when the restatements made to fixed assets are lower than the restatements made to equity as a result of inflation. The resulting price-level restatement gain or loss in the income statement represents the gain or loss in purchasing power from holding monetary assets and liabilities exposed to the effects of inflation. See Note 1(c) to our consolidated financial statements.

The net effect of this inflation adjustment was a charge to income of Ch\$2,526 million, Ch\$7,199 million and Ch\$4,173 million in 1999, 2000 and 2001, respectively. The decrease in 2001 was primarily attributable to the decline in the inflation rate used for adjustment purposes during 2001 (from 4.7% in 2000 to 3.1% in 2001) and a

8.8% increase in non-monetary assets, composed primarily of fixed assets and assets received in lieu of payment. The increase in the inflation adjustment observed in 2000 was primarily attributable to the higher inflation rate during 2000 relative to the previous year (the inflation rate used for adjustment purposes climbed to 4.7% in 2000 from 2.6% in 1999). Also, the increase in shareholders' equity as a result of the capitalization made in the last quarter of 1999 through the rights offering (average shareholders equity grew 30.7% between 2000 and 1999) was a factor in the increase in the inflation adjustment for non-monetary assets and liabilities.

### ***Income Tax***

The statutory tax rate applied to our taxable income was 15% in 2001. Income taxes amounted to Ch\$1,704 million for 2001 compared to a tax benefit of Ch\$1,026 million and Ch\$2,863 million in 2000 and 1999, respectively. The difference between 2001 and 2000 was mainly the result of the higher net income recorded in 2001 and the amortization of complementary accounts for effects of deferred taxes accumulated at the beginning of 1999, which reduced income taxes by approximately Ch\$947 million in 2000 and Ch\$170 million in 2001. The variation between 2000 and 1999 can be largely explained by the losses incurred during 1999. In accordance with Technical Bulletin No. 60 "Accounting for Income Taxes and Deferred Income Taxes" of the Chilean Institute of Accountants, during 1999 we began recognizing in net income, on a prospective basis, the effect of deferred income taxes for all temporary differences, using an asset and liability approach. Prior to 1999, as instructed by the Superintendency of Banks and Financial Institutions, we did not recognize deferred income taxes. See Note 23 to our financial statements.

### **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 Superintendency of Banks and Financial Institutions, which require 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:

#### ***Allowance for loan losses***

Chilean banks are required to maintain loan loss allowances in amounts determined in accordance with the regulations issued by the Superintendency of Banks and Financial Institutions. 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 allowance 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 "Selected Statistical Information—Loan Loss Allowances" 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 the purchase, based on management's intentions, as either trading or permanent.

We account for financial investments that have a secondary market at fair value with unrealized gains and losses included in other operating income (expenses) for those classified as trading investments, 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 Superintendency of Banks and Financial Institutions. 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, matrix or model pricing 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 2000 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 were 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 2000, 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, 2000, 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 Superintendency of Banks and Financial Institutions.

Beginning in 2000, we modified the accounting treatment of swap agreements designated as hedges of our foreign investment portfolio to record them at their estimated fair market values. Unrealized gains and losses are recognized as a credit or charge to income, respectively. Until December 31, 1999, the bank's swap agreements were treated as off-balance-sheet financial instruments and the net interest effect (the difference between interest income and interest expense arising from such agreements) was recorded in net income in the period that they were originated. This change was made because it provided a better matching of the fair value of the hedging instrument with the mark-to-market adjustments of the related trading securities. 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 28 to our financial statements presents a description of the significant differences between Chilean GAAP and U.S. GAAP.

#### **U.S. GAAP Reconciliation**

We prepare our financial statements in accordance with Chilean GAAP which differs in certain significant respects from U.S. GAAP. The following table sets forth net income for the years ended December 31, 1999, 2000 and 2001 under Chilean GAAP and U.S. GAAP and shareholders' equity at December 31, 1999, 2000 and 2001 under Chilean GAAP and U.S. GAAP.

	<u>As of or for the Year ended December 31,</u>		
	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(in millions of constant Ch\$ as of December 31, 2001)		
Net Income (Loss) (Chilean GAAP).....	Ch\$ (7,124)	Ch\$ 3,274	Ch\$ 10,103
Net Income (Loss) (U.S. GAAP) .....	(8,142)	924	17,356
Shareholders' equity (Chilean GAAP).....	227,659	230,947	239,371
Shareholders' equity (U.S. GAAP) .....	Ch\$ 230,480	Ch\$ 230,425	Ch\$ 244,054

The principal differences between Chilean GAAP and U.S. GAAP which affect net income relate to accounting for the allowance for loan losses, assets received in lieu of payment, forward exchange contracts and deferred income taxes. The principal differences in accounting which affect shareholders' equity relate to the allowance for loan losses, assets received in lieu of payment, the accrual for mandatory dividends, loan origination fees and costs and forward exchange contracts. Note 28 to the financial statements provides a description of the principal differences between Chilean GAAP and U.S. GAAP as they relate to us and a reconciliation to U.S. GAAP of net income for the years ended December 31, 1999, 2000 and 2001 and of shareholders' equity at December 31, 2000 and 2001.

As required by the Superintendency of Banks and Financial Institutions, contingent loans and investments in mortgage finance bonds issued by the Bank are included as assets in the Chilean GAAP balance sheet with corresponding liability accounts in the same amounts. Under U.S. GAAP, these assets and the corresponding liabilities are not recognized on the balance sheet. The effects of these and other reclassifications to the balance sheet and income statement that are required to present the financial statements in accordance with the format required by the U.S. Securities and Exchange Commission are shown in Note 27 to our financial statements.

#### **Asset and Liability Management**

Our policy on asset and liability management was to maximize net interest revenue and return on assets and shareholders' equity in light of interest rate, liquidity and foreign exchange risks and within the limits of Chilean banking regulations and our internal risk management policies. Subject to these constraints, we could from time to time take mismatched positions as to interest rates or, in certain limited circumstances, foreign currencies when justified, in management's view, by market conditions and prospects, and subject to our asset and liability management policies. Our Board of Directors determined our asset and liability management policies upon recommendations from our Market Risk Committee. See "Item 11. Quantitative and Qualitative Disclosure About Market Risk". Our asset and liability management policies were implemented by our Finance Committee, which was composed of senior members of our Finance Division. The Finance Committee met daily on an informal basis and reported weekly to our Senior Management (General Manager and the Division Managers), which in turn reported informally as often as deemed necessary and formally on a quarterly basis to the Board of Directors.

The composition of our assets, liabilities and shareholders' equity as of December 31, 2001 by currency and term was as follows:

<b>December 31, 2001</b>						
	<u>Ch\$</u>	<u>UF<sup>(1)</sup></u>	<u>Foreign Currency<sup>(2)</sup></u>	<u>Total</u>	<u>Percentage</u>	
	(in millions of constant Ch\$ as of December 31, 2001, except for percentages)					
<b>Assets</b>						
Cash and due from banks .....	Ch\$ 177,839	Ch\$ —	Ch\$ 66,081	Ch\$ 243,920		8.42%
Other assets:						
Less than one year.....	609,217	726,175	333,754	1,669,146		57.63
From one to three years.....	81,683	221,876	98,485	402,044		13.88
More than three years.....	16,310	546,865	52,350	615,525		21.25
Bank premises and equipment.....	—	59,431	—	59,431		2.05
Allowance for loan losses .....	(93,596)	—	—	(93,596)		(3.23)
Total.....	<u>Ch\$ 791,453</u>	<u>Ch\$ 1,554,347</u>	<u>Ch\$ 550,670</u>	<u>Ch\$ 2,896,470</u>		<u>100.00%</u>
Percentage of total assets.....	27.33%	53.66%	19.01%	100.00%		
<b>Liabilities and Shareholders' Equity</b>						
Non-interest bearing deposits....	Ch\$ 342,339	Ch\$ 649	Ch\$ 26,122	Ch\$ 369,110		12.74%
Other liabilities:						
Less than one year.....	637,986	494,489	522,379	1,654,854		57.13
From one to three years.....	3,917	167,186	6,475	177,578		6.13
More than three years.....	193	453,425	1,939	455,557		15.73
Capital and reserves .....	—	229,268	—	229,268		7.92
Net income .....	—	10,103	—	10,103		0.35
Total.....	<u>Ch\$ 984,435</u>	<u>Ch\$ 1,355,120</u>	<u>Ch\$ 556,915</u>	<u>Ch\$ 2,896,470</u>		<u>100.00%</u>
Percentage of total liabilities and shareholders' equity.....	33.99%	46.78%	19.23%	100.00%		

<sup>(1)</sup> Includes monetary assets and liabilities denominated in UF and nonmonetary assets, liabilities and shareholders' equity restated for inflation for accounting purposes.

<sup>(2)</sup> Includes assets and liabilities denominated in foreign currency.

During 2001, long-term loans were funded mainly by peso denominated deposits up to 30 days and UF denominated deposits up to 90 days. We adopted this strategy in order to capitalize on the expected decrease in interest rates.

We engaged in derivative transactions for our own account and on behalf of our customers, mainly corporate clients of the import and export sector. These transactions arose from forward exchange contracts which were of two types: (i) transactions covering two foreign currencies and (ii) transactions covering only Chilean pesos against the U.S. dollar. The first type was carried out for hedging purposes, such as when we took a liability position in foreign currency other than the U.S. dollar; the second type, which was carried out only in the Chilean local market, was utilized as part of our asset and liability management in order to mainly match assets in U.S. dollars (taking short positions in forward contracts). In all cases, foreign currency exposure had to be included in the maximum permitted net foreign currency position, which was equivalent to 20% of our paid-in capital and reserves. See "Item 4—Information—Selected Statistical Information—Average Balance Sheets and Interest Rate Data".

Other derivative transactions included primarily interest rate swaps (paid fixed-received floating). These were used for hedging purposes in order to manage U.S. interest rate risk, which is embedded in the Yankee bonds of Chilean companies bought by us.

Our counterparts in derivative transactions were mainly international investment banks and domestic corporate and financial institution clients. As of December 31, 2001, the notional amount of forward contracts we had entered into was Ch\$232,789 million (net liability position) as well as Ch\$122,381 million in interest rate swaps. See Note 5 to our financial statements.

## Funding

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

	Year ended December 31,								
	1999			2000			2001		
	Average Balance	%	Rate	Average Balance	%	Rate	Average Balance	%	Rate
(in millions of constant Ch\$ as of December 31, 2001, except for percentages)									
Checking accounts.....	Ch\$ 184,055	7.7%	—	Ch\$ 198,036	7.9%	—	Ch\$ 222,239	8.1%	—
Time Deposits .....	1,240,723	51.8	8.6%	1,214,469	48.3	9.4%	1,322,435	48.5	6.4%
Savings Accounts .....	58,778	2.5	7.8	66,870	2.7	9.9	71,498	2.6	6.8
Mortgage finance bonds .....	346,002	14.5	9.1	430,768	17.1	11.3	471,261	17.3	9.8
Foreign borrowings .....	29,962	1.3	10.0%	20,551	0.8	7.3%	32,010	1.2	5.8%
Others .....	<u>534,733</u>	<u>22.2</u>	—	<u>584,113</u>	<u>23.2</u>	—	<u>608,735</u>	<u>22.3</u>	—
Total Liabilities .....	<u>Ch\$ 2,394,253</u>	<u>100.0%</u>	—	<u>Ch\$2,514,807</u>	<u>100.0%</u>	—	<u>Ch\$2,728,178</u>	<u>100.0%</u>	—

Our most important source of funding was our customer deposits (which consisted primarily of peso-denominated non-interest bearing checking accounts and peso- and UF-denominated interest bearing time deposits). Deposits in checking accounts were our least expensive source of funding and represented approximately 7.7%, 7.9%, and 8.1% of our total liabilities for the years ended December 31, 1999, 2000 and 2001, respectively. Time deposits represented approximately 51.8%, 48.3% and 48.5% of our total average liabilities for the years ended December 31, 1999, 2000 and 2001, respectively.

Our funding strategy during 2001 was to utilize funding according to the cost and availability of each particular source, while taking into account our general asset and liability management strategy. During 2001, we broadened our customer deposit base and continued with our efforts to decrease the average size of deposits, in order to reduce our reliance on any one particular group of depositors.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

Our general policy was to maintain a sufficient level of liquidity to meet our operational needs. We were able, to the extent needed or deemed desirable, to obtain funding principally from customer deposits, lines of credit with domestic banks, Central Bank borrowings and deposits from Chilean institutional investors. See “Item 4. Information on the Company—Selected Statistical Information—Composition of Deposits and Other Commitments” and “Note 12—Borrowings”. The minimum amount of liquidity was determined by the reserve requirements of the Central Bank. At December 31, 2001 these reserves were 3.6% of peso-denominated time deposits, 13.6% of foreign currency-denominated time deposits and foreign borrowings, 9% of peso-denominated demand deposits, and 19% of foreign currency-denominated demand deposits.

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 contractual obligations, including accrued interest, was as follows:

Contractual Obligations	Due within 1	Due after 1	Due after 3	Due after 6	Total
	year	year but within 3 years	years but within 6 years	years	
(in millions of Ch\$)					
Deposit and other obligations(1) .....	Ch\$ 1,264,752	Ch\$ 10,820	Ch\$ 307	Ch\$ —	Ch\$ 1,275,879
Mortgage finance bonds .....	44,649	79,641	118,103	251,876	494,269
Bonds .....	7,558	8,344	14,590	62,525	93,017
Chilean Central Bank borrowings:					
Credit lines for renegotiations of Loans .....	306	572	673	442	1,993
Other Central Bank borrowings .....	39,850	—	—	—	39,850
Borrowings from domestic financial institutions .....					
Foreign borrowings .....	19,952	—	—	—	19,952
Lease contracts .....	35,775	—	—	—	35,775
Service contracts .....	2,761	3,792	2,126	1,760	10,439
Other obligations .....	4,184	5,966	1,510	3,129	14,789
Total of cash obligations .....	13,654	7,517	4,297	1,776	27,244
<b>Total of cash obligations .....</b>	<b>Ch\$ 1,433,441</b>	<b>Ch\$ 116,652</b>	<b>Ch\$ 141,606</b>	<b>Ch\$ 321,508</b>	<b>Ch\$ 2,013,207</b>

(1) Excludes demand accounts, saving accounts and investments sold under agreements to repurchase.

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

Other Commercial Commitments	Due within 1 year	Due after 1 year but within 3 years	Due after 3 years but within 6 years	Due after 6 years	Total
	(in millions of Ch\$)				
Letter of Credit .....	Ch\$ 19,464	Ch\$ —	Ch\$ —	Ch\$ —	Ch\$ 19,464
Guarantees .....	40,838	7,260	503	—	48,601
Other commercial commitments .....	14,294	337	481	—	15,112
<b>Total other commercial commitments .....</b>	<b>Ch\$ 74,596</b>	<b>Ch\$ 7,597</b>	<b>Ch\$ 984</b>	<b>Ch\$ —</b>	<b>Ch\$ 83,177</b>

In addition, Chilean banks are subject to a special reserve requirement (the “*reserva técnica*”), 100% of which 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.

## Capital Expenditures

The following table reflects capital expenditures in each of the three years ended December 31, 1999, 2000 and 2001. During 2001, we reduced our capital expenditures from Ch\$18,163 million for the year-ended December 31, 2000 to Ch\$6,382 million for the year-ended December 31, 2001 as we were evaluating the possibility of a merger with Banco de Chile. During 2000, in line with our strategy, which sought to improve our profitability and efficiency in the medium term, we invested heavily in the expansion of our branch network and ATMs, as well as in the improvement of our internet website and communication and computer systems. Accordingly, our capital expenditures in 2000 consisted mainly of investments in technology and infrastructure.

	Year ended December 31,		
	1999	2000	2001
(in millions of constant Ch\$ as of December 31, 2001)			
Headquarters/branches .....	Ch\$ 3,902	Ch\$ 8,725	Ch\$ 4,344
Communications equipment and hardware .....	2,221	9,074	1,948
Software .....	153	364	90
<b>Total .....</b>	<b>Ch\$ 6,276</b>	<b>Ch\$ 18,163</b>	<b>Ch\$ 6,382</b>

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### DIRECTORS AND SENIOR MANAGEMENT

Our management was led by our Board of Directors which, in accordance with our by-laws, consisted of nine directors who were elected at the annual shareholders' meetings. The Board was elected every three years; the Board members in office as of December 31, 2001 were elected partially on April 23, 1999, on March 16, 2000 and on March 22, 2001 and their terms expired on January 1, 2002, the day the merger with Banco de Chile became effective.

Cumulative voting was permitted for the election of directors. The Board could appoint replacements to fill vacancies that occurred during periods between elections. Our executive officers were appointed by the Board of Directors and held office at its discretion. Scheduled meetings of the Board of Directors were held twice a month. Extraordinary Board meetings were called when summoned by the Chairman or when requested by at least five directors.

The members of our Board of Directors and senior management at December 31, 2001 were as follows:

<b><u>Directors</u></b>	<b><u>Position</u></b>
Andronico Luksic Craig.....	Director and Chairman
Jacob Ergas Ergas <sup>(1)</sup> .....	Director and Vice Chairman
Edmundo Eluchans Urenda.....	Director
Jorge Diaz Vial .....	Director
Andres Ergas Heymann <sup>(1)</sup> .....	Director
Victor Larraguibel Holman.....	Director
Juan Pablo Ureta Prieto.....	Director
Erik Haindl Rondanelli .....	Director
Luis Hernan Paul Fresno.....	Director
Martin Rodriguez Guiraldes .....	Alternate Director
Fernando Silva Lavin.....	Alternate Director

<b><u>Senior Management</u></b>	<b><u>Position</u></b>
Julio Guzman Herrera.....	General Manager
Pedro Bolados Morales .....	Manager—Controlling Division
Andres Charme Silva .....	Manager—Special Business Division
Eduardo Ebensperger Orrego.....	Manager—Medium Sizes Companies Division
Patricio Nazal Saca .....	Manager—Financial and International Division
Alejandro Herrera Aravena.....	Manager—Individual Banking and Branches
German Ilabaca Schiavetti .....	Manager— Leasing Division (Interim)
Ricardo Morales Aracena .....	Manager—Planning and Development Division
Nelson Rojas Preter .....	Manager—Legal Division
Mauricio Baeza Letelier.....	Manager—Credit Division

<sup>(1)</sup> Jacob Ergas Ergas is the father of Andres Ergas Heymann.

At a Board Meeting held on March 22, 2001, five members of the Board of Directors resigned and two of them were replaced with the Alternate Directors, Mr. Edmundo Eluchans Urenda and Mr. Jorge Diaz Vial. The Board also appointed three new members as Directors and Alternate Directors of the Bank until the next Ordinary Shareholders' Meeting. The new Directors appointed were Mr. Luis Hernan Paul Fresno, Mr. Juan Pablo Ureta Prieto and Mr. Erick Haindl Rondanelli. The new Alternate Directors appointed were Mr. Martin Rodriguez Guiraldes and Mr. Fernando Silva Lavin.

Set forth below are brief biographical descriptions of our directors and executive officers, as of December 31, 2001, all of whom reside in Chile.

## Directors

*Andronico Luksic Craig* was elected Chairman in September, 1999. He is a member of the New York Stock Exchange (NYSE); Member of the Advisory Committee to the David Rockefeller Center for Latin American Studies at Harvard University; Member of the Board of Trustees to Babson College, Member of the Latin American Advisory Committee (LAAC) and Member of the Advisory Board of the Panama Canal Authority. Mr. Luksic is Vice-Chairman of Quiñenco S.A. and Director of Compañía Cervecerías 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 Banco O'Higgins and subsequently Chairman of the Board of Banco Santiago until May 1999.

*Jacob Ergas Ergas* was a Director and Vice Chairman of Banco Edwards since 1986. Mr. Ergas was also Chairman of Banedwards S.A. Administradora de Fondos Mutuos, Banedwards S.A. Administradora de Fondos de Inversion and Banedwards Corredora de Seguros Limitada and Director of the Asociación de Bancos e Instituciones Financieras. He is also Chairman of Inversiones Ever S.A and J. Ergas S.A. Asesorias and was a Director of Promarket S.A., Banedwards Compañía de Seguros de Vida S.A., Baned Servicios Especializados S.A., and Banedwards S.A. Asesoría Financiera.

*Edmundo Eluchans Urenda* was elected Director in March 2001, after being designated Alternate Director in March 2000. Mr. Eluchans was Director of Banco del Trabajo, Banco O'Higgins and Banco Santiago. He was 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 different corporations and commercial institutions and the main partner in the Chilean law firm Edmundo Eluchans y Cia.

*Jorge Diaz Vial* holds a degree in economics from the Pontificia Universidad Catolica de Chile. He was elected Director in March 2001, after being designated Alternate Director in March 2000. Mr. Diaz was the Chairman of the Directors Committee, a Director of Promarket S.A., Banedwards S.A. Administradora de Fondos Mutuos and FCMI Administradora de Fondos de Inversion S.A., member of the Administrative Council of Banedwards Corredora de Seguros Limitada and is an advisor of Quiñenco S.A. Mr. Diaz was Intendent of Banks from 1976 to 1980, Director of Banco del Pacifico from 1980 to 1981, delegated administrator designated by the Superintendency of Banks and Financial Institutions to Banco Unido de Fomento from 1982 to 1985, CEO of Banco Concepcion (renamed as Corpbanca) from 1986 to 1992 and Advisor of OHCH until 1999.

*Andres Ergas Heymann* holds a degree in business administration and was elected Director in April 1999, after serving as advisor to the Board of Banco de A. Edwards since 1992. Mr. Ergas is the Chairman and CEO of HNS Holding (HellerNet Sud, affiliate of Fuji Bank's managing, leasing and factoring business) and Chairman of Factoring Association of Chile. He is also a Director of J. Ergas S.A., Asesorias, Inversiones Ever S.A., Hotelera San Francisco S.A., Inmobiliaria Paidahue S.A. and Southwest Investment Corporation and Chairman of Harley Davidson Chile.

*Victor Larraguibel Holman* was a Director since April, 1996. Mr. Larraguibel was also Chairman of Banedwards S.A. Corredores de Bolsa, and Banedwards S.A. Asesoría Financiera, Director of Banedwards Corredora de Seguros Limitada, Banedwards Factoring S.A., and is a director of Compañía de Seguros La Prevision Vida S.A. and Ski La Parva S.A.

*Juan Pablo Ureta Prieto* holds a degree in economics from the Universidad de Chile and was elected Director in March 2001, after serving as advisor to the Board since 1996. From 1991 until 1996 he was a Director of the Bank. In 1990 he was the head of our Corporate Division and developed the Small and Middle Size Companies Unit. Mr. Ureta was the Chairman of Promarket S.A., Baned Servicios Especializados S.A. and Banedwards Factoring S.A., as well as a Director of Banedwards S.A. Corredores de Bolsa and member of our Directors Committee.

*Erik Haindl Rondanelli* holds an M.A. and a Ph.D. (c) in economics from the University of Chicago, and an industrial engineering degree and a Masters in Industrial Engineering from the Universidad de Chile. He was elected Director in March 2001. Mr. Haindl is also the Director of the Institute of Economics and a professor of Macroeconomics and Economic Development at the Universidad Gabriela Mistral. He is also on the panel of fiscal

experts of the International Monetary Fund, which advises governments of several countries on tax policy. Mr. Haindl is also a member of the Board of IMSA Chile S.A., and was a director of Banedwards S.A. Compañía de Seguros de Vida, Banedwards S.A. Administradora de Fondos Mutuos and Banedwards Administradora de Fondos de Inversion S.A.

*Luis Hernan Paul Fresno* holds an M.S. in management from MIT and an engineering degree from Pontificia Universidad Catolica de Chile. He was elected Director in March 2001. Mr. Paul is Chief of Strategy and Performance Appraisal in Quiñenco and a Director of Telefonica del Sur S.A., Telefonica de Coyhaique S.A., Habitaria S.A., Diario El Sur and was a director of Banedwards S.A. Corredores de Bolsa.

*Martin Rodriguez Guiraldes* holds a degree in Business Administration from Pontificia Universidad Catolica de Chile and a MBA from University of California at Los Angeles (UCLA). He was elected Director in March 2001. Mr. Rodriguez is Manager of Mergers and Acquisitions in Quiñenco and was a director of Banedwards S.A. Asesoría Financiera, Banedwards S.A. Compañía de Seguros de Vida, Banedwards S.A. Administradora de Fondos Mutuos and Banedwards S.A. Administradora de Fondos de Inversion.

*Fernando Silva Lavin* holds a degree in Business Administration from Pontificia Universidad Catolica. He was elected Director in March 2001. Mr. Silva is Advisor to the Board of Directors of Quiñenco and Advisor to the Board of Directors of Hoteles Carrera.

### **Senior Management**

*Julio Guzman Herrera* was appointed General Manager in 2001 after being Manager of the Financial and International Division. He joined us in 1992 after working at Banco de Santiago, Citibank N.A. and Banco de Chile. He was a director of Banedwards Securitizadora S.A. and Banedwards S.A. Corredores de Bolsa. Mr. Guzman holds a degree in economics from the Pontificia Universidad Catolica de Chile.

*Pedro Bolados Morales* was our Comptroller and joined us in 1992 after being Corporate Audit Vice-President at Citibank N.A. in Latin America. Mr. Bolados holds an executive M.B.A. from the Pontificia Universidad Catolica de Chile.

*Andres Charme Silva* was our Manager of the Special Business Division. He joined us in 2000 after serving as Finance Manager of Banedwards Sogeleasing subsidiary since 1987. Mr. Charme holds a degree in business administration from the Universidad de Chile.

*Eduardo Ebensperger Orrego* was the Manager of the Medium Sizes Companies Division. He joined us in 1989. He was an advisor of Banedwards Factoring S.A. He previously was our Manager of Regional Branches. Mr. Ebensperger holds a degree in business from the Universidad de Chile.

*Patricio Nazal Saca* was the Manager of the Financial and International Division. He joined us in 1993, after being fixed income head at BankBoston. Mr. Nazal holds an M.S. in mathematical trading and finance from City University (London) and an MBA and a degree in business from the Universidad Adolfo Ibañez.

*Alejandro Herrera Aravena* was the Manager of the Individual Banking and Branches Division. He joined us in March 2000 after working at Banco Santiago and Banco Sudamericano. He was a director of Banedwards Securitizadora S.A., Banedwards S.A. Administradora de Fondos Mutuos and Banedwards Administradora de Fondos de Inversion S.A. Mr. Herrera holds a degree in business from the Universidad Catolica de Valparaiso. He has been director of Transbank S.A. and Nexus S.A.

*German Ilabaca Schiavetti* was the Manager of the Leasing Division. He joined us in August 2000, after serving as General Manager of Banedwards Sogeleasing subsidiary since May 2000 and as Commercial Manager of such corporation since 1990. Mr. Ilabaca holds a degree in business from the Universidad de Chile.

*Ricardo Morales Aracena* was the Manager of the Planning and Development Division. He joined us in 1986 after a six year position at Banco de Chile, where he became manager of the executive information system.

Mr. Morales holds a degree in business administration and auditing from the Pontificia Universidad Catolica de Chile and is the Chairman of the Planning Commission of the *Asociacion de Bancos e Instituciones Financieras*.

*Nelson Rojas Preter* was our General Counsel. He joined us in 1987, after serving as an advisor of the Bank since 1982. In 1990 he became legal counsel for the bank's Financial and International Division, and in 1992 he became our legal counsel. He previously held a position in the judicial system, in the "Consejo de Defensa del Estado" and at the law firm Frenkel & Lehman. He was a member of the Legal Affairs Committee of the *Asociacion de Bancos e Instituciones Financieras*. Mr. Rojas holds a degree in law from the Universidad de Chile.

*Mauricio Baeza Letelier* was the Manager of the Credit Division. He joined us in September 1999 after serving as Manager of Corporate Risk at the Credit Division of Banco Santiago. Mr. Baeza holds a degree in civil engineer from the Pontificia Universidad Catolica de Chile.

### **Directors and Senior Management 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\$859 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\$1,739 million paid to our senior management and Ch\$762 million paid to directors and executive officers of our subsidiaries.

### **Board Practices**

We had a Directors Committee composed of three members who were also members of the Board of Directors and were appointed by the Board. Members served for the same period as they served as Directors of the Bank and they could be re-elected. According to Article 50 bis of the Chilean Companies Law, the majority of the members of the Directors Committee were required to be independent of the controlling shareholder, if possible. The Directors Committee could appoint independent personnel to carry out specific duties. The members of the Directors Committee as of December 31, 2001 were appointed by the Board at a meeting held on March 22, 2001, and were as follows:

- Jorge Diaz Vial, President;
- Victor Larraguibel Holman and
- Juan Pablo Ureta Prieto.

The Directors Committee conducted monthly ordinary meetings and its main duties were:

- supervising and controlling the proper functioning of our operations;
- reviewing the audit reports prepared by our internal comptroller and supervising the appropriateness of our Controlling Division's attributions; and
- interacting with our Independent Auditors and rating agencies.

We did not have a Remuneration Committee.

### **EMPLOYEES**

For the year ended at December 31, 2001, we had 2,721 employees (on a consolidated basis). Of these employees, 111 persons worked part-time, most of whom were money market officers and tellers. In terms of distribution, 1,438 of our employees worked in branches (including other points of sales and auxiliaries cashier desks), 203 were employed in subsidiaries and 1,080 worked in the executive office building. At December 31,

2000, we had 2,939 employees. The decrease in the number of employees from 2000 to 2001 was mainly due to the expected merger with Banco de Chile.

At December 31, 2001, 971 of the 2,721 employees belonged to one union, the Sindicato de Trabajadores del Banco de A. Edwards. All management positions were held by non-union employees. We entered into a new collective bargaining agreement in November 1999, which covered all of our unionized employees and which expires on December 31, 2002. We did not experience a strike since the union's formation in 1983 and we consider relations with our employees to have been good.

The table below provides information regarding the geographic distribution of our employees as of December 31, 2001. We had no employees outside of Chile.

<u>Region</u>	<u>Number of employees</u>
North Regions	120
Central Regions	2,227
South Regions	374
Total	2,721

### Share Ownership by Directors and Senior Management

As of December 31, 2001 none of our directors or members of senior management owned 1% or more of our outstanding common stock. Our directors and senior managers did not have different or preferential voting rights with respect to those shares they owned.

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### MAJOR SHAREHOLDERS

The following table sets forth certain information regarding the ownership of our outstanding equity securities at December 31, 2001, with respect to each shareholder we know to have owned beneficially more than 5% of our common shares (or their equivalent in ADSs). According to our records, approximately 94.56% of our shares were held in Chile by 2,322 shareholders as of December 31, 2001.

<u>Shareholder</u>	<u>Shares</u>	<u>Percent</u>
L.Q. Inversiones Financieras S.A.....	3,777,471,478	51.17%
Ever 1 BAE S.A. <sup>(1)(2)</sup> .....	1,157,214,819	15.67
J. Ergas Inversiones y Rentas Limitada <sup>(1)(2)</sup> .....	414,018,557	5.60
Inversiones Aspen S.A. <sup>(2)</sup> .....	348,573,351	4.72
Morgan Guaranty Trust Company <sup>(3)</sup> .....	401,118,960	5.43
Deposito Central de Valores S.A. <sup>(4)</sup> .....	947,043,214	12.83%

(1) Ever 1 BAE S.A. and J. Ergas Inversiones y Rentas Limitada are holding companies beneficially owned by Jacob Ergas.

(2) On July 17, 1998, Inversiones Ever S.A., the predecessor to Ever 1BAE S.A., and Inversiones Aspen S.A. entered into a Joint Action Agreement in which each party agreed to cooperate with the other in the voting of their respective Shares. On September 3, 1998, Investments Aspen S.A. granted a general power of attorney to Mr. Jacob Ergas with full voting and disposition power, by virtue of which Mr. Ergas can vote and dispose of all the assets beneficially owned by Investments Aspen S.A. including shares of the Bank nominally owned by Inversiones Aspen S.A. As a result, Ever 1BAE S.A., J. Ergas Inversiones y Rentas Limitada and Inversiones Aspen S.A. may be deemed to constitute a "group" for purposes of Section 13(d) of the U.S. Securities Exchange Act of 1934, as amended.

(3) At December 31, 2001, Morgan Guaranty Trust Company, as the depository for our ADS facility, was the owner of 401,118,960 shares deposited in the ADS facility and held those shares through Deposito Central de Valores S.A.

(4) Deposito Central de Valores S.A. is a depository corporation established under Law No. 18,876 regarding deposit and custody of securities. It holds securities in the name of stock brokers, mutual funds, investment funds, pension funds and other institutional investors. At December 31, 2001, Deposito Central de Valores S.A. was the holder of 947,043,214 shares after deducting those shares held in the name of Morgan Guaranty Trust Company

L.Q. Inversiones Financieras S.A., a holding company beneficially owned by Quiñenco S.A., was our controlling shareholder, with a 51.17% ownership interest. In turn, Quiñenco S.A. is a corporation organized under the laws of Chile, engaged principally in the financial, industrial and services sectors in Chile. Quiñenco S.A.

beneficially owned 100% of the shares of L.Q. Inversiones Financieras S.A. at December 31, 2001. Quiñenco's principal business address is Enrique Foster Sur 20, 14th Floor, Santiago, Chile. At December 31, 2001, 82.4% of the common shares of Quiñenco were beneficially owned by affiliates of the Luksic group.

The Luksic group is engaged in a wide range of business activities in Chile, including, as of December 31, 2001,

- ownership through Quiñenco of interests in banking and financial services (through controlling interests in Banco de A. Edwards and Banco de Chile);
- telecommunications (through a controlling interest in Compañía Nacional de Telefonos Telefonica del Sur S.A. and Compañía de Telefonos de Coyhaique S.A.);
- the production, bottling and distribution of beer, wine, soft drinks and other beverages (through a 30.8% interest in Compañía Cervecerias Unidas S.A.);
- copper and aluminum manufacturing operations and consumer product packaging (through a controlling interest in Madeco S.A.);
- food processing and distribution (through a controlling interest in Empresas Lucchetti S.A.); and
- hotels and real estate business (through a controlling interest in Hoteles Carrera S.A. and Habitaria S.A.);

Additionally, the Luksic group holds interests in copper and gold mining operations, in railway operations and real estate.

On August 25, 1999, the Superintendency of Banks and Financial Institutions granted Quiñenco approval to acquire up to 51% of our shares and on October 26, 1999, the Superintendency of Banks and Financial Institutions increased the approved limit to 53% of our shares. Any purchase by Quiñenco of shares in excess of the 53% limit would have required further approval by the Superintendency of Banks and Financial Institutions.

On September 2, 1999, Quiñenco entered into three privately-negotiated stock purchase agreements (the "Stock Purchase Agreements"); one with Fiorito Investments Limited; the second with Empresas El Mercurio S.A.P. ("El Mercurio"); and the third with Inversiones Latinas S.A., Inversiones Riñinahue S.A., Eduardo Ergas Weisner, Inversiones Cifco S.A., Inversiones Tres Puntas S.A., Alejandro Ergas Weisner, Inversiones Natura S.A. and Inversiones Cuatro Vientos S.A. Pursuant to these agreements Quiñenco acquired 2,257,258,120 of our shares.

On September 27, 1999, Quiñenco purchased an additional 260,259,213 shares from Sociedad Inmobiliaria Forestal S.A. and Inversiones Forestal S.A., for a total of 2,517,517,333 shares.

On September 3 and 10, and on October 13, 1999, Quiñenco purchased an additional 39,988,217 shares through several transactions made in the Santiago Stock Exchange.

On October 26, 1999, Quiñenco purchased an additional 346,277,017 shares and 59,053,109 shares, representing approximately 7.00% of our shares, from J. Ergas S.A. Asesorias and Inversiones Ever S.A., both of which are beneficially owned by Mr. Jacob Ergas.

On October 26, 1999, Jacob Ergas and entities controlled by him, on the one hand, and Quiñenco, on the other hand, entered into a shareholders' agreement pursuant to which, among other things, the parties agreed to certain rights triggered upon transfer of shares by either party and to aggregate their shares for certain joint actions relating to the election of directors of the Bank. In addition, on October 26, 1999, Quiñenco, Mr. Jacob Ergas and entities beneficially owned by Mr. Ergas entered into an agreement pursuant to which Quiñenco agreed to (a) exercise all of its preemptive rights in connection with the offering of new shares made by the Bank during November and December 1999, (b) buy and exercise all such preemptive rights beneficially owned by Mr. Ergas

and Aspen Investments and (c) sell to Mr. Ergas all shares acquired on behalf of Mr. Ergas and Aspen Investments S.A. within 30 days of payment for such shares. Moreover, if immediately after completion of the offering there remained unsubscribed shares, Quiñenco agreed to acquire and to sell to Mr. Ergas certain shares up to a maximum amount not to exceed 7% of the shares offered in the offering.

On December 2, 1999 the Superintendency of Banks and Financial Institutions authorized Quiñenco to purchase up to 70% of our shares. This authorization was given for a term not to exceed one year from December 2, 1999. Purchase of shares in excess of the approved amount would have required approval of the Superintendency of Banks and Financial Institutions.

On December 9, 1999, Quiñenco subscribed for 1,228,654,359 shares in exercise of its preemptive right in a public offering of new shares we made during November and December 1999.

Finally, on December 23, 1999, Quiñenco sold to J. Ergas Inversiones y Rentas Limitada, a holding company beneficially owned by Mr. Jacob Ergas, 414,018,557 shares in fulfillment of their agreement executed on October 26, 1999.

On November 28, 2000, Quiñenco transferred to L.Q. Inversiones Financieras S.A., a holding company beneficially owned by Quiñenco, 3,777,471,478 shares representing 51.17% of our shares and 100% of its participation in our shares.

On December 14, 2000, Quiñenco, L.Q. Inversiones Financieras S.A. and entities controlled by Jacob Ergas amended the shareholders agreement they entered into on October 26, 1999 so that the agreement was also applicable to other companies that acquire the shares from them, provided that (i) the acquiring company was part of the same group and (ii) that the acquiring company agreed to abide by the shareholders agreement.

All of our shareholders had the same voting rights.

## **RELATED PARTY TRANSACTIONS**

In the ordinary course of our business, we engaged 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 consolidated financial statements. Article 89 of the *Ley de Sociedades Anonimas* 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 under Article 89 to compare the terms of any such transaction to those prevailing in the market on the date of the proposed transaction. Directors of companies that violate Article 89 are liable for losses resulting from such violation. In addition, Article 44 of the *Ley de Sociedades Anonimas* 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. According to an amendment introduced to the Chilean Companies Law in December 2000, if the proposed transaction involves amounts considered material, the board must previously declare that such transaction is consistent with equity conditions similar to those prevailing in the market. If it is not possible to reach such a judgement, the board may appoint two independent appraisers. The appraisers' 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 for a shareholders' meeting to resolve the matter, with the agreement of two thirds of the issued voting shares. For the purposes of this regulation, the law considers that the amount of a proposed transaction must be considered material when it exceeds 1% of the company's paid-in capital and reserves, provided that it also exceeds 2,000 *Unidades de Fomento*, and in any event when it exceeds 20,000 *Unidades de Fomento*.

All resolutions approving such transactions must be reported to the company's shareholders at the next annual shareholders' 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. To the best of our knowledge we have complied with the requirements of Article 89 and Article 44 in all material respects in all transactions with

related parties. See Note 16 of our consolidated financial statements for a more detailed accounting of transactions with related parties.

As authorized by the General Banking Law, and within the regulatory limits, at December 31, 2001 we held 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 of our consolidated financial statements.

## **ITEM 8. FINANCIAL INFORMATION**

See Item 18 for our consolidated financial statements filed as part of this annual report.

### **Significant Changes**

Effective as of January 1, 2002 we merged with and into Banco de Chile, the second largest bank among Chilean private sector-banks, pursuant to the corresponding authorizations of the shareholders meetings of both banks. As a consequence of the merger, Banco Edwards no longer exists and Banco de Chile continued as the surviving entity, being the legal successor of Banco Edwards for all purposes.

Upon completion of the merger, holders of our common stock had the right to receive 3.135826295 Banco de Chile F shares for each share of our common stock they owned, and had the right to receive 0.862352231125 Banco de Chile ADSs (each such ADS representing 600 Banco de Chile F shares) for each of our ADS (which represents 165 shares of our common stock) they owned, in each case with cash paid instead of fractional shares or ADSs. Accordingly, an aggregate of 23,147,126,425 Banco de Chile F shares were issued to our shareholders upon consummation of the merger. The F shares had all of the same rights as the Banco de Chile common stock, except that they entitled holders to receive dividends in 2002 with respect to our 2001 income. Once these dividends were declared and, on March 21, 2002, paid, the F shares automatically converted on a one-for-one basis into shares of Banco de Chile common stock.

## **ITEM 9. THE OFFER AND LISTING**

As of December 31, 2001, Banco de A. Edwards' shares of common stock were traded on the Bolsa de Comercio de Santiago (the "Santiago Stock Exchange"), the Bolsa Electronica de Chile (the "Electronic Stock Exchange") and the Bolsa de Valores de Valparaiso (the "Valparaiso Stock Exchange"). From November 1995 until January 1, 2001 the shares were traded in the United States on the New York Stock Exchange (NYSE) under the symbol AED, in the form of American Depositary Shares ("ADSs"), evidenced by ADRs. Each ADR represented 165 Shares. J.P. Morgan Chase Bank was the depositary with respect to the ADSs.

The following tables set forth, for the periods indicated, the low and high prices of the shares in nominal Chilean pesos and the trading volume for such shares on the Santiago Stock Exchange, the Electronic Stock Exchange and the Valparaiso Stock Exchange. In addition, the last table shows the low and high closing prices of the ADSs in U.S. dollars and the trading volume for such ADSs on the New York Stock Exchange for the periods indicated. The following information reflects nominal amounts at the trade dates and has not been restated in constant pesos.

## Santiago Stock Exchange

At December 31,	Trading volume (Number of shares)	Ch\$ per share	
		Low	High
1997 .....	534,255,732	41.0	56.5
1998 .....	446,628,826	20.0	48.3
1999 .....	636,756,790	26.0	55.5
2000			
First quarter.....	143,460,350	51.7	65.0
Second quarter .....	130,526,033	44.0	56.0
Third quarter .....	162,786,474	40.0	44.7
Fourth quarter .....	127,900,996	40.0	49.0
2001			
First quarter.....	282,361,718	47.0	56.5
Second quarter .....	142,528,132	55.0	64.5
Third quarter .....	230,279,828	61.5	73.5
Fourth quarter .....	184,018,052	61.5	70.8
2002			
First quarter.....	11,670,200	69.5	71.0
December 2001 .....	62,783,657	67.5	70.0
January 2002 <sup>(1)</sup> .....	11,670,200	69.5	71.0
February 2002.....	n.a	n.a	n.a
March 2002.....	n.a	n.a	n.a
April 2002.....	n.a	n.a	n.a
May 2002.....	n.a	n.a	n.a

Source: Santiago Stock Exchange

(1) Through January 4, 2002.

## Electronic Stock Exchange

At December 31,	Trading volume (Number of shares)	Ch\$ per share	
		Low	High
1997 .....	571,801,672	41.0	56.0
1998 .....	505,446,001	20.1	48.0
1999 .....	224,883,071	26.0	55.3
2000			
First quarter.....	45,302,788	51.8	65.0
Second quarter .....	49,083,346	44.0	55.3
Third quarter .....	49,850,463	40.0	44.7
Fourth quarter .....	27,335,871	40.0	49.5
2001			
First quarter.....	111,661,409	48.0	56.8
Second quarter .....	98,532,301	54.7	65.6
Third quarter .....	136,762,101	62.0	75.0
Fourth quarter .....	89,125,046	62.0	70.8
2002			
First quarter.....	500,805	68.0	71.8
December 2001 .....	27,230,887	67.3	70.8
January 2002 <sup>(1)</sup> .....	500,805	68.0	71.8
February 2002.....	n.a	n.a	n.a
March 2002.....	n.a	n.a	n.a
April 2002.....	n.a	n.a	n.a
May 2002.....	n.a	n.a	n.a

Source: Electronic Stock Exchange

(1) Through January 4, 2002.

## Valparaiso Stock Exchange

At December 31,	Trading volume (Number of shares)	Ch\$ per share	
		Low	High
1997 .....	12,266,303	41.3	55.0
1998 .....	3,152,589	20.0	46.5
1999 .....	32,110,667	26.0	55.0
2000			
First quarter.....	642,490	53.0	63.0
Second quarter .....	216,752	44.0	52.0
Third quarter .....	292,165	41.0	44.0
Fourth quarter .....	614,638	40.5	47.2
2001			
First quarter.....	485,868	48.0	56.4
Second quarter .....	1,843,416	57.1	64.4
Third quarter .....	3,917,930	63.0	75.0
Fourth quarter .....	554,938	62.0	70.8
2002			
First quarter.....	96,750	69.4	71.0
December 2001 .....	448,858	69.0	70.0
January 2002 <sup>(1)</sup> .....	96,750	69.4	71.0
February 2002.....	n.a	n.a	n.a
March 2002.....	n.a	n.a	n.a
April 2002.....	n.a	n.a	n.a
May 2002.....	n.a	n.a	n.a

Source: Valparaiso Stock Exchange

(1) Through January 4, 2002.

## New York Stock Exchange

At December 31,	ADSs Trading Volume (Number of Shares)	U.S.\$ Per ADSs	
		Low	High
1997 .....	8,434,600	15.375	22.500
1998 .....	11,253,400	6.625	17.188
1999 .....	7,020,400	8.812	17.250
2000			
First quarter.....	1,489,300	16.500	21.125
Second quarter .....	2,648,400	13.500	18.250
Third quarter .....	925,500	11.875	13.438
Fourth quarter .....	938,000	11.375	14.063
2001			
First quarter.....	1,817,900	13.625	16.600
Second quarter .....	698,400	15.000	17.450
Third quarter .....	1,010,300	14.800	17.830
Fourth quarter .....	888,400	14.580	17.350
2002			
First quarter.....	n.a	n.a	n.a
December 2001 <sup>(1)</sup> .....	487,100	16.660	17.350

(1) Listing.

Source: NYSE

At December 31, 2001, ADRs evidencing 2,431,024 ADSs were outstanding (equivalent to 401,118,960 shares or 5.43% of the total number of issued shares).

At December 31, 2001, the closing sales price for the shares on the Santiago Stock Exchange was Ch\$69.49 per share. On the New York Stock Exchange, the closing sales price was U.S.\$17.350 per ADS.

The Chilean securities markets are substantially smaller, less liquid, and more volatile than major securities markets in the United States. The Santiago Stock Exchange had a market capitalization of approximately U.S.\$56,734 million as of December 31, 2001 and an average monthly trading volume of U.S.\$345 million in 2001. Trading activity on the Santiago Stock Exchange is on average substantially less than that on the principal national securities exchanges in the United States. We estimate that at December 31, 2001, our shares were traded on the Santiago Stock Exchange on all trading days.

### **The Chilean Stock Market**

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 2001, 249 share series were listed on the Santiago Stock Exchange. The Santiago Stock Exchange is Chile's principal stock exchange and accounts for approximately 71.7% of all amounts traded in Chile. Approximately 26.8% of equity trading 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 Valparaíso Stock Exchange.

Equity, closed-end funds, fixed-income securities, short-term and money market securities, gold 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 ("IPSA") futures. In 1994, the Santiago Stock Exchange introduced an options market. 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. Also, the Santiago Stock Exchange has an electronic system of trade, called Telepregon, which operates from 9:30 a.m. to 4:30 p.m. The Electronic Stock Exchange of Chile 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 (the "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% of the entire market capitalization. The Inter-10 corresponds to the quarterly 10 most active Chilean ADRs. Our stock is included in the IPSA, the IGPA and the Inter-10. 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 Chilean ADRs.

## **ITEM 10. ADDITIONAL INFORMATION**

### **SHARE CAPITAL**

Set forth below is a brief summary of the significant provisions of our *estatutos* and Chilean law as in place at December 31, 2001. 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 Form 20-F), 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."

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 Superintendency of Banks and Financial Institutions. 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**

As of December 31, 2001 we have one outstanding series of capital stock. We have a total of 7,381,507,854 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 have full voting rights.

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 Superintendency of Banks and Financial Institutions 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 Superintendency of Banks and Financial Institutions, 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 Superintendency of Banks and Financial Institutions, 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 Superintendency of Banks and Financial Institutions, 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 Superintendency of Banks and Financial Institutions 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 Superintendency of Banks and Financial Institutions 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 Superintendency of Banks and Financial Institutions 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 described under "Major Shareholders and Related Party Transactions—Related Party Transactions" above. This presumption would also apply to beneficial owners of ADSs representing more than 1% of the shares. Finally, according to the regulations of the Superintendency of Banks and Financial Institutions, Chilean banks that issue ADSs are required to inform the Superintendency of Banks and Financial Institutions 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.

## 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 22, 2001. As a consequence of our merger with Banco de Chile, the last ordinary annual meeting of shareholders that approved annual financial statements was that of Banco de Chile's shareholders, 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 Superintendency of Banks and Financial Institutions.

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 Superintendency of Banks and Financial Institutions and the Santiago, Valparaiso and Electronic Stock Exchanges. Until we merged with Banco de Chile, we published our official notices in the *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.

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.

## **MEMORANDUM AND ARTICLES OF ASSOCIATION**

See exhibit 1 for the full text of our amended by-laws.

## **MATERIAL CONTRACTS**

On October 3, 2001, Banco de Chile and Banco de A. Edwards entered into a merger agreement establishing the steps that should be taken in order to perform the merger of the two banks. The merger agreement also required that Banco de Chile register a prospectus corresponding to the currently existing ADR program in the name of Banco de A. Edwards before the Securities and Exchange Commission and list the new securities with the New York Stock Exchange. It was also agreed that the equity contribution of Banco de A. Edwards would be equivalent to 34% of the merged bank. The shareholders of Banco de A. Edwards had the right to receive, for each of our shares they held, 3.135826295 shares of Banco de Chile. The merger agreement required the merged bank to maintain an ADR program similar to the one Banco de A. Edwards had in the United States of America. 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 Chile's Formal Exchange Market. Foreign investments can be registered with the Foreign Investment Committee under Decree Law No. 600 of 1974, as amended, or can be registered with the Central Bank under the Central Bank Act and the *Compendio de Normas de Cambios Internacionales*, or the Central Bank Foreign Exchange Regulations. The Central Bank Act is an organic constitutional law requiring a "special majority" vote of the Chilean Congress to be modified.

The Central Bank Foreign Exchange Regulations were amended on April 19, 2001. On January 23, 2002, the Central Bank agreed that, effective March 1, 2002, amendments would be introduced to the Central Bank Foreign Exchange Regulations, which further simplify foreign exchange operations.

The main objective of these changes is to facilitate capital movements from and into Chile and encourage foreign investment. According to the new Central Bank Foreign Exchange Regulations, investors are allowed to freely enter into any kind of foreign exchange transaction, the only restriction being that investors must inform the Central Bank about certain operations which they have conducted and must conduct certain operations through the Formal Exchange Market.

Article 47 of the Central Bank Act and Chapter XXVI of the Central Bank Foreign Exchange Regulations, regulated the foreign exchange aspects of the issuance of ADSs by a Chilean company. According to Chapter XXVI, the Central Bank and the depositary had to enter into an agreement in order to gain access to the Formal Exchange Market. The issuers of the shares underlying the ADSs and the custodian could also be parties to these agreements and we are party to such agreement.

On April 19, 2001 the Central Bank eliminated Chapter XXVI. However, all contracts executed under the provisions of Chapter XXVI remain in full force and effect and continue to be governed by the provisions, and continue to be subject to the restrictions, set forth in Chapter XXVI.

We entered into an agreement with the Central Bank and the depositary dated November 8, 1995, regarding the ADSs representing common stock. Therefore, investors participating in the offering were not subject to the new rules on foreign exchange issued by the Central Bank.

Under Chapter XXVI and our agreement, the Central Bank agreed to grant to the depositary, on behalf of ADR holders, and to any investor not residing or domiciled in Chile who withdrew common shares upon surrender of ADRs, access to the Formal Exchange Market to convert Chilean pesos to U.S. dollars (and remit such dollars outside Chile) in respect of common shares represented by ADSs or withdrawn shares.

Access to the Formal Exchange Market is subject to prior approval by the Central Bank, which must be requested by the custodian or through a Formal Exchange Market entity. The agreement provides that if the Central Bank has not acted on such request within seven banking business days, the request will be deemed approved. Transferees of withdrawn shares will not be entitled to any of the foregoing rights under Chapter XXVI unless their residence and domicile is located outside Chile and the withdrawn shares are acquired in a Chilean Stock Exchange with the proceeds of funds brought into Chile through Chapter XXVI and deposited with the custodian. Investors receiving withdrawn shares in exchange for ADRs will have the right to redeposit such common shares in exchange for ADRs, provided that the conditions to redeposit are satisfied.

Chapter XXVI provides that access to the Formal Exchange Market in connection with dividend payments is conditioned upon us certifying to the Central Bank that a dividend has been paid and any applicable tax has been withheld, which certification we have agreed to provide at the appropriate time. Chapter XXVI also provides that access to the Formal Exchange Market in connection with the sale of withdrawn shares or distributions thereon is conditioned upon receipt by the Central Bank of certification by the depositary or custodian, as the case may be, that such common shares have been withdrawn in exchange for delivery of the pertinent ADRs and receipt of a waiver of the benefit of the agreement with respect thereto (except in connection with the proposed sale of the common shares) until such withdrawn shares are redeposited.

Chapter XXVI provides that a person who brings foreign currency into Chile, including U.S. dollars, to purchase common shares with the benefit of the agreement must convert such foreign currency into Chilean pesos on the same date and has five banking business days within which to invest in common shares and deposit such shares with the custodian in order to receive the benefits of the agreement. If such person decides within such period not to acquire common shares, such person can access the Formal Exchange Market to reacquire foreign currency, provided that the applicable request is presented to the Central Bank within seven banking business days of the initial conversion into pesos. Common shares acquired as described above may be deposited in exchange for ADRs and receive the benefits of the agreement, subject to receipt by the Central Bank of a certificate from the depositary or the custodian that such deposit has been effected and that the related ADRs have been issued and receipt by the custodian of a declaration from the person making such deposit waiving the benefits of the agreement with respect to the deposited common shares.

## 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. 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 rate of tax 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**

Prior to our merger with Banco de Chile effective January 1, 2001, we filed annual, quarterly, special reports and other information with the SEC, except that as a foreign issuer we were not subject to the proxy rules or short-swing profit disclosure rules of the Exchange Act. You may read and copy any reports, statements or other information on file with the SEC at the public reference facilities maintained by the SEC at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20594 and the SEC's regional office at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. You can obtain copies of such material by mail from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20594, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. SEC filings are also

available to the public from commercial document retrieval services. Finally, you can also inspect such reports and other information at the offices of the New York Stock Exchange, 11 Wall Street, New York, New York 10005, on which our ADSs were listed, and at Banco de Chile's headquarters located at Paseo Ahumada 251, Santiago, Chile.

## **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

### **Risk Management for Banco Edwards**

We were exposed to market risk and other risks (e.g., credit risk) in both our trading and non-trading activities. Non-trading transactions include retail and corporate deposits, mortgage bonds and foreign borrowing as well as consumer, commercial and mortgage loans, and foreign trade transactions. Trading transactions are those entered into for trading purposes. They arose from our treasury department operations and included government securities, corporate bonds, foreign exchange position, forwards on foreign exchange and interest rate swaps.

We monitored market risk for non-trading transactions using gap analysis. Value at risk (VaR) was used to measure and to control market risk for trading transactions. VaR provides an estimate of the potential risk of market loss over a specified time horizon at a defined level of confidence. VaR calculations were performed for the bank and for our stock brokerage subsidiary.

#### ***The Risk Management Unit***

We had a risk management unit ("RMU") in charge of handling market risk. Its responsibilities included the implementation of a risk model, stress tests, limit expression and setting, limit allocation, limit usage, monitoring of limit versus exposures, risk factor distribution, distribution of trading P&L (profit and loss) and group oversight of positions. The RMU reported directly to the Manager of the Credit Division.

On a daily basis, a market risk report that highlighted risk concentrations by asset class and maturity bands as well as a credit risk report were distributed to the CEO, the Manager of the Credit Division, the Manager of the Financial and International Division, the Controller and the Treasurer.

A Market Risk Management Committee comprised of the same previously mentioned persons in addition to five members of the Board of Directors met on a monthly basis to make decisions regarding overall risk approach and hedging strategies.

### **Risk Management for the Treasury**

In accordance with Chilean regulations, our treasury department categorized our financial instruments into trading instruments (those entered into for trading purposes) and investment instruments (those entered into for purposes other than trading). As of December 31, 2001, the treasury department was only involved with trading instruments.

At the beginning of 2000, limit structures were approved by the Board of Directors for treasury operations. As a result, the nature of the market risk which may be taken, setting risk limits, and controlling the compliance with these limits were subject to controls. Risk limits were defined by net positions and were based on a percentage of the income expected to be generated by the treasury department.

#### ***Market Risk Analysis***

To measure market risk, we developed a variety of mathematical risk models that include value-at-risk (VaR), sensitivity analysis and stress tests. The VaR estimates are based on a methodology known as Riskmetrics. Our VaR model used a 99% confidence interval, a one day holding period and an exponential moving average model with 74 historical observations to forecast variances and covariances.

In addition to computing on a daily basis the total value at risk for the treasury department, the RMU also broke down this figure by:

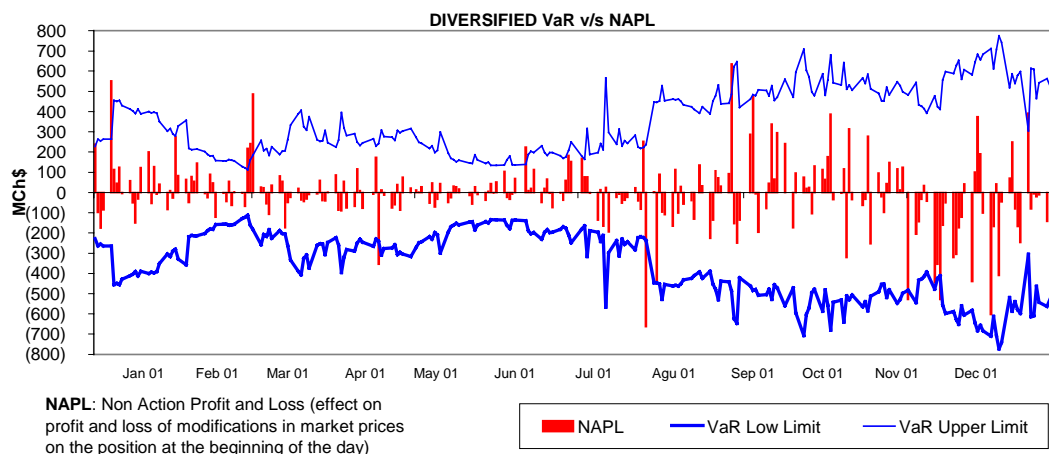
- (1) market factor:
  - (i) foreign exchange risk measured as the exposure to the volatility of the U.S. dollar; and
  - (ii) interest rate risk represented in terms of the exposure to nine key points on the relevant yield curve for the Chilean peso, Unidad de Fomento (“UF”) and U.S. dollar;
- (2) portfolios:
  - (i) the foreign exchange portfolio, which included the currency risk of all instruments held by the treasury;
  - (ii) the financial intermediation portfolio, which included forwards, short-term instruments issued by the Chilean Central Bank, time deposits in Chilean pesos, Unidad de Fomento and dollar, assets and liabilities denominated in Chilean pesos readjusted in accordance with changes in the U.S. exchange rate, deposits and floating notes; and
  - (iii) the fixed income portfolio, which included PRCs and PRDs (financial instruments issued by the Central Bank), mortgage bonds, foreign bonds and interest rate swaps.

The table below shows, for the year 2001, the median, the low and the high daily value at risk for the Treasury Department, which were Ch\$363 million, Ch\$112 million, and Ch\$775 million respectively.

<b>At December 31, 2001 (in million of Ch\$)</b>	<b>Median VaR</b>	<b>Minimum VaR</b>	<b>Maximum VaR</b>	<b>VaR as of December 31, 2001</b>
Foreign exchange .....	Ch\$ 133	Ch\$ 0	Ch\$ 499	Ch\$ 305
Financial intermediation.....	195	61	410	153
Fixed income.....	246	54	760	366
Less: portfolio diversification .....	(211)	(3)	(894)	(285)
Total VaR.....	<u>Ch\$ 363</u>	<u>Ch\$ 112</u>	<u>Ch\$ 775</u>	<u>Ch\$ 539</u>

On an ongoing basis, RMU rechecked the VaR model to assess its accuracy. The results of these back-tests supported the reliability of our VaR model. The chart below compares the VaR estimates with no-action-profit and loss (“NAPL”) over 2001. NAPL describes the hypothetical profit and loss on the position that would have been incurred if the previous day’s closing position had been kept for the next 24 hours and then revalued.

The bars show the daily NAPL whereas the two lines show the daily VaR, plus and minus. By definition, the cone delimited by the +/- VaR lines should contain 99% of all bars because, as previously stated, we used a 99% confidence interval.



The VaR model was supplemented with other risk control measures such as trading stop losses, duration analysis and volume limits, and complemented by stress analysis to quantify the impact of large movements in financial variables.

### ***VaR Limitations***

The VaR methodology should be interpreted in light of the following limitations:

- (1) Market returns may not be independent and identically distributed, or have a normal distribution (such as volume limits and stress analysis) which underestimates the probability of extreme market moves.
- (2) We computed VaR at the close of the business day and trading positions may have changed substantially during the course of the day.

### ***Volume limits***

To limit our exposure to interest rate risk, especially in periods of low volatility, we limited the size of our fixed income portfolio. This limit was set by the Market Risk Management Committee and approved by the Board of Directors.

### ***Stress analysis***

On a daily basis, the RMU also performed a stress analysis. The stress analysis was carried-out under two different methods, a standard VaR approach (parametric) and a historical simulation approach, as management recognized that VaR may be subject to model risk. The standard VaR approach assumed that each risk factor experiences a decline in value greater than 3.5 standard deviations of the mean return and assumes zero correlation among asset classes. The RMU also computed a VaR figure using the historical simulation method. This amount was obtained from historical data that goes back 381 days from the date of the calculation. Both methods use a 99% confidence level and a one day holding period.

### **Credit Risk for the Treasury**

Credit risk can be defined as potential losses over the term of a transaction caused by changes in a counterparty's credit quality. This includes changes in value due to possible default events as well as changes in credit grading (upgrades and downgrades).

Beginning in October 1997, we measured credit risk based on a modified CreditMetrics methodology. We quantified credit risk by estimating the likelihood of default for each of our counterparties, adjusted daily for the

remaining time of the transaction. The default probabilities were derived from the required provisions for commercial loans established by the Superintendent of Banks and Financial Institutions. Furthermore, we assumed that these probabilities are for a risk horizon of one year.

The RMU also set global limits for all current counterparties of the Treasury Department which were based on a counterparty's credit rating and size. Sub-limits were allocated to market operations such as forward and repo activities.

### **Interest Rate Sensitivity**

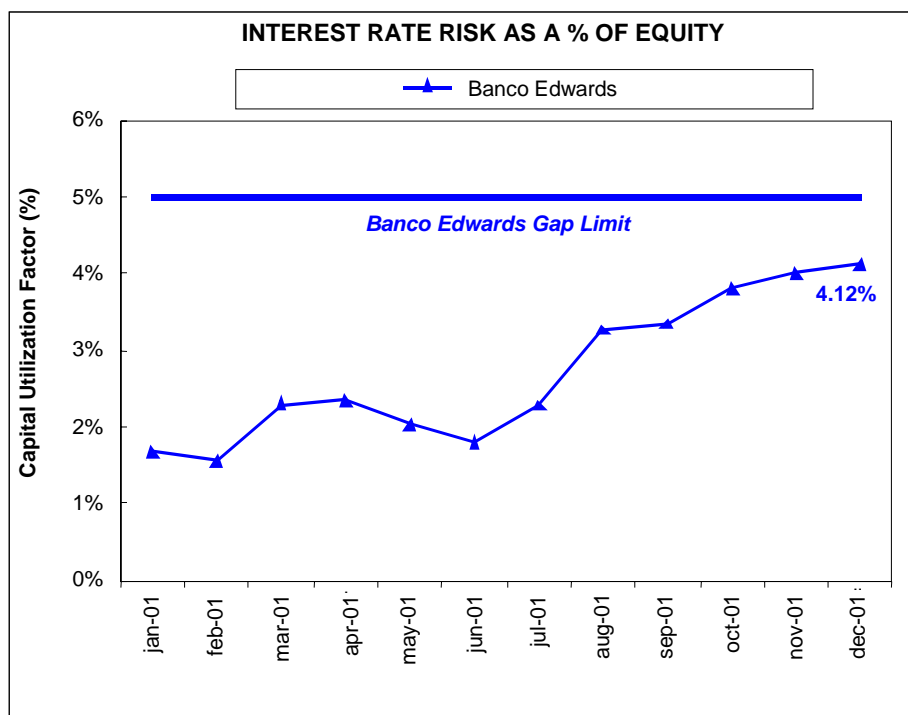
A key component of our asset and liability policy was the management of interest rate sensitivity. Interest rate sensitivity is the relationship between market interest rates and net interest revenue due to the maturity or repricing characteristics of interest earning assets and interest bearing liabilities.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

Our interest rate sensitivity strategy took into account not only the rates of return and the underlying degree of risk, but also liquidity requirements, including minimum regulatory cash reserves, mandatory liquidity ratios, withdrawal and maturity of deposits, capital costs and additional demand for funds.

We monitored our maturity mismatches and positions and managed them within established limits. In particular, during the first quarter of 2000, we implemented a methodology to control the interest rate risk of our bank non-trading portfolio which is measured on a monthly basis using scenario analysis.

The aim of this methodology was to quantify the impact of unexpected interest rate changes on our capital. Specifically, every month, a matrix was prepared computing existing gaps, at 13 future dates, for inflation indexed and non-inflation positions, and for all foreign currency positions. Potential losses for each one of the positions previously mentioned were then calculated, assuming interest rate shifts based on different volatility scenarios. Finally, the aggregate of the potential losses for the different positions was used to find the total potential losses to which we were exposed.

The market risk management committee established that total potential losses resulting from these scenario analyses could not exceed a certain amount of capital, previously approved by the Board of Directors (at December 31, 2001 this limit was 5% of our Basic Capital). The graph below shows that during 2001 we did not exceed this internally imposed limit, which as of December 31, 2001 reached 4.12%.



The following table sets forth the maturity of our interest earning assets and interest bearing liabilities at December 31, 2001 and may not reflect interest rate gap positions at other times. In addition, variations in interest rate sensitivity may exist within the repricing periods presented due to differing repricing dates within the period. Variations may also arise among the different currencies in which interest rate positions are held. As this table reflects, our exposure to potential changes in interest rates was reduced by the fact that, at December 31, 2001, approximately 77.6% of our peso-denominated interest bearing liabilities and 47.5% of our peso-denominated interest earning assets had a repricing period up to 30 days. Approximately 30.3% of our UF-denominated interest bearing liabilities and 27.9% of our UF-denominated interest earning assets had a repricing period up to 90 days, which was also the most common repricing period for UF-denominated time deposits. In the case of interest earning assets and interest bearing liabilities denominated in UF, our exposure to changes in interest rates was reduced by the fact that a significant portion of the interest rate paid or earned on such assets or liabilities was indexed to reflect the daily effect of inflation, and as a result our gap position was limited to variations in the real interest rate among such assets and liabilities. Further, approximately 83.7% of our foreign currency-denominated interest bearing liabilities and 59.0% of our foreign currency-denominated interest earning assets had a repricing period up to 180 days. Moreover, although we granted some consumer and small business loans on a fixed-rate basis for up to 36 months, the rates were relatively high and we fixed them taking into consideration expected inflation over the term of the loan. Any remaining substantial interest rate imbalances between our assets and liabilities are due to risk analysis based on projections as to future economic trends.

**Interest Rate Sensitivity<sup>(1)</sup>**

	<u>Up to 30 days</u>	<u>31-90 days</u>	<u>91-180 days</u>	<u>181-365 days</u>	<u>1-3 years</u>	<u>Over 3 years</u>	<u>Total</u>
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(in millions of constant Ch\$ as of December 31, 2001)

<b>Interest earning assets<sup>(2)</sup></b>							
Ch\$.....	Ch\$ 379,161	Ch\$ 135,971	Ch\$ 79,581	Ch\$ 105,848	Ch\$ 81,683	Ch\$ 16,310	Ch\$ 798,554
UF .....	224,379	205,866	172,405	167,853	225,999	546,865	1,543,367
Foreign currency.....	118,211	114,030	64,580	55,664	98,485	52,350	503,320
<b>Total .....</b>	<b>Ch\$ 721,751</b>	<b>Ch\$ 455,867</b>	<b>Ch\$ 316,566</b>	<b>Ch\$ 329,365</b>	<b>Ch\$ 406,167</b>	<b>Ch\$ 615,525</b>	<b>Ch\$2,845,241</b>
<b>Interest bearing liabilities<sup>(3)</sup></b>							
Ch\$.....	Ch\$ 474,033	Ch\$ 104,021	Ch\$ 2,204	Ch\$ 28,378	Ch\$ 2,261	Ch\$ —	Ch\$ 610,897
UF .....	59,614	314,721	193,147	55,237	161,633	452,923	1,237,275
Foreign currency.....	343,984	77,513	31,109	76,548	10,210	1,649	541,013

<b>Interest Rate Sensitivity<sup>(1)</sup></b>							
	<b><u>Up to 30 days</u></b>	<b><u>31-90 days</u></b>	<b><u>91-180 days</u></b>	<b><u>181-365 days</u></b>	<b><u>1-3 years</u></b>	<b><u>Over 3 years</u></b>	<b><u>Total</u></b>
Total .....	Ch\$ 877,631	Ch\$ 496,255	Ch\$ 226,460	Ch\$ 160,163	Ch\$ 174,104	Ch\$ 454,572	Ch\$2,389,185
Asset/liability gap							
Ch\$.....	Ch\$ (94,872)	Ch\$ 31,950	Ch\$ 77,377	Ch\$ 77,470	Ch\$ 79,422	Ch\$ 16,310	Ch\$ 187,657
UF .....	164,765	(108,855)	(20,742)	112,616	64,366	93,942	306,092
Foreign currency.....	(225,773)	36,517	33,471	(20,884)	88,275	50,701	(37,693)
Total .....	<u>Ch\$ (155,880)</u>	<u>Ch\$ (40,388)</u>	<u>Ch\$ 90,106</u>	<u>Ch\$ 169,202</u>	<u>Ch\$ 232,063</u>	<u>Ch\$ 160,953</u>	<u>Ch\$ 456,056</u>
Cumulative gap							
Ch\$.....	Ch\$ (94,872)	Ch\$ (62,922)	Ch\$ 14,455	Ch\$ 91,925	Ch\$ 171,347	Ch\$ 187,657	
UF .....	164,765	55,910	35,168	147,784	212,150	306,092	
Foreign currency.....	(225,773)	(189,256)	(155,785)	(176,669)	(88,394)	(37,693)	
Total .....	<u>Ch\$ (155,880)</u>	<u>Ch\$ (196,268)</u>	<u>Ch\$ (106,162)</u>	<u>Ch\$ 63,040</u>	<u>Ch\$ 295,103</u>	<u>Ch\$ 456,056</u>	
Ratio of cumulative gap to cumulative total interest earning assets							
Ch\$.....	(25.02)%	(12.21)%	2.43%	13.12%	21.90%	23.50%	
UF .....	73.43	12.99	5.84	19.18	21.29	19.83	
Foreign currency.....	(190.99)	(81.49)	(52.48)	(50.12)	(19.60)	(7.49)	
Total .....	<u>(21.60)%</u>	<u>(16.67)%</u>	<u>(7.11)%</u>	<u>3.46%</u>	<u>13.24%</u>	<u>16.03%</u>	

(1) Forward contracts have been included for purposes of this table.

(2) Includes interbank deposits, investment loans, mortgage loans, contingent loans and past due loans.

(3) Includes deposits, Central Bank borrowings, repurchase agreements, mortgage finance bonds and other interest bearing deposits.

Due to our expectation of a decrease in local interest rates, the funding strategy was oriented towards using intensively short term funding sources in order to get real benefits from the repricing structure. Accordingly, we maintained an active net asset position in UF that was financed with peso denominated short-term liabilities, mainly up to 30 days (peso-denominated liabilities have a shorter repricing period than UF-denominated assets).

The table below provides a breakdown as of December 31, 2001 of the maturity of our interest earning assets and interest bearing liabilities, that are sensitive to changes in interest rates, including amounts, average interest rates and fair value for each type of asset or liability based upon the earlier of the contractual maturity date and the interest repricing date.

	Due within 1 year (2002)		Due after 1 year But within 2 years (2003)		Due after 2 years But within 3 years (2004)		Due after 3 years But within 4 years (2005)		Due after 4 years But within 5 years (2006)		Due after 5 years		Total		Fair Value
	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate	
<b>Assets</b>															
<b>Investments</b>															
\$.....	Ch\$ 75,971	7.06 %	Ch\$ —	—%	Ch\$ —	—%	Ch\$ —	—%	Ch\$ —	—%	Ch\$ —	—%	Ch\$ 75,971	7.06%	Ch\$ 75,971
UF.....	44,217	5.93	13,356	5.74	10,759	6.11	13,308	6.26	8,263	5.28	65,203	5.96	155,106	5.93	155,156
Foreign currency ..	42,128	5.17	26,299	4.88	40,359	5.88	12,281	5.59	1,621	5.80	6,632	6.63	129,320	5.46	129,320
<b>Commercial loans</b>															
\$.....	Ch\$ 263,795	10.51	Ch\$ 10,375	15.77	Ch\$ 5,401	16.08	Ch\$ 4,690	12.09	Ch\$ 954	13.57	Ch\$ 1,776	2.26	Ch\$ 286,991	10.79	Ch\$ 256,426
UF.....	514,328	6.58	59,041	6.17	30,118	6.60	20,091	6.40	10,653	6.18	20,271	5.70	654,502	6.50	616,551
Foreign currency ..	103,147	4.46	24,590	3.59	3,933	2.97	9,486	2.97	4,131	4.17	4,296	4.17	149,583	4.17	145,107
<b>Consumer loans</b>															
\$.....	Ch\$ 94,668	25.70	Ch\$ 42,821	22.54	Ch\$ 21,424	23.64	Ch\$ 7,948	24.15	Ch\$ 681	22.39	Ch\$ 68	20.40	Ch\$ 167,610	24.54	Ch\$ 152,482
UF.....	4,672	9.01	3,213	8.97	1,887	9.06	884	9.21	414	9.06	612	8.97	11,682	9.02	10,875
Foreign currency ..	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Mortgage loans</b>															
\$.....	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —
UF.....	37,212	8.07	37,048	8.26	37,599	8.25	38,044	8.24	37,776	8.24	268,307	8.17	455,986	8.19	513,507
Foreign currency ..	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Foreign trade loans</b>															
\$.....	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —
UF.....	6	4.41	—	—	—	—	—	—	—	—	—	—	6	4.41	6
Foreign currency ..	143,341	4.88	—	—	—	—	—	—	—	—	61	0.00	143,402	4.88	136,882
<b>Other outstanding Loans</b>															
\$.....	Ch\$ 97,351	15.63	Ch\$ 1,511	2.19	Ch\$ 151	2.29	Ch\$ 192	0.70	Ch\$ —	—	Ch\$ 1	3.20	Ch\$ 99,206	15.38	Ch\$ 89,617
UF.....	99,340	4.01	17,830	7.97	11,025	9.49	8,949	9.49	8,364	9.81	45,726	8.67	191,234	6.32	196,776
Foreign currency ..	41,160	1.25	1,898	7.67	1,406	7.72	1,414	7.85	1,463	7.90	10,965	8.59	58,306	3.32	58,144
<b>Forward contracts</b>															
\$.....	Ch\$ 176,758	0.49	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ 176,758	0.49	Ch\$ 170,090
UF.....	54,266	0.38	—	—	—	—	—	—	—	—	—	—	54,266	0.38	54,269
Foreign currency ..	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Interbank deposits</b>															
\$.....	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —
UF.....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency ..	22,709	1.59	—	—	—	—	—	—	—	—	—	—	22,709	1.59	22,709
<b>Total interest earning assets</b>															
\$.....	Ch\$ 708,543	10.37%	Ch\$ 54,707	20.69%	Ch\$ 26,976	22.01%	Ch\$ 12,830	19.39%	Ch\$ 1,635	17.24%	Ch\$ 1,845	2.93%	Ch\$ 806,536	11.60%	Ch\$ 744,586
UF.....	754,041	5.85%	130,488	7.03%	91,388	7.62%	81,276	7.61%	65,470	7.74%	400,119	7.74%	1,522,782	6.73%	1,547,140
Foreign currency ..	352,485	4.16%	52,787	4.38%	45,698	5.69%	23,181	4.66%	7,215	5.29%	21,954	7.11%	503,320	4.49%	492,162
<b>Liabilities</b>															
<b>Savings accounts</b>															
\$.....	Ch\$ —	—%	Ch\$ —	—%	Ch\$ —	—%	Ch\$ —	—%	Ch\$ —	—%	Ch\$ —	—%	Ch\$ —	—%	Ch\$ —
UF.....	9,743	4.15	62,139	4.70	—	—	—	—	—	—	—	—	71,882	4.63	71,882
Foreign currency ..	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Time deposits</b>															
\$.....	Ch\$ 512,421	6.18	Ch\$ 2,260	7.91	Ch\$ 1	0.00	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ 514,682	6.19	Ch\$ 493,033
UF.....	535,446	3.54	4,824	4.15	1,083	4.45	1	0.00	—	—	1	0.00	541,355	3.55	521,333
Foreign currency ..	212,731	1.84	3,329	3.14	12	0.67	—	—	—	—	—	—	216,072	1.86	206,412
<b>Mortgage finance</b>															
<b>Bonds</b>															
\$.....	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —
UF.....	44,649	6.96	39,619	6.94	40,022	6.95	39,767	6.95	39,657	6.96	290,555	6.97	494,269	6.96	546,972
Foreign currency ..	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Borrowings from domestic financial institutions</b>															
\$.....	Ch\$ 12,747	7.48	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ 12,747	7.48	Ch\$ 10,205
UF.....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency ..	7,205	8.25	—	—	—	—	—	—	—	—	—	—	7,205	8.25	7,205
<b>Foreign borrowings</b>															
\$.....	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —
UF.....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency ..	35,775	0.03	—	—	—	—	—	—	—	—	—	—	35,775	0.03	33,938
<b>Other interest bearing liabilities</b>															
\$.....	Ch\$ 83,468	5.67	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ 83,468	5.67	Ch\$ 40,297
UF.....	22,043	4.97	6,921	6.39	7,025	6.41	6,514	6.61	6,547	6.67	69,881	7.31	118,931	6.70	145,502
Foreign currency ..	44,777	2.10	1,378	5.53	1,368	5.53	274	7.40	360	7.48	1,015	7.70	49,172	2.48	38,012
<b>Forward contracts</b>															
\$.....	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —	—	Ch\$ —
UF.....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency ..	232,789	4.09	—	—	—	—	—	—	—	—	—	—	232,789	4.09	226,976

	Due within 1 year (2002)		Due after 1 year But within 2 years (2003)		Due after 2 years But within 3 years (2004)		Due after 3 years But within 4 years (2005)		Due after 4 years But within 5 years (2006)		Due after 5 years		Total		
	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate	Fair Value
Total interest bearing liabilities															
\$.....	Ch\$ 608,636	6.14%	Ch\$ 2,260	7.91%	Ch\$ 1	—%	Ch\$ —	—%	Ch\$ —	—%	Ch\$ —	—%	Ch\$ 610,897	6.14%	Ch\$ 543,535
UF.....	611,881	3.85%	113,503	5.56%	48,130	6.81%	46,282	6.90%	46,204	6.92%	360,437	7.04%	1,226,437	5.29%	1,285,689
Foreign currency ..	<u>533,277</u>	2.81%	<u>4,707</u>	3.84%	<u>1,380</u>	5.49%	<u>274</u>	7.40%	<u>360</u>	7.48%	<u>1,015</u>	7.70%	<u>541,013</u>	2.84%	<u>512,543</u>

## Exchange Rate Sensitivity

The composition of our assets and liabilities as of December 31, 2001 by currency was as follows:

	<u>Assets</u>	<u>Liabilities</u>
	(in millions of constant Ch\$ as of December 31, 2001)	
<b>Currency</b>		
U.S.dollar .....	Ch\$ 407,539	Ch\$ 532,055
German mark.....	-	-
Japanese yen.....	2,338	2,302
Italian lira.....	-	-
Spanish peseta.....	-	-
European ECU .....	3,475	2,988
Chilean peso denominated in U.S. dollars.....	136,680	19,290
Other currencies .....	<u>638</u>	<u>280</u>
Total.....	<u>Ch\$ 550,670</u>	<u>Ch\$ 556,915</u>

The regulations of the Central Bank do not permit a bank to have a weighted net foreign currency position (the net of all foreign currency assets and liabilities) that exceeds 20% of Basic Capital. At December 31, 2001, our net foreign currency exposure was a Ch\$6,245 million liability position, or 2.7% of its Basic Capital. As a result of our position in foreign currency at December 31, 2001, a 10% increase (decrease) in value of the dollar against the peso would imply a decrease (increase) in our results of approximately Ch\$625 million. See “Operating and Financial Review and Prospects—Asset and Liability Management” and “Information on the Company—Regulation and Supervision.”

In recent years, our results of operations were not significantly affected by 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 revaluation of the peso against the U.S. dollar could have the following principal effects:

- (i) If we maintained a net asset position in U.S. dollars and a devaluation of the peso against the dollar occurred, we would have recorded a related gain, and if a revaluation of the peso occurred, we would have recorded a related loss;
- (ii) 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 a revaluation of the peso occurs, we would record a related gain;
- (iii) If the inflation rate for a period had exceeded the devaluation of the peso against the U.S. dollar during the same period, we would have recorded a related gain if we had our net asset position in UFs that exceeded our net liability position in U.S. dollars, and we would have recorded a related loss if we had our net liability position in U.S. dollars that exceeded our net asset position in UFs. The same effect would have occurred if there had been a revaluation of the peso against the U.S. dollar; and
- (iv) If the inflation rate for a period had been lower than the rate of devaluation of the peso against the U.S. dollar during the same period, we would have recorded a related gain if we maintained a net asset position in U.S. dollars that exceeded a net liability position in UFs and would have recorded a related loss if we had a net liability position in U.S. dollars that exceeded our net asset position

in UFs. The same effect would occur if there were a revaluation of the peso against the U.S. dollar.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Not applicable.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not applicable.

**ITEM 15. Reserved**

**ITEM 16. Reserved**

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

The Company's financial statements have been prepared in accordance with Item 18 hereof.

**ITEM 18. FINANCIAL STATEMENTS**

Reference is made to Item 19(a) for a list of all financial statements filed as a part of this Form 20-F.

## ITEM 19. EXHIBITS

### INDEX TO EXHIBITS

Exhibit No.	Exhibit
1.1	<i>Estatutos</i> of Banco de A. Edwards, which serve as the bank's articles of incorporation and bylaws, together with an English translation (incorporated by reference to our annual report on Form 20-F (File No. 333-97594) filed on June 29, 2001).
2.1	Form of Deposit Agreement among Banco de A. Edwards, Citibank, N.A. as depositary and the holders from time to time of ADSs (incorporated by reference to our registration statement on Form F-6 (File No. 333-14212) filed on December 18, 2001)
2.2	Form of Foreign Investment Contract among Banco de A. Edwards, Citibank, N.A., and the Central Bank of Chile, related to the foreign exchange treatment of an investment in ADSs, together with an English translation (incorporated by reference to our registration statement on Form F-1 (File No. 333-97594) filed on September 29, 1995).
2.3	Amendment to Foreign Investment Contract among Banco de A. Edwards, Citibank, N.A., J.P. Morgan Chase Bank and the Central Bank of Chile, together with an English translation.
4.1	Merger Agreement between Banco de Chile and Banco de A. Edwards, dated October 3, 2001 (incorporated by reference to Banco de Chile's registration statement on Form F-4 (File No. 333-14020) filed on October 18, 2001).
8.1	List of subsidiaries (incorporated by reference to our annual report on Form 20-F (File No. 333-97594) filed on June 29, 2001).
99.1	Letter from Banco de A. Edwards to the SEC regarding Langton Clarke Auditores Consultores Ltda.

**Banco de A. Edwards Consolidated Financial Statements  
as of December 31, 1999, 2000 and 2001**

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**SIGNATURE**

Banco de Chile, as successor by merger to the registrant, Banco de A. Edwards, 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 L.

Name: Pablo Granifo L

Title: General Manager

Date: June 28, 2002

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