



## Banco de Chile in 2001



**Pablo Granifo L.**  
Chief Executive Officer

**Overview.** Banco de Chile ended a new period of successful results, obtaining satisfactory earnings for its shareholders, reaffirming its strong leadership position in the industry, and increasing customer preference, with a structure geared to facing the new challenges and competitive demands of this first decade of the Third Millennium.

In achieving these results, the sound guidelines established in the long-term Strategic Plan have been

vital. Among said guidelines, the following have had special relevance in 2001: increasingly sophisticated market segmentation; customized and specialized services; permanent focus on the excellence of products and services offered by Banco de Chile and its affiliates and supporting companies; and ongoing development of new transactional and customer services, together with processing systems provided through remote and self-service channels, thus taking

advantage of the capabilities offered by technology, particularly e-banking via Internet.

Furthermore, management continues to rely on fundamental supporting tools, such as appropriate business selection, a conservative risk policy, efficient financial management, permanent focus on performance, and qualified staff strongly committed to the values, policies and goals of Banco de Chile. In respect of results, we should highlight the 27.9 percent return on capital and reserves, which is slightly higher than the previous year and quite higher than the average return exhibited by the financial system, of 17.7 percent. Total lending, resulting from the economic scenario, grew slightly during the year, with an increase in the past due ratio from 1.19 to 1.29 percent for the period, which compares favorably with the 1.6 percent exhibited by the financial system as a whole, while our risk index reached levels similar to those of the financial system in general. In addition, gross commissions grew 11.7 percent and continue to increase their share in our operating results.

In the area of international business, the unfavorable scenario described above meant that in 2001 Banco de Chile developed a moderate international activity, with efforts focused on strengthening the presence of some business centers, increasing efficiency in our overseas office network, and implementing service quality optimization. As regards the commercial aspect, the most relevant development was the successful completion of the ADR registration process with the Securities and Exchange Commission of the United States; a 15 percent growth in our customer base at the New York and Miami branches; and the significant 40 percent penetration increase of Internet-based services at branches abroad.

On the other hand, results obtained in financial-related operations exceeded all expectations in 2001, notably among said results are the earnings obtained from financial investments in mortgage bonds issued by the Bank, Chilean corporate bonds, dollar-denominated indexed securities, and government bonds.

Long-term interest rates exhibited smaller variations



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than the preceding year. The lowest interest rates were recorded in the month of October and the nominalization of the financial system in August forced us to restructure short-term operations denominated in local currency.

The scenario of reduced long-term interest rates was favorable for the placement of UF 4,350,000 in subordinated bonds issued at up to 30 years, which enabled us to keep a Basilea Index of more than 11 percent in the course of this period.

The placement of subordinated bonds and the increase in 1-year plus deposits indexed in UF helped us restructure liabilities denominated in local currency and to extend the maturity term of the same.

The floating exchange rate system, together with the Argentine economic instability, generated a highly volatile exchange rate environment, stimulating demand for currency hedging, which led to a higher volume of contracts purchased and sold during the year.

In terms of network coverage, five new offices were opened in 2001, namely Nueva Vitacura,

Antofagasta Sur, La Serena Plaza, Rancagua Oriente and Plaza del Trébol in Concepción. All of them are equipped with advanced banking technology, and have become part of Banco de Chile's domestic network, comprised of 179 points of sale. In addition, 12 offices throughout the country were moved to new premises or fully renovated to thus offer customers a more comfortable and efficient service.

One of the most important growth-driving factors in all markets covered by Banco de Chile is the permanent development of new and better customer solutions and optimization of service standards. Among these products, we should highlight new investment and savings options, new insurance alternatives, optimization of remote customer service, enhanced credit card facilities for the small and medium-size corporate segment, and the implementation of leading tax payment and collection technology in the large corporations and companies segment.

In its search for service excellence and to maintain

its leadership position in Internet banking, during the past year Banco de Chile launched a new international business site for foreign trade customers and added new sales functions to the rest of the business sites, achieving a 140 percent plus growth in the volume of monetary transactions effected via Internet and a 41 percent increase in the number of customers who use the web. Ratifying its success in this field, Banco de Chile was the recipient of the "Best Website in Chile" award in the Bank Category (El Diario) and now tops the financial system's "Preferred Webpage Surfing" ranking (Adimark).

In relation to other remote service channels, we successfully completed a new stage in the

development plan, setting up 35 new state-of-the-art ATM machines, thus ending the year with a network comprised of some 400 ATMs countrywide, including seasonal ATMs installed in holiday resorts during summer and in ski resorts during winter. Likewise, the self-service network continued to grow and to expand its coverage, constituting by year-end a network of 270 instant account balance and bank statement terminals and 40 deposit and payment receiving machines, installed in offices and technology centers.

To continue the optimization of our service level and to efficiently support our banking operations as a whole, during 2001 Banco de Chile made further efforts in the





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area of technology incorporation, which allowed us to maintain our top technological level and boost business and support functions. Thus, during this year, 3,000 new work stations were installed; in the area of giving support to Corporate Banking operations, the first web-based platform was implemented in Banco de Chile, a landmark initiative that incorporates to our Institution the technological architecture that will become the industry standard in the future; also, numerous new functionalities and management tools were set up to support corporate and personal banking, factoring businesses and the loans platform.

Furthermore, investments made in technological infrastructure, computing and telecommunications have enabled us to make significant progress in many areas during this year, notably the change of the Bank's work station platform, which allows for better control, lower maintenance costs and less dependence on technical support; the new internal communications system, which facilitates and speeds up data exchange; the incorporation of Intranet, which strengthens the competitive

capacity of the Bank with leading technology; and the incorporation of state-of-the-art software, which ensure operational continuity after the merger with Banco de A. Edwards.

In the area of IT development, the year 2001 was again a period of intensive activity. Among the most relevant aspects we may mention the redesign of business processes, a new centralized processing model that increases the efficiency of the same; and the formalization of a preventive quality control structure concerning operative production and development of software for the output of risk management reports.

In addition to the above, during 2001 we materialized the acquisition of a new architecture that increases management data processing and storage capacity; introduced new data management technologies that optimize the efficiency of analysis, development and database exploitation processes; and set-up a new performance control system in all offices throughout the country. In the area of Human Resources, our policy of ongoing personal

and professional development meant that during 2001 our Bank provided 140,000 hours of training to employees, wherefore it invested more than UF 52,000, thus maintaining its leadership position within the industry.

We should also mention the permanent participation of Banco de Chile in numerous cultural, educational, sports and social activities, including the award for the eighth straight year of the "Banco de Chile Scholarship" to the top-scoring student in the admission for college tests, covering all university tuition fees until graduation. These activities ratify our Institution's strong commitment to the country's development.

Within this overview, it is important to note some acknowledgment awards obtained by Banco de Chile, such as "Best Chilean Bank" (Global Finance magazine) and "Top Ten Bank in Latin America" (America Economía magazine). Moreover, Banco de Chile became the first private enterprise to accredit a non-smoking work environment and was among the top ten training-providing companies in 2001.

Finally, within an environment in which mergers, alliances and the presence of international banking institutions with Latin American networks, determine a scenario where large banks acquire a growing importance and market share, the merger of Banco de Chile and Banco de A. Edwards offers a strategic opportunity to further strengthen the leadership position that has traditionally distinguished our institution in the Chilean financial system. This operation, which consolidates Banco de Chile as the largest private bank in the country, has brought about numerous integration efforts in both Banks, particularly during the last months of the year. Special activities in operational structures, in human resources training, and those required for the integration of business areas, have had the participation and positive attitude of the personnel of both Banks, and have enabled Banco de Chile to end the year 2001 with an organization geared to providing the level of service demanded by its large customer base through a stronger and more efficient structure.

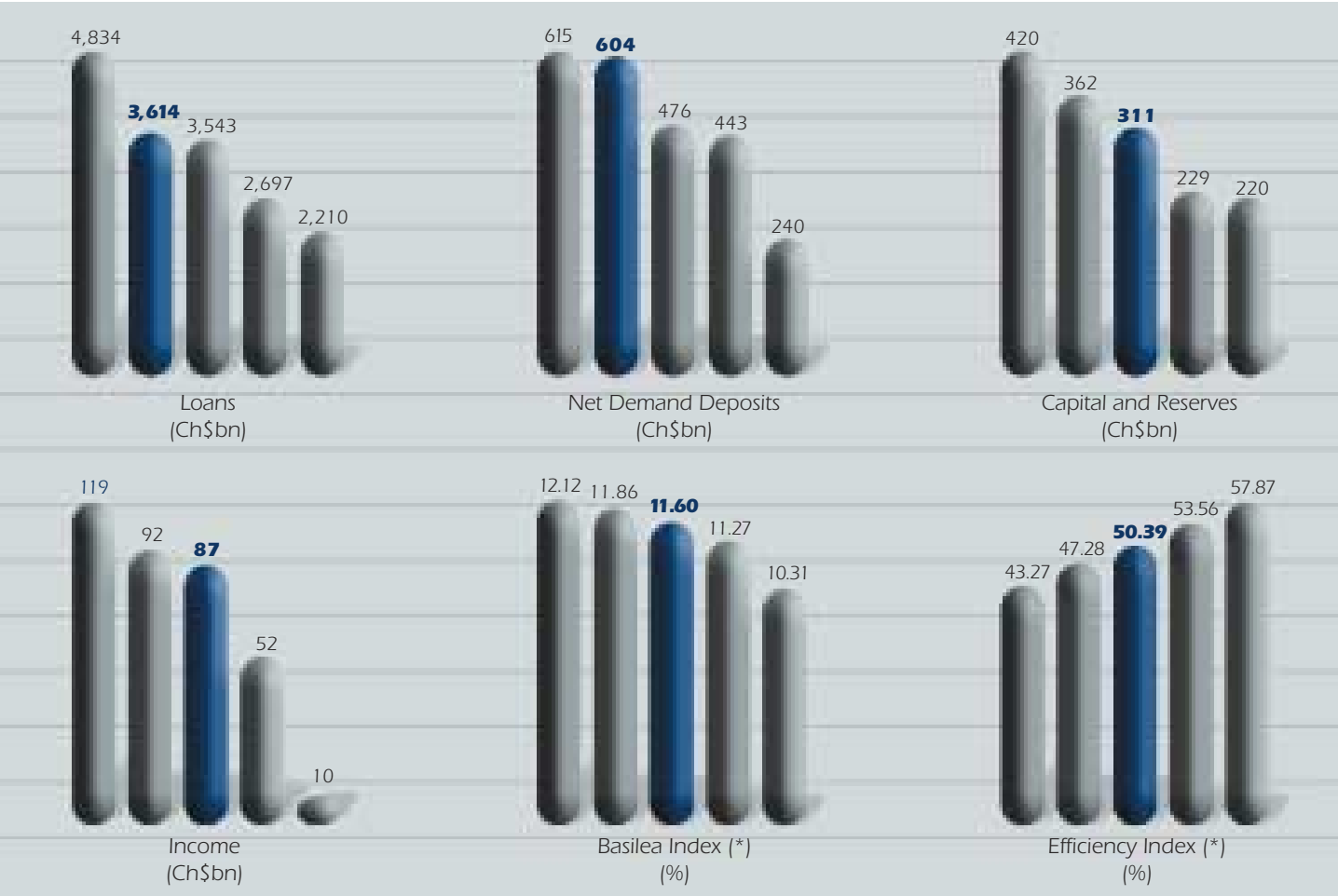
Results obtained, progress made in all areas, and

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the stronger position achieved as a consequence of the merger, allow Banco de Chile to face the next period with the conviction that it shall continue

to lead the Chilean banking industry, thus ratifying its commitment to our country's development, particularly to the people and companies it serves.

## Indicators for the Five Private Banks with Higher Lending



Figures: as of December 31, 2001  
 (\*): as of November 2001  
 Source: Superintendency of Banks and Financial Institutions

█ Banco de Chile  
█ Other Banks