

## Notes to the Combined Financial Statements

as of December 31, 2001

### 1. Organization and Operations:

Banco de Chile's Miami Branch is licensed as a Federal Branch and commenced operations on June 21, 1982.

The operations of the Branch are of a general banking nature and include the granting of loans, financing of foreign trade, dealing in money markets, syndicating and trading foreign loans and accepting and placing deposits, primarily with a diversified customer base, consisting of Latin American, European, Asian and United States customers. The Branch has an established International Banking Facility ("IBF").

Banco de Chile's Miami Agency is an International Agency of Banco de Chile (Head Office), Santiago, Chile, and is not a separately incorporated legal entity. The Agency was granted a license to conduct banking operations by the Controller of the State of Florida, Department of Banking and Finance, and commenced operations in Miami, Florida, on June 13, 1994.

The Agency, in the ordinary course of business, enters into transactions with the Head Office and its clients. Some transactions result from the joint efforts of the Agency and its affiliates; however, the records of the Agency and the accompanying financial statements contain only the transactions that have been recorded locally.

### 2. Significant Accounting Policies:

#### (a) Basis of Combination:

The accompanying combined financial statements include the accounts of Banco de Chile's New York Branch and Miami Agency referred to hereafter as the "Branches". All significant transactions and accounts between the Branches have been eliminated.

#### (b) General:

The Branches prepare their financial statements in accordance with generally accepted accounting principles and standards of the regulatory Banking Authorities in the United States of America.

This version of the combined financial statements of Banco de Chile's New York Branch and Miami Agency, as of December 31, 2001, is based upon the financial statements described in the precedent paragraph, which have been adjusted and presented according to the format and criteria of the Superintendency of Banks and Financial Institutions, that regulate the publication of financial statements of banks that operate in Chile.

#### (c) Balances in Chilean Pesos:

The financial statements, are prepared in U.S. dollars for purposes of publication in Chile. For the convenience of the local reader, they include a column with the balances in Chilean pesos made at the year-end exchange rate informed by the Superintendency of Banks and Financial Institutions of Ch\$656.20 to US\$ 1, as of December 31, 2001.

#### (d) Management's use of Estimates:

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Branches maintain an allowance for loan losses and country risk reserves at amounts which, in management's judgment, should be adequate to absorb losses on existing loans that may become uncollectible. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectibility of loans. These evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, current economic conditions that may affect the borrowers' ability to pay, overall portfolio quality and the review of specific problem loans.

#### (e) Loans, Interests and Allowance for Loan Losses:

Loans are reported at their principal outstanding balance, plus accrued interests and net of allowance for loan losses.

The allowance for loan losses is set-up with a charge to income for the period, and the loans are charged-off against the allowance, when Management deems that their recovery is uncertain.

The allowance is determined based on previous experience, the value and the nature of the collaterals, the evaluation of recovery of the loans and other factors, such as changes in the nature and the size of the loans portfolio, analysis of specific credits and the economic conditions that could affect the repayment ability of debtors.

In management's judgment, the allowance will be adequate to face the possible loan losses; however, the regulatory entities, as part of their revision process, may require additional allowances, based on the information available as of the date of their review.

Interest on loans is no longer accrued, when Management deems their recovery as uncertain, based on economic and commercial conditions and on collection efforts to date. The accrued interests on loans that are of uncertain recovery are reversed against income.

Accrued interest is calculated using the simple interest method, applying a base of 360 days.

#### (f) Loan Interest Accruals:

Loans are generally classified as "non accrual" if they are past due as to maturity, payment of principal or interest, for a period of more than 90 days. Loans that are on a current payment status or past due less than 90 days may also be classified as nonaccrual if repayment in full of principal and/or interest is in doubt.

In case of past due loans where future recovery of the principal is doubtful, the recovery of interests and principal is generally registered as a deduction of the principal. Where recovery of the principal is expected, the interest is recognized on a cash basis. In case of past due loans that have been partially

written-off, the recognition of the interests on a cash basis is limited to those amounts that would have been recognized as of the payment agreement date. Recoveries in excess of this amount are booked against the loan allowances, up to the recovery of the total amount written-off.

#### (g) Investments in Financial Instruments:

Financial investments traded on a secondary market, have been adjusted to market value according to specific instructions issued by the Superintendency of Banks and Financial Institutions. Such instructions require the recognition of the adjustment to market value to be made against income, unless the investment portfolio is qualified as permanent, in which case, the adjustment can be taken directly to the account "Change in unrealized gains (losses) on permanent financial investments".

The market value adjustment of the permanent portfolio resulted in a net charge against shareholder's equity amounting to THUS\$ 4,526, equivalent to MCh\$2,970, making a total balance of THUS\$ 11,186, equivalent to MCh\$7,340, as of December 31, 2001 under "Other equity accounts".

#### (h) Derivatives:

The Branches value forward currency contracts on a daily basis based on the observed exchange rate, and the resulting gain or loss is recognized in income on an accrued basis in accordance with instructions of the Superintendency of Banks. The initial gain or loss corresponding to the difference between the spot and future rate is deferred and amortized to income over the duration of the respective contracts.

Interest rate swaps are valued on a monthly basis, based on the difference between the contracted interest rates, recognizing the resulting gain or loss as credit or debit in income respectively. In addition, the Branches have recognized a gain or loss resulting from an adjustment to market value of the swap portfolio used to hedge the interest rate and foreign exchange rate risks of the foreign investment portfolio. As of December 31, 2001, the market value of the derivatives generated a charge to income for the year of THUS\$ 224, equivalent to MCh\$147.

#### (i) Fixed Assets:

Depreciable and amortizable assets are stated at cost less accumulated depreciation and amortization. Furniture and equipment are depreciated by the straight-line method over their estimated useful lives. Building improvements are amortized by the straight-line method over the estimated useful lives of the improvements. Maintenance and repairs are charged to other operating expenses when incurred. Major improvements are capitalized.

#### (j) Deferred Taxes:

The Branches are subject to Federal, state and local income taxes. The Branches compute tax expenses as separate companies, based on the income generated in the United States. For Federal income tax purposes, the Branches file a combined tax return, assigning the taxes based on the relative contribution of each entity to the tax liability.

The deferred tax effect generated by timing differences between taxable and financial income is recorded on an accruals basis, as set forth under Technical Bulletins N° 60, 69 and 71 issued by the Association of Chilean Public Accountants.

#### (k) Cash and cash equivalents:

In conformity with specific provisions applicable to financial institutions, the Branches consider as cash and cash equivalents only the Cash and Due from Banks balance in the Combined Balance Sheet. The Combined Statement of Cash Flows has been prepared according to the indirect method.

### 3. Accounting Changes:

No accounting changes that may significantly affect these financial statements have taken place during the year.

### 4. Financial Investments:

Instruments	Type of Portfolio			Adjusted to market value		Total THUS\$	Total MCh\$
	Permanent (***)	Non permanent	Subtotal	Charged to income	Charged to equity		
	THUS\$	THUS\$	THUS\$	THUS\$	THUS\$		
Certificates of deposit USA	54,016	-	54,016	-	-	54,016	35,445
Certificates of deposit (*)	6,002	-	6,002	-	-	6,002	3,939
Term federal funds sold	220,125	-	220,125	-	-	220,125	144,446
Foreign financial institutions debt securities	8,976	-	8,976	-	(3,793)	5,183	3,401
Foreign private sector debt securities	133,510	-	133,510	-	(7,546)	125,964	82,658
U.S. government debt securities (**)	54,783	-	54,783	-	106	54,889	36,018
Foreign governments' debt securities	5,918	-	5,918	-	-	5,918	3,883
Government securities	28,782	-	28,782	-	47	28,829	18,918
<b>Total</b>	<b>512,112</b>	<b>-</b>	<b>512,112</b>	<b>-</b>	<b>(11,186)</b>	<b>500,926</b>	<b>328,708</b>

(\*) The Miami Agency holds certificates of deposit for THUS\$ 6,000, plus accrued interest, of THUS\$ 2, as required by the Florida Banking statutes.

(\*\*) At December 31, 2001, US Government obligations for THUS\$ 54,783 were pledged pursuant to the requirements of the office of Controller of the Currency Regulations, New York.

(\*\*\*) The permanent portfolio includes investments for which the adjustment to market value is charged to the account "Change in unrealized gains (losses) on permanent financial investment".

(1) The Branches maintain 10.3% of total investments in Mexican Bonds, 10.3% in Brazilian Bonds, and 5.9% in Argentinian Bonds.

(2) During the year 2001, the New York Branch recognized in net income THUS\$ 5,000 for the impairment of investments in the Mexican Bonds Portfolio.

#### 5. Loans and Other Loans:

The following table analyzes the loan portfolio and other credit operations as of December 31, 2001.

	ThUS\$	MCh\$
<b>Loans:</b>		
Foreign private sector	264,075	173,286
Foreign financial institutions	41,845	27,458
U.S. private sector	10,414	6,834
U.S. financial institutions	9,762	6,406
<b>Discounted loans:</b>		
Foreign private sector	13,923	9,136
Foreign financial institutions	4,690	3,078
Loans – Head Office	51	33
<b>Less:</b>		
Non amortized discount	(253)	(166)
<b>Loans available for sale:</b>		
Allowance for loan losses	(6,117)	(4,014)
Account advance	17	11
Contingent Loans	44,218	29,016
Contingent Loans – Head Office	1,128	740
<b>Total</b>	<b>383,753</b>	<b>251,818</b>

At December 31, 2001, a significant part of the loans portfolio of the Branches is distributed between loans to financial institutions and corporations of the foreign private sector. The Head Office evaluates the solvency of each customer on a case by case basis. The collateral requested is based upon the credit evaluation. At December 31, 2001, loans to financial institutions are principally for foreign trade, while loans to private corporations are commercial, industrial and to finance foreign trade operations.

The Branches maintained 7.7% and 49.1% in loans of Argentinean and Chilean Private Sectors, respectively.

#### 6. Allowance for loan losses:

As of December 31, 2001 the Branches maintain allowances amounting to ThUS\$ 11,117, to cover potential loan losses.

The following table provides information on the changes of the allowance during the period:

	Allowances for				
	Loans		Other Assets (*)		Total
	Assets received in payment	Total	Assets (*)	Total	Total
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	MCh\$
Allowance as of December 31, 2000	7,127	–	–	7,127	4,677
Charge-offs	(441)	–	–	(441)	(289)
Allowances established	(569)	–	5,000	4,431	2,908
<b>Allowance as of December 31, 2001</b>	<b>6,117</b>	<b>–</b>	<b>5,000</b>	<b>11,117</b>	<b>7,296</b>

In Management's judgment, the current allowances cover the eventual losses that may derive from the non-recovery of assets, according to the information reviewed by the institution. Head Office maintains an allowance for loan losses sufficient to absorb losses inherent in the Head Office's and the Branch's loan portfolios.

(\*) Allowances established for the New York Branches for investments in Mexican Bonds (see note 4).

#### 7. Transactions with Related Parties:

Business policies and economic decisions of Banco de Chile-Head Office (the "Head Office") affect, or dictate to a substantial extent, the activities, decisions, and policies of the Branches with regard to various matters including money dealing and loans. The Branches engage in banking activities involving, directly or indirectly, the Head Office and other related parties. Amounts due from and to the Head Office and other related parties are as follows:

	ThUS\$	MCh\$
<b>Due from Head Office:</b>		
Foreign trade loans	135	89
Short-term loans	18,304	12,011
Non-amortized discount	74	49
<b>Total</b>	<b>18,513</b>	<b>12,149</b>
<b>Due to Head Office:</b>		
Creditors on current accounts	1,499	984
Other obligations	29,336	19,250
Overnight deposits	39	26
<b>Total</b>	<b>30,874</b>	<b>20,260</b>
<b>Due to other related parties:</b>		
Creditors on current accounts	50	33
Other obligations	8,221	6,395
<b>Total</b>	<b>8,271</b>	<b>5,428</b>
<b>Interest income from related parties:</b>		
Banco de Chile - Head Office	45	30
<b>Interest losses from related parties:</b>		
Banco de Chile - Head Office	604	396
Other related parties	172	113
<b>Total</b>	<b>776</b>	<b>509</b>
<b>Contingencies</b>		
Banco de Chile - Head Office	6,431	4,220

#### 8. Fixed Assets:

Investments in Bank premises and equipment as of December 31, 2001 are as follows:

	ThUS\$	MCh\$
Leasehold improvement	1,736	1,139
Furniture and equipment	2,351	1,543
Subtotal	4,087	2,682
Accumulated depreciation	(1,719)	(1,128)
<b>Total</b>	<b>2,368</b>	<b>1,554</b>

#### 9. Taxes:

##### (a) Income taxes:

The Combined Federal Income Tax Return Statement of the Branches was jointly calculated. The Branches had federal tax net operating losses, hence no income tax provisions were established.

##### (b) Deferred taxes:

The Branches recognizes the effects of deferred taxes generated by the temporary differences between tax and accounting bases in accordance with Chilean regulations.

During 2001, the Branches recorded the effects of deferred tax in its financial statements following the provisions of Technical Bulletins N° 60, 69 and 71 issued by the Association of Chilean Public Accountants. Deferred tax changes and effects are detailed below:

	Balance as of 12.31.2000	Deferred taxes 2001	Balance as of 12.31.2001
	ThUS\$	ThUS\$	ThUS\$
<b>Debit Differences</b>			
Tax losses	2,057	1,547	3,604
Allowance for loan losses	259	(17)	242
Subtotal	2,316	1,530	3,846
Valuation allowance (*)	(720)	(1,408)	(2,128)
<b>Net assets</b>	<b>1,596</b>	<b>122</b>	<b>1,718</b>
<b>Credit Differences</b>			
Provisions	461	73	534
Others	233	(233)	–
<b>Net liabilities</b>	<b>694</b>	<b>(160)</b>	<b>534</b>
<b>Net effect deferred taxes, net</b>	<b>902</b>	<b>282</b>	<b>1,184</b>

(\*) As of December 31, 2001, the New York Branch determined whether all of the deferred tax assets are likely to be recovered. Consequently, Management has recorded a valuation allowance of ThUS\$ 1,515.

The amount of Income Taxes shown in the Income Statement for the year-ended December 31, 2001 amounts to a net credit of THUS\$ 282, equivalent to MCh\$ 185 as follows:

	THUS\$	MCh\$
Current tax expense (Federal Tax)	–	–
Effect of deferred tax during the period on assets and liabilities	282	185
<b>Total</b>	<b>282</b>	<b>185</b>

#### 10. Maturity of Assets and Liabilities:

##### (a) Maturity of loans and financial investments:

The following table shows the maturity of loans and investments as of December 31, 2001, including accrued interest:

	Less than 1 year	Over 1 year less than 3 years	Over 3 years less than 6 years	Over 6 years	Total	Total
	THUS\$	THUS\$	THUS\$	THUS\$	THUS\$	MCh\$
<b>Loans (1):</b>						
Commercial loans and others	155,607	113,188	37,202	775	306,772	201,304
<b>Other Loans:</b>						
Interbank loans	31,275	3,521	1,004	–	35,800	23,492
<b>Financial Investments:</b>						
Permanent (2)	374,648	77,066	31,616	28,782	512,112	336,048
<b>Total</b>	<b>561,530</b>	<b>193,775</b>	<b>69,822</b>	<b>29,557</b>	<b>854,684</b>	<b>560,844</b>

(1) Includes actual loans outstanding as of the year end, with maturity terms shown therein. Consequently contingent loans and loans classified as past due loans, are excluded, as well as past due loans in the amount of THUS\$ 588, equivalent to MCh\$385.

(2) Includes permanent investments, as described in Note 1 (g), excluding market value adjustments for THUS\$ 11,186, equivalent to MCh\$7,340.

##### (b) Maturity of deposits, borrowings and other financing operations:

The following table shows the maturities of the Branch's deposits, borrowings and other financing operations, including accrued interests as of December 31, 2001.

	Less than 1 year	Over 1 year less than 3 years	Over 3 years less than 6 years	Over 6 years	Total	Total
	THUS\$	THUS\$	THUS\$	THUS\$	THUS\$	MCh\$
<b>Borrowings and other Liabilities*:</b>						
Deposits and certificates of deposit	302,549	4,543	1,002	–	308,094	202,171
<b>Other Term Liabilities:</b>						
	116	–	–	–	116	76
<b>Borrowings from Financial Institutions:</b>						
Foreign borrowings	173,929	71,637	7,553	–	253,119	166,097
<b>Total</b>	<b>476,594</b>	<b>76,180</b>	<b>8,555</b>	<b>–</b>	<b>561,329</b>	<b>368,344</b>

\* Excluding all sight liabilities for THUS\$ 329,505, equivalent to MCh\$216,222, and contingent liabilities for THUS\$ 45,346, equivalent to MCh\$29,756.

#### 11. Commissions:

The detail of income from fees and other services, shown in the income statement, is as follows:

	Income		Expenses	
	THUS\$	MCh\$	THUS\$	MCh\$
Sight deposits and funds transfers	812	533	–	–
Letters of credit, guarantees and other contingent operations	376	247	–	–
Collection of documents	230	151	–	–
Loan fees	227	149	–	–
Contingent loans	218	143	–	–
Customer service fees	46	30	–	–
Other	2	1	–	–
<b>Total</b>	<b>1,911</b>	<b>1,254</b>	<b>–</b>	<b>–</b>

#### 12. Shareholders' Equity:

As of December 31, 2001 the Branches' capital was as follows:

	Capital	Accumulated Earnings	Other equity accounts	Income for the year	Total
	THUS\$	THUS\$	THUS\$	THUS\$	THUS\$
Balance as of December 31, 2000	6,134	44,399	(6,660)	20,975	64,848
Appropriation of 2000 Income	–	20,975	–	(20,975)	–
Remittances to Head-Office	–	(20,975)	–	–	(20,975)
Change in unrealized gains (losses) on permanent financial investments	–	–	(4,526)	–	(4,526)
Net income for the year	–	–	–	13,831	13,831
Balance as of December 31, 2001	<b>6,134</b>	<b>44,399</b>	<b>(11,186)</b>	<b>13,831</b>	<b>53,178</b>
<b>Total MCh\$</b>	<b>4,025</b>	<b>29,135</b>	<b>(7,340)</b>	<b>9,076</b>	<b>34,896</b>

#### 13. Commitments and Contingencies:

The Branches shows in memo accounts the following balances related to commitments and contingencies:

	THUS\$	MCh\$
Securities in custody	114,933	75,419

The commitment for future minimum noncancellable lease payments is as follows:

	THUS\$	MCh\$
2002	825	541
2003	829	544
2004	780	512
2005	786	516
Thereafter 2005	3,830	2,513
<b>Total</b>	<b>7,050</b>	<b>4,626</b>

#### 14. Transactions with Derivative Products:

The following is a summary of the foreign currency purchase/sale contracts, future arbitrage operations and other operations with derivative products held at year-end.

##### (a) Contracts on foreign currency and interest rates:

Description of transaction	Number of Operations	Contracts Amounts			
		Less than 3 months		Over 3 months	
		2001 THUS\$	2001 MCh\$	2001 THUS\$	2001 MCh\$
<b>Foreign markets:</b>					
Foreign currency forward contracts	3	53	35	–	–
Interest rate swaps	3	–	–	28,000	18,374

The amounts refer to United States dollar amounts purchased or sold, or the equivalent in United States dollars of the foreign currency purchased or sold, or the future amounts, or the amount on which interest rate contracts are agreed. The period refers to the contract maturity from the date of the transaction.

##### (b) Contracts on the value of authorized readjustment systems (A.R.S.) and on interest rates in Chilean currency.

##### (c) Options:

As of December 31, 2001 and 2000 no balances were outstanding for these transactions.

#### 15. Employees Benefit Plans:

All eligible employees may participate in a voluntary savings plan sponsored by the New York Branch. Under this plan, employees may contribute on a before-tax basis from 1% to 15% of their annual compensation up a maximum of ThUS\$ 10 subject to certain limitations.

The New York Branch will match 25% of the employees, before-tax contribution to a maximum of 5% of the employees' annual compensation. The Branch's contributions vest incrementally over three years of service. In 2001, the Branch charged approximately ThUS\$ 20, equivalent to MCh\$13, to expense under this plan.

#### 16. Conciliation with Financial Statements in the United States of America:

The accompanying reconciliation has been prepared based on the financial statements prepared separately by the Branches according to U.S. GAAP, which have been combined and adjusted in order to conform to the criteria and format prescribed by the Superintendency of Banks and Financial Institutions that rule the publication of the financial statements of banks that operate in Chile.

A reconciliation between assets and income, as measured in U.S. GAAP and Chilean GAAP is shown below.

	ThUS\$	MCh\$
<b>Total Assets as per U.S. GAAP Financial Statements</b>	<b>955,534</b>	<b>627,021</b>
Add (deduct):		
Adjustment to market value of investments ( SFAS N° 115)	164	108
Contingent loans	45,346	29,756
Elimination of transactions between New York and Miami Branches	(9,898)	(6,495)
<b>Total Assets under Chilean GAAP</b>	<b>991,146</b>	<b>650,390</b>
<b>Net Income as per U.S. GAAP Financial Statements</b>	<b>12,943</b>	<b>8,493</b>
Add (deduct):		
Adjustment to market value of investments ( SFAS N° 115)	888	583
<b>Net Income according to Chilean GAAP</b>	<b>13,831</b>	<b>9,076</b>

#### 17. Subsequent Events:

Effective January 1, 2002, Banco de A. Edwards merged with and into Banco de Chile, being Banco de Chile the surviving entity. As a consequence of the merger, Banco de Chile acquired the assets and assumed the liabilities of Banco de A. Edwards, succeeding said bank in all of its rights and obligations, and incorporating the equity of Banco de A. Edwards into Banco de Chile.

**Pablo Granifo Lavín**  
Chief Executive Officer

**Matías Herrera Rahilly**  
General Manager Miami Agency

**Hernán Donoso Lira**  
General Manager New York Branch