

**Banco de A. Edwards and Subsidiaries**

**Report on the Consolidated Financial Statements  
For the years ended December 31, 2001 and 2000**

## **Banco de A. Edwards and Subsidiaries**

### **Content**

Report of the Independent Accountants  
Consolidated Balance Sheets  
Consolidated Statements of Income  
Consolidated Statements of Cash Flows  
Notes to the Consolidated Financial Statements

MCh\$ : Millions of Chilean pesos  
Ch\$ : Chilean pesos  
ThUS\$ : Thousands of U.S. dollars  
US\$ : U.S. dollars  
U.F. : Unidad de Fomento, an inflation - indexed, peso - denominated monetary unit.  
The U.F. rate is set daily advance based on the previous month's inflation rate.



**Report of the Independent Accountants**  
(A free translation from the original in Spanish)

To the Shareholders of  
Banco de A. Edwards and Subsidiaries:

We have audited the accompanying consolidated balance sheet of Banco de A. Edwards and Subsidiaries as of December 31, 2001, and the related consolidated statements of income and cash flows for the year then ended. These financial statements (which include their related notes) are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Banco de A. Edwards as of December 31, 2000, were audited by other auditors whose report dated January 26, 2001, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2001 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Banco de A. Edwards and Subsidiaries as of December 31, 2001, and the results of its operations and its cash flows for the year then ended, in conformity with the accounting principles generally accepted in Chile and rules established by the Chilean Superintendency of Banks and Financial Institutions.

As explained in Note 3 to the consolidated financial statements, at the Extraordinary Shareholders' Meeting held on December 18, 2001, it was agreed to merge by incorporation Banco de A. Edwards into Banco de Chile. Likewise, on December 21, 2001, the Superintendency of Banks and Financial Institutions approved the merger agreed by Banco de Chile and Banco de A. Edwards, and to the dissolution of Banco de A. Edwards. The merger of the banks, made effective on January 1, 2002, included the transfer of all assets and liabilities of the former Banco de A. Edwards to Banco de Chile, the successor for all legal effects. As a result of this merger process, the Bank and its Subsidiaries have recognized in current result of operations, expenses related to the dismissal of certain personnel and other merger related expenses, and voluntary allowances for loan losses as mentioned in Note 3(i) and 3(g), respectively.

Juan Francisco Martínez A.

ARTHUR ANDERSEN - LANGTON CLARKE

Santiago, Chile  
January 18, 2002

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
as of December 31,

<b>ASSETS</b>	<b>2001</b>	<b>2000</b>
	<b>MCh\$</b>	<b>MCh\$</b>
<b>CASH AND DUE FROM BANKS</b>	<u>243,919.7</u>	<u>199,759.1</u>
<b>LOANS:</b>		
Commercial loans	1,091,076.2	1,149,934.6
Foreign trade loans	143,408.5	191,442.7
Consumer loans	179,292.0	156,533.1
Mortgage loans	457,815.8	447,091.2
Leasing contracts	80,857.7	52,002.8
Contingent loans	83,290.3	126,892.6
Other outstanding loans	104,549.0	143,591.0
Past due loans	73,169.6	66,108.4
Total loans	<u>2,213,459.1</u>	<u>2,333,596.4</u>
Allowance for loan losses	(89,346.3)	(79,956.7)
Total loans, net	<u>2,124,112.8</u>	<u>2,253,639.7</u>
<b>OTHER LOANS</b>		
Interbank Loans	5,049.0	9,292.6
Investments purchased under agreements to resell	20,341.2	32,693.8
Total other Loans	<u>25,390.2</u>	<u>41,986.4</u>
<b>INVESTMENTS:</b>		
Government securities	174,842.5	62,539.8
Other financial investments	83,965.3	129,713.4
Investment collateral under agreements to repurchase	81,248.5	78,458.4
Assets held for leasing	4,668.2	11,057.3
Assets received in lieu of payment	24,391.7	13,461.8
Other non financial investments	-	7.5
Total investments	<u>369,116.2</u>	<u>295,238.2</u>
<b>OTHER ASSETS</b>	<u>76,961.3</u>	<u>59,349.3</u>
<b>FIXED ASSETS:</b>		
Premises and equipment	59,431.2	63,602.6
Investments in other companies	1,788.9	1,397.9
Total long-term assets	<u>61,220.1</u>	<u>65,000.5</u>
Total assets	<u><b>2,900,720.3</b></u>	<u><b>2,914,973.2</b></u>

The accompanying notes 1 to 17 are an integral part of these consolidated financial statements

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
as of December 31,

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>2001 MCh\$</b>	<b>2000 MCh\$</b>
<b>DEPOSITS AND OTHER LIABILITIES:</b>		
Current accounts	255,269.3	234,046.7
Time deposits	1,351,750.7	1,393,199.1
Other demand and time deposits	109,850.9	124,039.1
Securities sold under agreements to repurchase	89,467.5	91,144.9
Mortgage finance bonds	494,268.9	472,410.3
Contingent liabilities	83,177.3	126,693.5
Total deposits and other liabilities	2,383,784.6	2,441,533.6
<b>BOND ISSUED</b>		
Bonds	7,932.8	11,568.9
Subordinated bonds	85,083.8	53,174.3
Total bonds issued	93,016.6	64,743.2
<b>BORROWINGS</b>		
Central Bank borrowings for refinancing loans	1,992.9	2,436.0
Other liabilities with Banco Central de Chile	39,850.1	-
Borrowings from domestic financial institutions	19,951.9	41,721.4
Foreign borrowings	35,774.7	43,065.6
Other borrowings	26,556.5	33,397.8
Total borrowings	124,126.1	120,620.8
<b>OTHER LIABILITIES</b>		
Total liabilities	56,171.8	57,128.3
<b>VOLUNTARY ALLOWANCES FOR LOAN LOSSES</b>		
	4,250.0	-
<b>MINORITY INTEREST</b>		
	-	-
<b>SHAREHOLDERS' EQUITY:</b>		
Capital and reserves	229,268.0	227,672.9
Net income (loss) for the year	10,103.2	3,274.4
Total shareholders' equity	239,371.2	230,947.3
Total liabilities and shareholders' equity	<b>2,900,720.3</b>	<b>2,914,973.2</b>

The accompanying notes 1 to 17 are an integral part of these consolidated financial statements

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
for the periods between January 1 and December 31,

	<b>2001</b>	<b>2000</b>
	<b>MCh\$</b>	<b>MCh\$</b>
<b>OPERATING RESULTS</b>		
Interest revenue	276,883.5	304,736.7
Gains on sales of financial instruments	5,974.7	5,438.1
Commissions and fees earned	30,498.3	22,078.5
Net exchange gains	2,259.5	6,848.6
Other operating revenue	334.6	418.7
Total operating revenue	<u>315,950.6</u>	<u>339,520.6</u>
Interest expense	(155,720.5)	(195,471.6)
Loss on sales of financial instruments	(2,553.8)	(3,791.6)
Commission and fees paid	(5,011.1)	(4,793.1)
Other operating expenses	(1,373.7)	(533.3)
Gross margin	<u>151,291.5</u>	<u>134,931.0</u>
Personnel salaries and expenses	(47,947.1)	(41,487.9)
Administrative and other expenses	(40,029.5)	(39,197.9)
Depreciation and amortization	(9,833.3)	(6,705.6)
Net margin	<u>53,481.6</u>	<u>47,539.6</u>
Provisions for losses on loans and other assets	(41,021.8)	(36,761.9)
Recovery of loans previously charged-off	5,957.9	3,690.8
Total operating income (expenses)	<u>18,417.7</u>	<u>14,468.5</u>
<b>NON OPERATING RESULTS:</b>		
Non operating income	4,908.1	2,275.8
Non operating expenses	(3,141.5)	(6,935.6)
Participation in earnings of equity method investments	45.9	3.7
Loss from price-level restatements	(4,173.3)	(7,199.6)
Income (loss) before income tax	<u>16,056.9</u>	<u>2,612.8</u>
Income tax	(1,703.7)	1,026.1
Income (loss) after income tax	<u>14,353.2</u>	<u>3,638.9</u>
Minority interest	-	(364.5)
Surplus	14,353.2	3,274.4
Voluntary loan losses allowance	(4,250.0)	-
<b>NET INCOME FOR THE YEAR</b>	<u><u>10,103.2</u></u>	<u><u>3,274.4</u></u>

The accompanying notes 1 to 17 are an integral part of these consolidated financial statements

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
for the periods between January 1 and December 31,

	<b>2001</b>	<b>2000</b>
	<b>MCh\$</b>	<b>MCh\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES :</b>		
Net income for the year	10,103.2	3,274.4
Charges (credits) to net income which do not represent cash flows:		
Depreciation and amortization	9,833.3	6,705.6
Provision for losses on loans and other assets	41,021.8	36,761.9
Voluntary allowance for loan losses	4,250.0	-
Provision for adjustment of financial investments to market value	(335.5)	(233.8)
Participation in earnings of equity method investments	(45.9)	(3.7)
Gain on sales of assets received in lieu of payment	(2,660.6)	(86.4)
Gain on sales of premises and equipment	(137.1)	(68.3)
Write-off of assets received in lieu of payment	1,765.5	6,728.8
Price-level restatement	4,173.3	7,199.6
Other charges (credits) which do not represent cash flows	(106.0)	(1,387.4)
Net variation in accrued interest, readjustments and commissions on assets and liabilities	7,082.1	(7,025.2)
	<b>74,944.1</b>	<b>51,865.5</b>
<b>Net cash provided by operating activities</b>		
	<b>74,944.1</b>	<b>51,865.5</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net (Increase) decrease in loans	37,908.3	(220,183.8)
Net decrease in other loans	16,584.1	-
Net (Increase) in financial investments	(72,176.8)	(36,413.4)
Purchases of fixed assets	(6,381.8)	(18,163.5)
Sales of premises and equipment	857.0	17.0
Investments in other companies	(345.1)	(63.2)
Dividends received from other companies	94.1	165.5
Proceeds from sale of assets received in lieu of payment	5,080.6	2,932.4
Net (Increase) decrease in other assets and liabilities	(26,644.7)	13,798.4
	<b>(45,024.3)</b>	<b>(257,910.6)</b>
<b>Net cash used in investment activities</b>		
	<b>(45,024.3)</b>	<b>(257,910.6)</b>

The accompanying notes 1 to 17 are an integral part of these consolidated financial statements

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
for the periods between January 1 and December 31,

<b>Statement of Cash Flows, continued</b>	<b>2001</b>	<b>2000</b>
	<b>MCh\$</b>	<b>MCh\$</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net Increase in current accounts	21,222.6	19,549.8
Net Increase (decrease) in time deposits	(31,392.9)	85,548.5
Net Increase (decrease) in other demand and time liabilities	(14,188.2)	60,429.6
Net Increase in securities sold under agreements to repurchase	(1,596.9)	22,798.2
Increase (decrease) in short-term foreign borrowings	(7,278.3)	22,006.3
Issuance of mortgage finance bonds	72,839.7	94,590.7
Redemption of mortgage finance bonds	(52,211.9)	(32,836.0)
Increase (decrease) in other short-term liabilities	597.9	(32,520.7)
Borrowings from Central Bank (short-term)	39,850.1	-
Payment of borrowings from Central Bank (long-term)	(443.1)	(399.0)
Issuance of bonds	29,454.7	-
Redemption of bonds	(3,414.7)	(4,950.4)
Borrowings from financial institutions (long-term)	(6,831.6)	-
Payment of borrowings from financial institutions (long-term)	(21,769.5)	-
Other long-term borrowings	-	14,342.1
Payment of other long-term borrowings	-	(2,393.2)
Capital increase	-	4.4
Dividends paid	(1,588.0)	-
	<u><b>23,249.9</b></u>	<u><b>246,170.3</b></u>
<b>Net cash provided by Financing Activities</b>		
<b>Total net positive cash flows for the year</b>	<u><b>53,169.7</b></u>	<u><b>40,125.2</b></u>
<b>Effect of inflation and exchange rate on cash and cash equivalent</b>	<u><b>(9,009.1)</b></u>	<u><b>(10,127.5)</b></u>
<b>Variation of cash and cash equivalent during the year</b>	<u><b>44,160.6</b></u>	<u><b>29,997.7</b></u>
<b>Cash and cash equivalent, beginning balance</b>	<u><b>199,759.1</b></u>	<u><b>169,761.4</b></u>
<b>Cash and cash equivalent, ending balance</b>	<u><u><b>243,919.7</b></u></u>	<u><u><b>199,759.1</b></u></u>

The accompanying notes 1 to 17 are an integral part of these consolidated financial statements

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2001 AND 2000**  
**(A free translation from the original in Spanish)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

a) Basis of consolidation

These consolidated financial statements have been prepared in accordance with the accounting instructions of the Superintendencia de Bancos e Instituciones Financieras ("Superintendency of Banks") and generally accepted accounting principles as understood in Chile, and include, therefore, the balances of its subsidiaries in which its ownership exceed 50% of the equity, according to the following detail:

	<b>Participation</b>	
	<b>2001</b>	<b>2000</b>
	<b>%</b>	<b>%</b>
Banedwards S.A. Corredores de Bolsa	99.16	99.16
Banedwards S.A. Asesoría Financiera (*)	99.90	99.90
Banedwards S.A. Administradora de Fondos Mutuos	99.00	99.00
Banedwards Administradora de Fondos de Inversión S.A.	99.51	99.51
Banedwards Corredora de Seguros Ltda.	99.00	99.00
Banedwards Factoring S.A. (*)	99.00	99.00
Banedwards Securitizadora S.A.	99.00	99.00

(\*) Companies under supervision of the Superintendency of Banks. The rest of companies are regulated by the Superintendency of Securities Insurance.

Related party transactions and their effects on the consolidated financial statements have been eliminated. Minority interest is shown as a separate item in the consolidated balance sheet and consolidated statement of income.

Aggregated assets and operating income of subsidiaries as of December 31, 2001 represent 1.6% and 5.2% (1.5% and 6.9% in 2000) of total consolidated assets and operating income, respectively.

For comparative purposes the amounts for the year 2000 have been restated according to changes in the consumer price index, in 3.1%.

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued**

b) Accounting principles applied

The bank and its subsidiaries prepare their financial statements according to generally accepted accounting principles in Chile and specific instructions issued by different regulatory bodies in each field of business: Superintendency of Banks and Financial Institutions and Superintendency of Securities and Insurance.

The use of different accounting rules do not create significant differences in the consolidated financial statements.

c) Interest and readjustments:

Loans, investments and liabilities are shown including accrued interest and readjustments as of the balance sheet date. However, in case the past-due loans and those of doubtful recovery, The bank and subsidiaries has applies a conservative criteria of suspending accrual of interest and readjustments.

d) Price-level restatements

Shareholders' equity, fixed assets and other non-monetary assets and liabilities have been restated according to the variation in the Consumer Price Index (CPI). The application of this principle generated a net charge to income of MCh\$ 4,173.3 (MCh\$ 7,199.6 in 2000). Consolidated income statement accounts have not been restated for the Bank and subsidiaries supervised by the Superintendency of Banks.

e) Foreign currency

Foreign currency assets and liabilities of the Bank and subsidiaries regulated by the Superintendency of Banks have been translated into Chilean pesos at the closing exchange rate informed by the Superintendency of Banks of Ch\$ 656.20 to US\$ 1 at December 31, 2001 (Ch\$ 572.68 to US\$ 1 in 2000). The remaining subsidiaries have used the exchange rate of Ch\$ 654.79 per US\$ 1(Ch\$ 572.68 in 2000).

Since the application of the aforementioned exchange rate does not generate significant differences, the same principle has been applied in the consolidated financial statements.

Net exchange gains of MCh\$ 2,259.5 (MCh\$ 6,848.6 in 2000) included in the consolidated statement of income recognize the effect of exchange rate changes in foreign currency assets and liabilities and the results of exchange trading by the Bank and its subsidiaries.

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued**

f) Financial investments

Financial investments with a secondary market are shown to their market value, in accordance with specific instructions issued by the Superintendency of Banks. These instructions require these adjustments to be recognized against income, except for the portion of the investment portfolio classified as permanent in nature may be recorded directly to the equity account "Fluctuations in valuation of financial investments".

The bank and subsidiaries do not have investments classified as permanent as of December 31, 2001 and 2000.

The application of this adjustment generated a net credit to income of MCh\$335.5 (MCh\$233.8 in 2000), which is shown in the consolidated statement of income under "Gains on sales of financial instruments".

Other investment in securities without secondary market are shown at acquisition cost plus their respective accrued interest and indexation adjustment.

g) Derivatives

The bank and subsidiaries values forward currency contracts on a daily basis based on the observed exchange rate, and the resulting gain or loss are recognized to income on accrued basis in accordance with instructions of the Superintendency of Banks, the initial gains or losses corresponding to the difference between the spot and future rate are recognized as deferred assets or liability and amortized to income over the duration of the respective contracts.

The bank and subsidiaries are valued interest rate swaps (IRS) on a monthly basis, based on the difference between the contracted interest rates, recognizing the resulting gain or loss as credit or debit to income respectively. In addition, the bank and subsidiaries has recognized a gain or loss resulting from an adjustment to the market value of the swap portfolio used to hedge the interest rate and foreign exchange risks of the foreign investment portfolio. At December 31, 2001, Other assets include a debit balance amounting to MCh\$ 543,6 (credit balance of MCh\$ 743,9 in 2000) relating to the mark - to-market adjustment on swap contracts, and included a net credit to income of MCh\$ 543,6 in 2001 (a net charge of MCh\$ 743,9 in 2000).

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued**

h) Lease contracts

Financial lease contracts include the aggregate lease payments receivable, less unearned income and value-added tax. Allowances for losses on lease contracts are shown separately under the caption "Allowance for loan losses".

Assets acquired for leasing contracts are shown under the item "Assets held for leasing", which are shown at restated cost.

i) Bank premises and equipment

Bank premises and equipment are shown at restated cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated remaining useful lives of the assets.

j) Investments in other companies:

Shares or rights, in which the Bank or subsidiaries hold 10% or more of the share capital or the right to elect or appoint at least one Director or officer, are accounted for using the equity method (V.P.P.).

k) Allowance for loan losses:

Allowances required to cover potential loan losses have been set up in conformity with regulations issued by the Superintendency of Banks and Financial Institutions. Assets are shown net of such allowances, or include a deduction in the case of loans.

For companies not supervised by the Superintendency of Banks, allowances are set up according to the specific criteria established by the management of the related subsidiaries.

l) Voluntary allowances for loan losses:

According to the General Banking Law, Financial Institutions may set up special allowances. Referred to as "voluntary allowances for loan losses", which are included as effective equity in compliance with certain minimums capital requirement of that law.

The amounts set up at year end and its effects on income are shown in the consolidated balance sheets and consolidated income statements.

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES, continued**

m) Income tax and deferred tax

Current income tax has been determined in conformity with current income tax legislation.

The effects of deferred taxes for temporary differences between the tax and financial basis of assets and liabilities are recorded in accordance with the accounting rules issued by the Chilean Institute of Accountants.

n) Employee vacations

The annual cost of staff vacations and benefits are shown on an accrual basis.

o) Fees and expenses related to loans and services

The fees and expenses related to loans, as well as fees for services rendered, are recognized in income over the term of the loans to which they relate, and to the period that the services are performed.

p) Assets received lieu of

The assets received in lieu of are shown to the lower value among their incorporation value restated and the appraisal value of these assets, taken as a whole. Those assets that have not been sold in the term one year, are gradually write-off in the additional period of 18 months, in accordance with the instructions of the Superintendency of Bank.

q) Statement of cash flows

In conformity with the specific provisions applicable to financial institutions, only the item Cash and due from banks in the Consolidated balance sheet has been considered as cash and cash equivalents.

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**NOTE 2 - ACCOUNTING CHANGES:**

During the year 2001, there have not been accounting changes that may significantly affect these consolidated financial statements.

**NOTE 3 - RELEVANT EVENT**

The following relevant events occurred in 2001:

a) At Board of Directors Meeting held on March 22, 2001, the Board was informed of the resignation of the following directors:

- Guillermo Luksic Craig
- Rodrigo Manubens Moltedo
- Sergio Melnick Israel
- Gonzalo Menéndez Duque
- Francisco Pérez Mackenna

As per the Banks By-laws, as of that date, the following deputy directors assumed positions as directors:

- Edmundo Eluchans Urenda
- Jorge Díaz Vial

At the same meeting, the following directors were appointed until the next General Ordinary Shareholders Meeting:

- Luis Hernán Paúl Fresno
- Juan Pablo Ureta Prieto
- Erik Haindl Rondanelli

b) At Board of Directors Meeting held on March 29, 2001, the Bank's Board agreed upon the nomination of the following deputy directors until the next General Ordinary Shareholders Meeting:

- Fernando Silva Lavín (First deputy director)
- Martín Rodríguez Guiraldes (Second deputy director)

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**NOTE 3 - RELEVANT EVENTS, continued**

- c) At Board of Directors Meeting held on July 26, 2001, the Bank's Board agreed to disclose the initiation of negotiations with Banco de Chile to establish the basis of an eventual merger and the hiring of Morgan Stanley & Co. Incorporated as financial consultant for that purpose.
- d) At Board of Directors Meeting held on August 7, 2001, the Board agreed to propose the merger between Banco de A. Edwards and Banco de Chile, under the terms that the shareholders of Banco de A. Edwards would have 34% participation in the merged bank and that the shareholders of Banco de Chile would have 66% participation in the same.
- e) At Board of Directors Meeting held on October 3, 2001, the Board agreed to accept the conditions imposed by the Banco Central de Chile, in its meeting N° 939 E held on October 1, 2001, to approve the merger and inform that the respective authorization granted by the Superintendency of Banks and Financial Institutions had been obtained, and that a Merger Agreement with the Banco de Chile had been executed.
- f) At Board of Directors Meeting held on October 9, 2001, the Board was informed of the resignation of Mr. Pablo Granifo Lavín as general manager and agreed to designate Mr. Julio Guzmán Herrera as the Bank's general manager as of October 16, 2001.
- g) At Banco de A. Edwards' Extraordinary General Shareholders' Meeting held on December 18, 2001, it was agreed to meet the conditions imposed by the Banco Central de Chile in their meeting N° 939 E, held on October 1, 2001 to approve the merger. For the purpose of the above, among other requirements, the institution made voluntary allowances of Ch\$ 4,250 million charged to the 2001 income.
- h) At Extraordinary General Shareholders' Meeting of Banco de Chile held on December 6, 2001, whose minutes were reduced to public deed dated December 7, 2001, and at Extraordinary General Shareholders' Meeting of Banco de A. Edwards, held on December 18, 2001, whose minutes were reduced to public deed dated December 19, 2001, it was agreed and approved the merger by incorporation of both institutions, by means of absorption of Banco de A. Edwards by Banco de Chile, effective as of January 1, 2002. The Superintendency of Banks and Financial Institutions approved the agreements adopted at the Shareholders' Meetings of both banks by Resolution No. 147 dated December 21, 2001, which was published in the Official Gazette on December 26 of the same year, and was registered in Folio 33,188 No. 27,064 of the Santiago Commercial Registry dated December 21, 2001.

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**NOTE 3 - RELEVANT EVENTS, continued**

As a consequence of those agreements, Banco de Chile, as of January 1, 2001 acquired all the assets and assumed all the liabilities of Banco de A. Edwards, succeeding it in all its rights and obligations and incorporating all the equity and shareholders of Banco de A. Edwards to Banco de Chile. Additionally, and having met all the legal requirements, Banco de A. Edwards has been dissolved without need for liquidation, as of December 31, 2001.

In order to comply with the merger agreement adopted at Extraordinary General Shareholders' Meeting of Banco de Chile, such institution agreed to increase its stock capital by Ch\$ 218,086,462,964 through issuance of 23,147,126,425 shares denominated Banco de Chile-F, without nominal value, to be distributed among the shareholders of the absorbed company, Banco de A. Edwards, at a rate of 3.135826295 Banco de Chile-F shares for each Banco de A. Edwards share. The Banco de Chile-F shares will have the same rights as the rest of the Banco de Chile shares and by exception will allow their holders to receive, during 2002, exclusively the dividends corresponding to the net income of Banco de A. Edwards in 2001. Once such dividends have been distributed and paid, the Banco de Chile-F shares will automatically convert into Banco de Chile shares.

- i) Banco de A. Edwards and subsidiaries have recorded a charge to income for the year of Ch\$ 4,145.5 million for staff severance indemnities associated to personnel reductions and Ch \$ 2,939.6 million for other charges inherent to the merger.
- j) On December 7, 2001, as per Official Letter No. 8581, the Superintendency of Securities and Insurance authorized the transfer of the management of all funds administrated by Banedwards Administradora de Fondos Mutuos S.A. to Administradora Banchile de Fondos Mutuos S.A., which subsequently was agreed upon at Extraordinary General Shareholders' Meeting of Banedwards Administradora de Fondos Mutuos S.A. held on December 11, 2001, effective as of January 1, 2002.

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**NOTE 3 - RELEVANT EVENTS, continued**

- k) On December 17, 2001, as per Exempt Resolution No. 10,343 of the Superintendence of Banks and Financial Institution, It was approved the merger by incorporation of the following subsidiaries of the Banco de A. Edwards: Banedwards S.A. Corredores de Bolsa, Banedwards Factoring S.A., Banedwards S.A. Asesoría Financiera and Banedwards Corredora de Seguros Limitada with the subsidiaries of the Banco de Chile , Banchile Corredores de Bolsa S.A., Banchile Factoring S.A. , Banchile Asesoría Financiera S.A. and Banchile Corredores de Seguros Limitada, remaining the last companies as successors for all legal effects.

At Extraordinary General Shareholders' Meetings whose details are indicated below, the merger of the subsidiaries indicated above were approved, effective January 1, 2002:

<b>Name of Absorbed Company</b>	<b>Date of Shareholders' Meeting</b>
Banedwards S.A. Corredores de Bolsa	December 19, 2001
Banedwards Factoring S.A.	December 19, 2001
Banedwards S.A. Asesoría Financiera	December 24, 2001

  

<b>Name of Absorbing Company</b>	<b>Date of Shareholders' Meeting</b>
Banchile Corredores de Bolsa S.A.	December 19, 2001
Banchile Factoring S.A.	December 19, 2001
Banchile Asesoría Financiera S.A.	December 20, 2001

- l) At Extraordinary General Shareholders' Meeting of Banedwards Securitizadora S.A. held on December 20, 2001 it was agreed to change the name of the company to Banchile Securitizadora S.A., effective January 1, 2002.
- m) At Extraordinary General Shareholders' Meeting of Banedwards Administradora de Fondos de Inversión S.A. held on December 27, 2001 it was agreed to change the name of the company to Banchile Administradora de Fondos de Inversión S.A., effective January 1, 2002.

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**NOTE 4 - TRANSACTIONS WITH RELATED PARTIES**

In accordance with the General Banking Law and instructions from the Superintendency of Banks, related parties are those persons or entities related directly or indirectly to the owners or management of the Bank and its subsidiaries.

a) Loans granted to related parties

At December 31, 2001 and 2000 loans granted to related parties are as follows:

	Current		Past-due		Total		Collateral pledged(*)	
	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$
Operating companies	29,172.8	34,020.4	-	-	29,172.8	34,020.4	9,659.2	13,220.1
Investment companies	457.3	489.8	-	-	457.3	489.8	408.6	430.8
Individuals (**)	233.1	590.1	-	-	233.1	590.1	141.1	461.5
Total	<b>29,863.2</b>	<b>35,100.3</b>	-	-	<b>29,863.2</b>	<b>35,100.3</b>	<b>10,208.9</b>	<b>14,112.4</b>

(\*) Includes only that collateral allowed for calculating individual credit limits as referred to in Article No. 84 of the General Banking Law, valued to this effect in accordance with the instructions issued by the Superintendency of Banks.

(\*) Only includes the obligations of individuals whose debts are equivalent to UF 3,000 or more.

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**NOTE 4 - TRANSACTIONS WITH RELATED PARTIES, Continued**

b) Other related – party transactions

	Expense		Income	
	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$
Redbanc S.A.				
Electronic transfer and automatic teller machine services and commissions	1,484.1	1,714.8	-	-
Baned Servicios Especializados Ltda.				
Service expenses and rental	1,382.3	260.5	-	-
Transbank S.A.				
Credit card services	1,286.8	1,792.3	-	-
Soc. Prom. y Eventos Mundo Edwards				
Service expense	1,050.0	-	-	-
Empresa de Servicios Especializados S. A.				
Service expense	905.5	275.6	-	-
Operadora de Tarjetas de Crédito Nexus S. A.				
Service expense and commissions	887.1	788.4	-	-
Empresa Nacional de Telecomunicaciones (Entel)				
Service expense	880.1	215.3	-	-
Baned Servicios Legales Ltda.				
Service expense	527.8	571.3	-	-
Promarket				
Service expense and rental	175.3	206.0	-	-
Editorial Trineo S.A.				
Service expense	134.2	89.5	-	-
Tarjetas Inteligentes S.A.				
Service expense	82.7	21.5	-	-
Subtotal	8,795.9	5,935.2	-	-
Transactions lower than U.F. 5,000:				
Services received	381.0	851.1	-	-
Rent received			22.2	22.1
Rental income				
Subtotal	381.0	851.1	-	-
Total	9,176.9	6,786.3	22.2	22.1

The balance only includes related-party transactions in the amount equivalent to U.F. 5,000 or more. In addition, a summary of related-party transactions, which individually exceed the equivalent of U.F. 1,000, is shown for type at service. Related party transactions were carried out at normal market conditions prevailing at the date on which they were made.

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**NOTE 5 – INVESTMENT IN OTHER COMPANIES**

Investments in other companies in the amount of MCh\$ 1,788.9 (MCh\$ 1,397.9 in 2000), included in fixed assets are as follows:

Company	Ownership Interest		Company's equity		Investment			
	2001	2000	2001	2000	Investment value		Results	
	%	%	MCh\$	MCh\$	2001	2000	2001	2000
Redbanc S.A.	12.71	12.71	3,626.8	3,520.2	461.0	447.5	109.9	96.0
Bolsa de Comercio de Santiago	2.08	2.08	14,851.4	15,450.6	311.4	321.9	58.2	77.8
Transbank S.A.	8.72	8.72	4,323.5	3,385.5	377.0	291.1	85.8	(48.4)
Nexus S.A.	12.90	12.90	3,154.0	1,065.4	407.0	137.5	(205.8)	(121.6)
Bolsa de Valores de Chile S.A.	2.50	2.50	2,357.1	2,324.6	58.9	58.1	0.8	(7.7)
Subtotal					1,615.3	1,256.1	48.9	(3.9)
Shares or rights in other companies					173.6	141.8	(3.0)	7.6
Total					1,788.9	1,397.9	45.9	3.7

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**NOTE 6 - ALLOWANCES FOR LOSSES ON LOANS AND OTHER ASSETS**

a) Allowances for losses on loans and other assets

At December 31, 2001, the Bank and its subsidiaries have made allowances for losses on loans and other assets amounting to MCh\$ 90,394.8 (MCh\$ 80,905.4 in 2000), corresponding to the minimum provisions required by the Superintendency of Banks.

The movements in the allowances referred in above, is as follows:

	Allowances for			Total MCh\$
	Loans MCh\$	Assets received in lieu of payment MCh\$	Other Assets MCh\$	
Balances at December 31, 1999	72,548.9	2,315.5	336.6	75,201.0
Application of allowances	(29,645.1)	(2,403.0)	(336.6)	(32,384.7)
Allowances established	34,648.8	1,007.7	-	35,656.5
Balances at December 31, 2000	77,552.6	920.2	-	78,472.8
Balances restated for comparative purposes	79,956.7	948.7	-	80,905.4
Balances at December 31, 2000	77,552.6	920.2	-	78,472.8
Application of allowances	(28,617.1)	(412.4)	(70.3)	(29,099.8)
Allowances established	40,410.8	212.6	398.4	41,021.8
Balances at December 31, 2001	<b>89,346.3</b>	<b>720.4</b>	<b>328.1</b>	<b>90,394.8</b>

In the opinion of the management the allowances made cover all potential losses that may derive from non-recovery of assets, based upon available information.

b) Voluntary allowances:

In addition to the allowance to for loan losses shown in (a) above, the Bank and its subsidiaries, has made voluntary allowances totaling MCh\$ 4,250. As of December 31, 2001.

As a result of establishing these voluntary allowances in 2001. The Bank and subsidiaries has charged to the income an amount of MCh\$4,250 (See Note 3(g)).

At December 31, 2000, the Bank and its subsidiaries has no voluntary allowance for loan losses.

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**NOTE 7 - SHAREHOLDERS' EQUITY**

a) Equity accounts

The movement in the equity accounts were as follows:

	Paid – in Capital MCh\$	Reserves MCh\$	Other accounts MCh\$	Net income (loss) for the year MCh\$	Total MCh\$
Balances at December 31, 1999	132,512.3	85,030.5	-	(6,601.2)	210,941.6
Retained earnings	-	(6,601.2)	-	6,601.2	-
Capitalization of reserves	75,811.0	(75,811.0)	-	-	-
Capital increase	4.3	-	-	-	4.3
Price-level restatement	9,758.8	122.6	-	-	9,881.4
Net income for the year	-	-	-	3,175.9	3,175.9
Balances at December 31, 2000	<u>218,086.4</u>	<u>2,740.9</u>	<u>-</u>	<u>3,175.9</u>	<u>224,003.2</u>
Balances price-level restated for comparative purposes	224,847.1	2,825.8	-	3,274.4	230,947.3
Balances at December 31, 2000	218,086.4	2,740.9	-	3,175.9	224,003.2
Retained earnings	-	1,587.9	-	(1,587.9)	-
Dividends paid	-	-	-	(1,588.0)	(1,588.0)
Price-level restatement	6,717.1	135.7	-	-	6,852.8
Net income for the year	-	-	-	10,103.2	10,103.2
Balances at December 31, 2001	<u><b>224,803.5</b></u>	<u><b>4,464.5</b></u>	<u><b>-</b></u>	<u><b>10,103.2</b></u>	<u><b>239,371.2</b></u>

- At the General Extraordinary Shareholders' Meeting held on March 16, 2000 it was agreed to increase the Bank's capital by Ch\$ 75,811,038,277 by capitalizing reserves.
- At the General Extraordinary Shareholders' Meeting held on August 17, 2000, it was agreed to increase the Bank's capital by Ch\$ 4,308,735 through the issuance of 150,626 paid-in no-par value shares. The share issuance was intended for the merger by absorption of Banedwards Sogeleasing S.A. by Banco de A. Edwards, and corresponds to the number of shares issued to the minority shareholders of Banedwards Sogeleasing S.A., in accordance with the exchange ratio referred to in the special report for the merger of Banco de A. Edwards and Banedwards Sogeleasing S.A. dated on August 4, 2000.
- As of December 31, 2001 and 2000, the Bank's capital consists of 7,381,507,854 subscribed and paid-in shares.

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**NOTE 7 - SHAREHOLDERS' EQUITY, Continued**

b) Basic capital and effective equity of the bank:

In accordance with the General Banking Law, the minimum basics capital of Bank may not be less than 3% of its assets, while its effective equity may not be less than 8% of its risk-weighted assets.

The Bank, according to as per current legislation which only applies to the unconsolidated Bank (excluding its subsidiaries), showed the following position as of each yea end:

	<b>2001</b>	<b>2000</b>
	<b>MCh\$</b>	<b>MCh\$</b>
Base capital (*)	229,268.0	227,672.9
Total assets	2,846,489.5	2,877,142.8
Ratio	8.05%	7.91%
Actual equity (**)	280,309.2	254,693.3
Risk – weighted assets	2,221,370.4	2,357,407.9
Ratio	12.62%	10.80%

(\*) Equivalent to paid-in capital and reserves for these purposes.

(\*\*) According to article 66 of the General Banking law, in order to determine the effective equity the amounts corresponding to investments in companies and the capital allocated to foreign branches should be deducted and subordinated bonds and voluntary allowances should be considered, up to certain limits, as shareholders' equity.

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**NOTE 8 - INVESTMENTS**

a) Financial investments

	Portfolio Classification						Mark-to-market adjustment				Total	
	Permanent		Non - Permanent		Sub-Total		Against Income		Against Equity			
	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$
- Central Bank securities	-	-	234,653.4	119,534.4	234,653.4	119,534.4	1,547.3	212.9	-	-	236,200.7	119,747.3
- Chilean Treasury and Other government agency securities	-	-	404.7	767.0	404.7	767.0	-	-	-	-	404.7	767.0
- Domestic financial institutions	-	-	21,931.9	67,136.8	21,931.9	67,136.8	19.4	99.2	-	-	21,951.3	67,236.0
- Other financial investments in Chile	-	-	16,209.6	3,379.3	16,209.6	3,379.3	187.1	-	-	-	16,396.7	3,379.3
- Foreign Financial Investments	-	-	52,048.0	77,886.4	52,048.0	77,886.4	(921.5)	245.3	-	-	51,126.5	78,131.7
- Mortgage finance bonds issued by the Bank	-	-	13,919.7	1,437.0	13,919.7	1,437.0	56.7	13.3	-	-	13,976.4	1,450.3
Total	-	-	<b>339,167.3</b>	<b>270,140.9</b>	<b>339,167.3</b>	<b>270,140.9</b>	<b>889.0</b>	<b>570.7</b>	-	-	<b>340,056.3</b>	<b>270,711.6</b>

(\*) Classified by issued or payment obligations. The table includes a total amount of MCh\$ 81,248.5 of securities sold under repurchase agreements (MCh\$ 78,458.4 in 2000).

**b) Other investments**

	2001 MCh\$	2000 MCh\$
Assets held for leasing	4,668.2	11,057.3
Assets received in lieu of payment (*)	24,391.7	13,461.8
Other investments	-	7.5
Total	<b>29,059.9</b>	<b>24,526.6</b>

(\*) Assets received in lieu of payment are shown net of an allowance of MCh\$ 720.4 (MCh\$ 948.7 in 2000). The amount included in the balance sheet represents the estimated realizable value of these assets, taken as a whole.

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**NOTE 9 - MATURITIES OF ASSETS AND LIABILITIES**

a) Maturities of loans and financial investments

The following table summarizes loans and financial investments, classified according to years to maturity. The amounts include accrued interest As of December 31, 2001 and 2000:

	2001				
	Over one year, Over three years				
	Up to one year MCh\$	up to three years MCh\$	up to six years MCh\$	Over six years MCh\$	Total MCh\$
LOANS (1)					
Commercial loans and others	1,083,322.2	190,928.2	147,034.1	174,244.1	1,595,528.6
Mortgage loans	10,741.8	21,594.7	31,938.6	102,062.1	166,337.2
Leasing contracts	17,761.3	21,752.1	20,148.6	21,195.7	80,857.7
Consumer loans	97,558.6	69,345.2	10,366.6	239.8	177,510.2
OTHER LOANS					
Interbank loans	5,049.0	-	-	-	5,049.0
Investments purchased under agreements to resell	20,341.2	-	-	-	20,341.2
FINANCIAL INVESTMENTS					
Non-permanent securities (2)	340,056.3	-	-	-	340,056.3
Totals	<b>1,574,830.4</b>	<b>303,620.2</b>	<b>209,487.9</b>	<b>297,741.7</b>	<b>2,385,680.2</b>
	2000				
	Over one year, Over three years,				
	Up to one year MCh\$	up to three years MCh\$	up to six years MCh\$	Over six years MCh\$	Total MCh\$
LOANS (1)					
Commercial loans and others	1,202,481.6	187,448.7	153,865.4	213,786.1	1,757,581.8
Mortgage loans	9,140.7	19,023.8	27,243.8	85,130.2	140,538.5
Leasing contracts	16,317.2	16,664.1	8,746.8	10,274.7	52,002.8
Consumer loans	86,173.4	60,263.7	8,831.4	176.9	155,445.4
OTHER LOANS					
Interbank loans	9,292.6	-	-	-	9,292.6
Investments purchased under agreements to resell	32,693.8	-	-	-	32,693.8
FINANCIAL INVESTMENTS					
Non-permanent securities (2)	270,711.6	-	-	-	270,711.6
Totals	<b>1,626,810.9</b>	<b>283,400.3</b>	<b>198,687.4</b>	<b>309,367.9</b>	<b>2,418,266.5</b>

(1) Includes only current effective loans as of each year end with the indicated maturity periods. Therefore, contingent loans, past due loans and overdue loans are excluded, as well as, overdue loans not transferred to past-due loans amounting to MCh\$ 36,765.5 (MCh\$ 35,026.9 in 2000), of which MCh\$ 12,128.1 (MCh\$ 13,751.2 in 2000) had a delinquency of less than 30 days.

(2) Includes the total amount of financial investments, adjusted to market value

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**NOTE 9 - MATURITIES OF ASSETS AND LIABILITIES, Continued**

b) Maturities of deposits, borrowings and other obligations

The following table summarizes deposits, borrowings and other obligations, classified according to their remaining years to maturity. The amounts include accrued interest as of December 31, 2001 and 2000:

	2001				Total MCh\$
	Up to one year MCh\$	up to three years MCh\$	up to six years MCh\$	Over six years MCh\$	
DEPOSITS AND OTHER LIABILITIES (*)					
Deposits	1,261,070.5	10,421.3	-	-	1,271,491.8
Other term liabilities	3,681.5	398.8	307.2	-	4,387.5
Securities sold under agreements to repurchase	89,467.5	-	-	-	89,467.5
Mortgage finance bonds	44,648.8	79,641.4	118,103.2	251,875.5	494,268.9
BONDS	7,558.1	8,344.0	14,589.6	62,524.9	93,016.6
BORROWINGS FROM CENTRAL BANK AND FINANCIAL INSTITUTIONS					
Central Bank borrowings for refinancing of loans	305.6	571.5	673.5	442.3	1,992.9
Other liabilities with Banco Central de Chile	39,850.1	-	-	-	39,850.1
Borrowings from domestic financial institutions	19,951.9	-	-	-	19,951.9
Foreign borrowings	35,774.7	-	-	-	35,774.7
Other liabilities	12,965.9	7,517.0	4,297.6	1,776.0	26,556.5
Total	<b>1,515,274.6</b>	<b>106,894.0</b>	<b>137,971.1</b>	<b>316,618.7</b>	<b>2,076,758.4</b>
	2000				
	Up to one year MCh\$	up to three years MCh\$	up to six years MCh\$	Over six years MCh\$	Total MCh\$
DEPOSITS AND OTHER LIABILITIES (*)					
Deposits	1,314,848.3	395.6	-	-	1,315,243.9
Other term liabilities	2,163.7	316.8	450.5	-	2,931.0
Securities sold under agreements to repurchase	91,144.9	-	-	-	91,144.9
Mortgage finance bonds	41,417.2	75,765.5	111,852.9	243,374.7	472,410.3
BONDS	6,371.4	12,356.1	10,194.4	35,821.3	64,743.2
BORROWINGS FROM CENTRAL BANK AND FINANCIAL INSTITUTIONS					
Central Bank borrowings for refinancing of loans	321.8	616.7	868.2	629.3	2,436.0
Borrowings from domestic financial institutions	41,721.4	-	-	-	41,721.4
Foreign borrowings	43,065.6	-	-	-	43,065.6
Other liabilities	20,248.5	6,538.2	4,899.0	1,712.1	33,397.8
Total	<b>1,561,302.8</b>	<b>95,988.9</b>	<b>128,265.0</b>	<b>281,537.4</b>	<b>2,067,094.1</b>

(\*) Excludes all bankers' drafts, savings accounts and contingent liabilities.

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**NOTE 10 - FOREIGN CURRENCY POSITION**

The Consolidated balance sheet includes assets and liabilities denominated in foreign currency or which are susceptible to changes due to exchange rate fluctuations, as follows:

	Denominated in					
	Foreign currency		Chilean pesos (*)		Total	
	2001 ThUS\$	2000 ThUS\$	2001 ThUS\$	2000 ThUS\$	2001 ThUS\$	2000 ThUS\$
<b>Assets</b>						
Cash and due from banks	100,702.0	31,743.4	-	-	100,702.0	31,743.4
Loans	407,922.6	435,435.5	68,708.6	55,736.8	476,631.2	491,172.3
Contingent loans	51,694.6	100,356.4	7,023.6	44,277.8	58,718.2	144,634.2
Financial investments:						
- In Chile	848.1	1,218.6	132,557.0	27,137.7	133,405.1	28,356.3
- Abroad	47,325.6	131,914.0	-	-	47,325.6	131,914.0
Other assets	22,395.0	30,789.5	1.5	-	22,396.5	30,789.5
<b>Total assets</b>	<b>630,887.9</b>	<b>731,457.4</b>	<b>208,290.7</b>	<b>127,152.3</b>	<b>839,178.6</b>	<b>858,609.7</b>
<b>Liabilities</b>						
Deposits	369,056.9	186,739.0	6,747.5	21,453.1	375,804.4	208,192.1
Contingent liabilities	51,843.8	100,464.7	6,887.3	44,052.7	58,731.1	144,517.4
Borrowings from domestic financial institutions	37,011.0	-	-	-	37,011.0	-
Foreign borrowings	54,518.0	72,938.9	-	-	54,518.0	72,938.9
Other obligations	306,871.2	438,240.2	15,761.0	10,637.4	322,632.2	448,877.6
Total liabilities	<b>819,300.9</b>	<b>798,382.8</b>	<b>29,395.8</b>	<b>76,143.2</b>	<b>848,696.7</b>	<b>874,526.0</b>

(\*) Includes assets and liabilities denominated in foreign currency, and payable in Chilean pesos, or transactions that are adjusted based on exchange rate fluctuations.

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**NOTE 11 - DERIVATIVES**

The following summarizes the transactions in derivative instruments as of each year end:

a) Foreign currency and interest rate contracts:

Description of transaction	Number of contracts		Contract Amount			
			up to three months		over three months	
	2001	2000	2001 ThUS\$	2000 ThUS\$	2001 ThUS\$	2000 ThUS\$
Domestic market:						
Forward exchange contracts sold in Chilean currency	311	101	254,216.7	75,396.7	582,247.9	145,155.6
Forward exchange contracts purchased in Chilean currency	157	191	98,821.5	147,868.2	382,889.6	441,318.6
Forward exchange contracts in other foreign currencies	10	-	2,237.8	-	2,005.1	-
Foreign markets:						
Forward exchange contracts in foreign currency	8	5	2,052.3	2,032.5	178.9	7,536.2
Forward or other interest rate contracts	19	15	8,050.0	-	186,500.0	61,658.3

The amount refers to the United States dollars purchased or sold or the equivalent in United States dollars of the foreign currency purchased or sold or in the future, or the amount on which interest rate contracts are agreed. The time to maturity of the contracts corresponds to the original term of the contract.

b) Contracts regarding the value of an authorized readjustment system (SRA) and interest rates in Chilean currency:

Description of transaction	Number of contracts		Nominal amount of contract			
			of up to three months		of over three months	
	2001	2000	2001 UF	2000 UF	2001 UF	2000 UF
UF/peso forward contracts purchased	2	-	100,000.0	-	50,000.0	-
UF/peso forward contracts sold	27	1	185,541.0	-	170,081.0	30,000.0

c) Options:

At December 31, 2001 and 2000, the Bank and Subsidiaries do not have this type of operations.

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**NOTE 12 - COMMITMENTS, CONTINGENCIES AND RESPONSIBILITIES**

a) Commitments and responsibilities recorded in memorandum accounts

The Bank and its subsidiaries maintain the following memorandum accounts relating to their commitments or responsibilities arising in the ordinary course of business:

	<b>2001</b>	<b>2000</b>
	<b>MCh\$</b>	<b>MCh\$</b>
Credit approved but not yet disbursed	512,354.5	341,112.6
Safekeeping	335,117.9	344,131.0
Securities held in safe custody	104,311.1	90,212.5
Portfolio management	55,720.8	40,005.3
Foreign collections	19,222.7	26,829.8
Documents for collection on behalf of local third parties	19,082.0	15,711.9

The above includes only the most significant balances. Contingent loans and liabilities are shown in the Consolidated balance sheets.

b) Other contingencies

At December 31, 2001, the Bank is involved in litigation arising in the ordinary course of business. In the opinion Bank's management and its legal counsel, the final outcome of such litigation will not have a material adverse effect on the Bank's financial position or results.

c) Guarantees of transactions

In order to comply with Articles 30 and 31 of Law 18.045, Banedwards S.A. Corredores de Bolsa contracted insurance coverage of UF 9,000 and UF 11,000 to ensure compliance with its obligations as a stockbroker. The current policy, N° 201100433, is with Compañía de Seguros de Crédito Continental S.A and covers the period from April 22, 2001 to April 22, 2002.

In addition the Subsidiary Banedwards S.A. Corredores de Bolsa contracted insurance coverage of US\$ 4,000,000 with Chubb Compañía de Seguros, for concept of employee's fidelity. The current policy, N° 1830-B00, covers the period from March 1, 2001 to March 1, 2002.

This subsidiary has also granted a pledge over its shares in the Chilean Electronic Exchange and Santiago Stock Exchange to cover its performance and compliance with the rules and regulations of these exchanges.

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**NOTE 13 - COMMISSIONS**

The amounts of commissions earned and fees incurred shown in the Consolidated statement of income correspond to the following services:

	Income		Expenses	
	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$
Current accounts	5,058.6	2,072.7	-	-
Lines of credit	5,041.7	2,857.8	-	-
Credit cards	3,997.0	3,056.9	(3,003.3)	(2,623.0)
Automatic teller machines	3,685.5	2,737.0	(1,453.0)	(1,687.9)
Mutual fund fees	2,974.3	3,023.0	(20.4)	(18.6)
Insurance brokerage	2,075.6	1,948.2	-	-
Advisory services	1,664.0	918.5	-	(0.6)
Brokerage commissions	1,192.2	1,282.5	(127.8)	(172.9)
Documents for collection	1,251.3	1,265.8	-	-
Foreign exchange transactions	867.8	646.7	-	-
Letters of credit, guarantees and other contingent loans	687.2	628.0	-	-
Commissions for insurance collections	575.3	704.3	-	-
Saving accounts	98.4	87.7	-	-
Others	1,329.4	849.4	(406.6)	(290.1)
<b>Total</b>	<b>30,498.3</b>	<b>22,078.5</b>	<b>(5,011.1)</b>	<b>(4,793.1)</b>

Commissions earned on mortgage finance loans are shown in the Consolidated statement of income under "Interest revenue".

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**NOTE 14 – NON OPERATING INCOME AND EXPENSES**

As of December 31, 2001 and 2000 the Non-operating income and Non-operating expenses are composed as follows:

<b>Non-operating income:</b>	<b>2001</b> <b>MCh\$</b>	<b>2000</b> <b>MCh\$</b>
Gains on sales of assets received in lieu of payment	2.660,6	577,1
Several income	722,5	304,8
Foreign correspondents fees	339,2	167,8
Reimbursement of tax and expenses	287,1	681,8
Fees from leasing operations	218,4	115,4
Gain on sales of premises and equipment	137,1	68,3
Fees for administration services	21,3	9,3
Rent	4,0	33,5
Investment in other companies	-	195,2
Others	517,9	122,6
<b>Total</b>	<b>4.908,1</b>	<b>2.275,8</b>

<b>Non-operating expenses:</b>	<b>2001</b> <b>MCh\$</b>	<b>2000</b> <b>MCh\$</b>
Written - offs assets received in lieu of payment	1.765,5	6.728,8
Allowance for merger expenses	1.180,0	-
Non deductible expenses	139,1	82,5
Lease contracts written-offs	-	62,6
Others	56,9	61,7
<b>Total</b>	<b>3.141,5</b>	<b>6.935,6</b>

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**NOTE 15 – DEFERRED TAXES AND INCOME TAX**

The Bank and its subsidiaries have recorded in their financial statements the effects of deferred taxes and amortization of their supplementary accounts, as provided by the standards of Technical Bulletins N° 60, 69 and 71 of the Association of Chilean Public Accountants. The effects originated by these concepts are shown on the following table:

<b>Temporary differences</b>	<b>Balances as of December 31 2000 MCh\$</b>	<b>Deferred taxes/ amortizations Year 2001 MCh\$</b>	<b>Balances as of December 31 2001 MCh\$</b>
<b>Assets</b>			
Allowance for losses on loans and other assets	9,840.4	674.3	10,514.7
Voluntary loan loss allowance	-	637.5	637.5
Provision for employee vacations	397.2	(5,7)	391.5
Other provisions	305.2	128.6	433.8
Forward contracts	1,463.4	(1,445.7)	17.7
<b>Subtotal</b>	<b>12,006.2</b>	<b>(11.0)</b>	<b>11,995.2</b>
More (less):			
Complementary asset/liability balance to be amortized	303.6	170.2	473.8
<b>Net assets</b>	<b>12,309.8</b>	<b>159.2</b>	<b>12,469.0</b>
<b>Liabilities</b>			
Accelerated depreciation of premises and equipment and other assets	2,548.5	986.4	3,534.9
Adjustment of financial investments to market value	83.0	50.4	133.4
Forward contracts and agreement	-	872.1	872.1
Deferred expenses and others	-	611.5	611.5
Others	413.4	(413.4)	-
<b>Subtotal</b>	<b>3,044.9</b>	<b>2,107.0</b>	<b>5,151.9</b>
<b>Net liabilities</b>	<b>3,044.9</b>	<b>2,107.0</b>	<b>5,151.9</b>
<b>Net position</b>	<b>9,264.9</b>	<b>(1,947.8)</b>	<b>7,317.1</b>

As a result of the modification in the tax rate established in Law N° 19,753, the Bank and Subsidiaries have recognized the effect of such modification in determining the deferred taxes balances as of December 31, 2001.

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**NOTE 15 - DEFERRED TAXES AND INCOME TAX, Continued**

As of December 31, 2001, the balance of "Income tax" account in the consolidated statement of income shows a net charge amounting to MCh\$ 1,703.7 (net credit of MCh\$ 1,026.1 in 2000), detailed as follows:

	<b>Balances as of December 31</b>	
	<b>2001</b>	<b>2000</b>
	<b>MCh\$</b>	<b>MCh\$</b>
Current income tax	(675.6)	(2,204.3)
Additional tax Art. 21	(112.9)	-
Credit tax related to absorption of tax losses carryforwards	1,032.6	-
Deferred income taxes (1)	(2,118.0)	2,192.5
Amortization of complementary accounts	170.2	946.9
Other	-	91.0
<b>Total</b>	<b><u>(1,703.7)</u></b>	<b><u>1,026.1</u></b>

(1) In the year 2001 is included a charge of MCh\$ 63,1 corresponding to the effect deferred taxes originated by the assets and liabilities incorporate to the Bank, as a result of absorption of Banedwards Sogeleasing S.A. (See Note 5 (b)).

**BANCO DE A. EDWARDS AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**NOTE 16 – DIRECTOR´S EXPENSES AND REMUNERATION**

As agreed at the Shareholders Meeting, during 2001 the Bank and its subsidiaries has paid, with charge to income, remuneration's to the Directors amounting to MCh\$ 1,011.9 (MCh\$ 819.4 in 2000)

**NOTE 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. Additionally, effective January 1, 2002, the following subsidiaries have merged with and into the respective Banco de Chile´s subsidiaries:

- Banedwards S.A. Corredores de Bolsa
- Banedwards Factoring S.A.
- Banedwards S.A. Asesoría Financiera
- Banedwards Corredora de Seguros Ltda.

In the opinion of the Bank's management, there were no other events between December 31, 2001 and the date of issuance of consolidated financial statement that could affect the consolidated financial statements of the Bank and Subsidiaries.

---

Jaime Valenzuela Petit  
Accounting Manager

Julio Guzmán Herrera  
General Manager