

BANCO DE CHILE FINANCIAL ANALYSIS



Banco de Chile's net income for fiscal year 2003 amounted to a total of Ch\$ 130.5 billion. This figure represents a 146 percent increase compared to 2002 and is mainly accounted for by a significant decrease in net expense on loan losses, a 30 percent increase in net fee income, and lower operating expenses.

MAIN FINANCIAL STATEMENT LINES
 (millions of Chilean pesos as of December 2003)

	2002	2003	% Variation
Net Financial Income ⁽¹⁾	339,284	315,531	(7.0)
Net Fees	77,171	100,296	30.0
Gross Operating Income	432,909	424,588	(1.9)
Operating Expenses	(252,579)	(226,693)	(10.2)
Net Expense on Loan Losses	(121,847)	(37,857)	(68.9)
Net Income	53,162	130,553	145.6

(1) Including Net Interest and Adjustment and Gains from Foreign Exchange Transactions.

It is important to highlight the positive performance of the Bank's subsidiaries, particularly the stock exchange brokerage firm, Banco de Chile Corredora de Bolsa, the general fund management firm, Banco de Chile Administradora General de Fondos, and the factoring firm, Banco de Chile Factoring. Total income from subsidiaries in 2003 reached Ch\$ 18.3 billion, representing a 36.4 percent increase with respect to fiscal year 2002.

NET INCOME: BANCO DE CHILE, SUBSIDIARIES, AND FOREIGN BRANCHES
 (millions of Chilean pesos as of December 2003)

	2002	2003	% Variation
Bank ⁽¹⁾	45,204	100,878	123.2
Stock Broker	5,548	9,010	62.4
General Fund Management	4,921	5,767	17.2
Insurance Broker	823	718	(12.8)
Financial Consulting	660	782	18.5
Factoring	1,289	1,911	48.3
Securitization	66	26	(60.6)
Promarket ⁽²⁾	57	(72)	-
Socofin ⁽³⁾	38	138	263.2
Foreign Branches	(5,444)	11,395	-
Total Net Income	53,162	130,553	145.6

(1) Minority interest and related party transactions have been deducted from the Bank line.

(2) This supporting company was incorporated during the second quarter of 2002.

(3) This subsidiary was incorporated to the Bank during the second quarter of 2003.

The improved results of the stock exchange brokerage subsidiary are mostly accounted for by the significant fees earned in relation to the larger stock and dollar volumes traded, the latter influenced by the high volatility of the exchange rate during 2003. The fund management subsidiary, for its part, recorded an increase in its fees as a result of an 8 percent rise in average funds managed during the last 12 months. Finally, the improvement in the results obtained by the factoring subsidiary was associated with a significant increase in business volume, which placed it at the top of the ranking in terms of market share as of December 2003.

Foreign branches also contributed significantly to the Bank's consolidated results, with an income worth Ch\$ 11.4 billion as of December 31, 2003. This figure was particularly influenced by the extraordinary income obtained from the sale of Latin American securities. In 2002, these instruments had recorded losses due to market value adjustments.

Net consolidated income for the year 2003 determined a 1.4 percent ROAA and a 20.0 percent ROAE, profit levels which favorably compare to those recorded by the financial system.

NET FINANCIAL INCOME

The Bank's net financial income amounted to Ch\$ 315.5 billion, a figure 7 percent lower than the one recorded in the previous period. Said decrease was mainly due to a 28 basis point drop in net financial margin.

NET FINANCIAL INCOME
 (millions of Chilean pesos as of December 2003)

	2002	2003	% Variation
Interest Revenue	696,603	428,704	(38.5)
Interest Expense	(325,338)	(204,234)	(37.2)
Net Gains from Foreign Exchange Transactions	(31,981)	91,061	-
Net Financial Income	339,284	315,531	(7.0)
Average Interest - Earning Assets	8,255,272	8,233,091	(0.3)
Net Financial Margin	4.11%	3.83%	-

During 2003, the net financial Spread was negatively impacted by the low inflation prevailing during the period. The U.F. (Unidad de Fomento) variation during the year was 1.05 percent versus the 2.96 percent recorded in 2002 as a result of which the Bank obtained lower benefits associated with assets financed by means of non-interest bearing liabilities (demand deposits). It is important to note that the inflation figure for 2003 corresponds to the lowest level recorded since 1935.

Note should be taken that exchange rate fluctuations have practically no impact on net income given the fact that the Bank does not take significant positions in foreign currency, consistent with its conservative risk policy. However, the existence of provisions associated with dollar-denominated assets implies that exchange rate variations do impact the expense on loan losses. Said effect is offset through positions in dollars, which effect is recorded in the line of foreign exchange transactions. In this way, the significant exchange rate drop in 2003 resulted in a negative impact on net financial income.

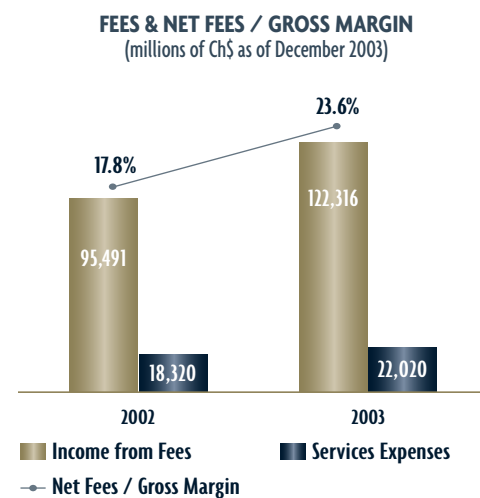
Finally, there were successive reductions in the 'monetary policy interest rate' applied by the Chilean Central Bank in 2002, causing higher benefits due to repricing during said period as compared to fiscal year 2003. Note should be taken that the 'monetary policy rate' during 2003 remained at 2.75 percent between February and the first fortnight of December.

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FEES

Net income from fees and other services increased significantly during 2003, reaching a total of Ch\$ 100.3 billion. This increase stemmed from the joint effort of Banco de Chile and its subsidiaries to increase the contribution of this income to the Bank's final results. The annual 30 percent increase was mainly fostered through (i) fees related to financial services provided to companies, especially associated with syndicated loan structuring, (ii) fees from current accounts and demand deposits due to an increase in the number of current accounts and a new fee structure mainly in relation to overdrafts and higher volumes traded on ATMs, (iii) fees from credit lines, and (iv) fees from loan prepayment.



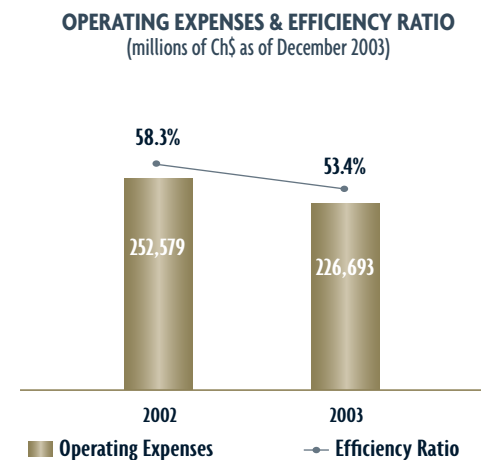
Additionally, and as mentioned before, the outstanding performance of the stock exchange brokerage subsidiary contributed to the increase in fees consolidated through higher stock and dollar volumes traded. To a lesser extent, the higher fees generated by the general fund management

subsidiary, the financial consulting subsidiary, and the factoring subsidiary also contributed to the 30 percent increase in the Bank's total net fees.

Note should be taken that the Bank's net fee contribution to gross operating income increased from 17.8 percent in 2002 to 23.6 percent in 2003. Likewise, the ratio of net fees to average performing assets increased from 0.9 percent to 1.2 percent in the same periods, respectively.

OPERATING EXPENSES

Operating expenses amounted to Ch\$ 226.7 billion in 2003, representing a 10.2 percent decrease with respect to the previous period, mainly due to the synergies and cost savings associated with the merger. As a result of operating expense reduction, the efficiency ratio was improved from 58.3 percent in 2002 to 53.4 percent in 2003.



The reduction on operating expense during 2003 was mainly concentrated on administrative expenses, which decreased by 12.2 percent with respect to 2002, primarily due to lower expenses related to fixed asset maintenance, rentals, consulting, computer software and hardware, advertising, and overhead.

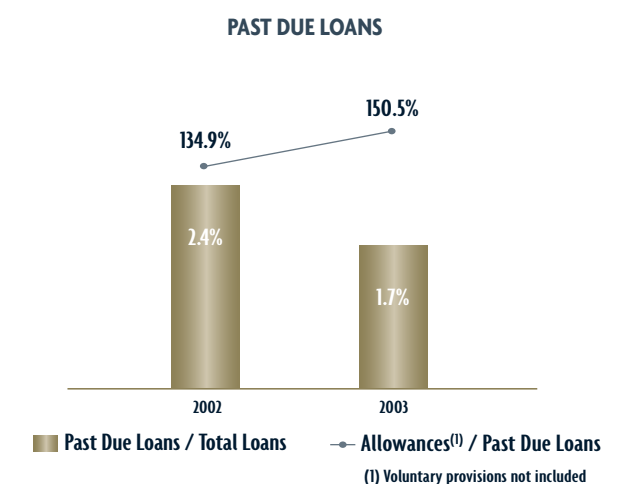
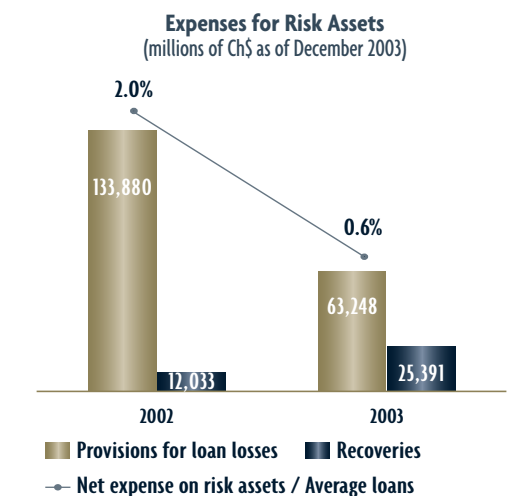
For their part, remuneration and personnel expenses dropped by Ch\$ 10.2 billion, equivalent to 7.6 percent. This reduction is mainly accounted for by expenses associated with indemnities incurred in 2002. It should be noted that part of these lower expenses was partially offset by higher expenses on remunerations associated with variable earnings, which went up during 2003 as a result of the higher income generated by the Bank and its subsidiaries.

Finally, depreciation and amortization expenses reached Ch\$ 19.2 billion, representing an 18.1 percent decrease with respect to 2002. This evolution is mainly explained by charge-offs of asset and discontinued software charge-offs performed in 2002 as a consequence of the closing of branches. Additionally, computer equipment purchases aimed at integrating both Banks' information systems resulted in higher depreciations in fiscal year 2002.

EXPENSE ON LOAN LOSSES

Net expense on provisions for loan losses amounted to Ch\$ 37.9 billion in 2003, a level significantly lower than the Ch\$ 121.8 billion recorded in 2002. This reduction of almost 70 percent stemmed from: (i) the significant efforts made by the Bank in order to improve portfolio quality, thus setting

up relevant provision amounts during 2002, (ii) improved economic expectations and conditions as reflected in the decreasing trend shown by interest rates, inflation, and unemployment, and economic growth recovery, and (iii) higher levels of recoveries of previously written-off loans, which more than doubled the level recorded in 2002.



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Additionally, the 15.9 percent exchange rate drop during 2003 implied a reduction in the amount of provisions for loans denominated in foreign currency. As mentioned before, this effect was offset at the net financial income level.

As a result of the above, the ratio of net expense for provisions on loan losses to average loans decreased from 2.0 percent in 2002 to 0.6 percent in 2003.

It is worth recalling that, during 2002, significant amounts of provisions were set up with the aim of covering commercial loans granted mainly to medium size companies affected by regional economic deterioration and high unemployment. Also during 2002, additional provisions were established in relation to the merger with the aim of leveling off commercial loan risk ratings as well as unifying the standards applied on consumer loans. This resulted in a risk ratio improvement from 3.0 percent in 2002 to 2.4 percent in 2003 where as allowances to past due loans rose from 134.9 percent to 150.5 percent in the same periods, respectively.

LOAN PORTFOLIO

The Bank's loan portfolio, net of interbank loans, amounted to Ch\$ 6,242 billion as of December 2003, a level exceeding by 1.2 percent the one recorded at the closing of the previous year. Note should be taken that the portfolio expansion was partially offset by the exchange rate decrease and the write-

offs performed during the period, which amounted to a total of Ch\$ 96.1 billion.

LOAN PORTFOLIO COMPOSITION
(millions of Ch\$ as of December 2003)

	Dec. 2002	Dec. 2003	% Variation
Commercial Loans	2,542,492	2,557,000	0.6
Mortgage Loans	1,199,144	1,128,030	(5.9)
Foreign Trade Loans	617,788	658,280	6.6
Other Outstanding Loans ⁽¹⁾	607,899	636,649	4.7
Consumer Loans	416,885	478,093	14.7
Contingent Loans	385,585	409,612	6.2
Leasing Contracts	251,584	268,956	6.9
Past Due Loans	146,386	105,503	(27.9)
Total Loans, Net of Interbank Loans	6,167,763	6,242,123	1.2

(1) Including mortgage loans financed by the Bank's general borrowings.

The higher business volume with respect to the previous year was led by consumer and foreign trade loans. Consumer loans recorded a 14.7 percent growth as a result of the Bank's emphasis on higher-yielding loans, taking advantage at the same time of the low interest rate level that enabled it to offer attractive conditions to customers. This expansion was also enhanced by numerous advertising campaigns carried out during the year mainly focused

on high income segments as the well as the improved economic expectations. As for foreign trade loans, Banco de Chile attained the highest market share, equivalent to 23.9 percent, as of December 2003, as a consequence of the improved quality of service provided through these transactions.

Also remarkable was the performance of the products included under other outstanding loans, which recorded a 4.7 percent increase. The favorable evolution of factoring loans and those mortgage loans financed by the Bank's general borrowings, must be included under this heading. The latter's growth totally offset the lower volume of mortgage loans in the form of mortgage bonds. It should be highlighted that the Bank recorded a 10.6 percent increment in total residential mortgage loans with respect to the closing of the previous period.

Additionally, contingent loans and leasing contracts recorded higher volumes, equivalent to a 6.2 percent and 6.9 percent growth, respectively. Commercial loans, for their part, remained stable during 2003; however, they showed a slight recovery during the fourth quarter of the year in accordance with the improved domestic and international economic expectations.

At the level of market segments, loan growth was led by the high income segment followed by small and medium size companies. Here, it is worth mentioning

that, during 2003, the Bank undertook restructurings at the medium and low income segment level managed by CrediChile with the aim of encouraging business growth in this segment.

The year 2003 was characterized by a more effective loan and collection policy, which resulted in a significant decrease in past due loans, higher recoveries, and a reduction in the cost of provisions. In line with these policies, the decrease in past due loans is mainly accounted for by lower loan portfolio risk and the significant amount of loans written off during 2003, the majority of which had been previously provisioned. Past due loans decreased by 27.9 percent to Ch\$ 105.5 billion as of December 31, 2003 from Ch\$ 146.4 billion as of the same date in 2002, mainly associated with commercial and consumer loans.

LIABILITIES AND FINANCING STRUCTURE

Banco de Chile's total liabilities rose by 6.2 percent with respect to December 2002, consistent with an increase in interest-earning assets. This increase was mainly concentrated in non-interest bearing liabilities as a consequence of an increment of approximately 17,700 current accounts and the lower nominal rates prevailing during 2003, which brought customers to maintain higher balances in the current accounts.

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LIABILITY COMPOSITION AND EVOLUTION

(millions of Chilean pesos as of December 2003, except for percentages)

	Dec.02	Dec.03	% Variation
Non-Interest Bearing Liabilities			
Current Accounts	1,082,905	1,227,877	13.4
Other Demand Deposits	574,318	663,451	15.5
Other Liabilities	559,416	669,509	19.7
Total	2,216,639	2,560,837	15.5
Interest Bearing Liabilities			
Time Deposits and Savings	3,532,426	3,422,535	(3.1)
Central Bank Borrowings	3,801	27,881	633.5
Repos	279,442	426,741	52.7
Mortgage Finance Bonds	1,094,881	1,014,452	(7.3)
Subordinated Bonds	280,431	271,197	(3.3)
Other Bonds	4,639	3,127	(32.6)
Borrowings from Domestic Financial Inst.	50,993	49,882	(2.2)
Foreign Borrowings	515,447	717,969	39.3
Other Borrowings	76,655	59,600	(22.2)
Total	5,838,715	5,993,384	2.6
Total Liabilities	8,055,354	8,554,221	6.2

On an overall basis, the Bank's financial structure showed a favorable evolution as reflected by the lower ratio of average interest bearing liabilities to average interest-earning assets. Said ratio improved from 75.0 percent in 2002 to 72.4 percent in 2003.

For its part, the higher balance of interest bearing liabilities was mainly related to repos and a larger amount of foreign borrowings. The latter expanded in 2003 in response to a significant increase in assets denominated in U.S. dollars and in Chilean pesos adjusted according to the exchange rate variation, particularly, Central Bank instruments and foreign trade loans.