

Banco de Chile

**Comments about the 2004 first quarter results,
presented by
Pablo Granifo, Chief Executive Officer
May 7th, 2004.**

Introduction

Within an improving economic scenario and following a successful year 2003, this first quarter again posted a new benchmark in Banco de Chile's performance.

Net Income

As seen in slide number 2, the quarter's total net income reached 37.9 billion Chilean pesos, a year-on-year 21% increase and a 38% growth on a quarterly basis. Indeed, this figure established a new record as the largest quarterly result ever obtained by Banco de Chile, beating the recent score posted last year. This bottom line captured 20% of the system's total, above the Bank's overall market share.

ROAE & EPS

This significant performance has again shown in the Bank's profitability ratios as you may see on slide number 3. During the first quarter, the Bank posted a 21.8% Return on Average Equity, against the system's 17.6%. As from the investors' standpoint, earnings per share reached a historical peak of 56 cents of a peso per common share, involving an annual equivalent of 2.24 pesos per share, against last year's figure of 1.91 pesos.

Dividend Payment

As a consequence of the dividend distribution agreed upon on last march, 100% of the Bank's net income was distributed, thus involving a very interesting dividend yield for Banco de Chile's investors of 6.6%, as of December 31st.

Accordingly, SM-Chile was able to pay its annuity in full and even slightly reduce its outstanding deficit with the Central Bank, which now amounts to only 33% of the allowed ceiling.

Interest Revenue

Though with an overall very positive balance, different forces influenced this first quarter's bottom line, as we see on slide number 4.

On the first place, a rather weak performance of interest revenue, mostly due to the unprecedentedly negative inflation of the period and, only partially, compensated by an additional reduction of the short term interest rate. In net terms, financial margin experienced a quarter-on-quarter 8% contraction reaching 3.5% of average interest earning assets.

Fee Income

On the positive side, fee income kept its upward trend showing a 42% increase in a 12-month period and 10% growth for the first three months.

As a result, Gross Margin was enhanced by an interesting 5%, both, yearly and quarterly.

Provisions

The provision line was also a positive force acting on the period's result and showing a reduction of more than 13% on a quarterly comparison.

▪ New Loan Risk Classification Regulation

As you may recall, as from January 1st, a new risk classification criteria was enforced by the banking regulator which strengthens the concept of self-regulation. Following the directions of Basle II rules, it allows banks to partially use their own criteria to estimate potential loss. On previous calls, I also mentioned that no significant increases in the provisioning requirements, due to these changes, were to be perceived in Banco de Chile.

With the full new methodology in place, the consolidated ratio of provisions established in the period as compared to average loans stood at 0.92%, below our 1% to 1.1% range expected for year 2004 as a whole.

▪ Past Due Loans

This lower amount of required provisions speaks of a favourable evolution of past due loans since 2003, coming from peaks of 2.5% of total loans down to the current 1.7%, very close to the system's average of 1.6%, and below the average of our relevant competitors.

This positive evolution is the response to, on the one hand, the incorporation of incoming loans into the streamline at much lower risk rates; and, on the other hand, a strong charge-off policy in an amount of 1.5% over average loans during the last twelve months.

In spite of this, total allowances currently stand at a very conservative ratio of 1.7 times over past due loans, one of the system's highest.

Operating expenses

& Efficiency

As far as operating expenses are concerned, it is reassuring to see that tight control has been maintained, which shows on the 5.7% quarterly reduction of total expenses. With some help coming from the Gross Margin side, Efficiency reached a low non-consolidated ratio of 52%, down from a year-ago 57%, and below the system's average of 53%.

NEOS

As far as our technology Project NEOS is concerned, the first stage of the ERP is already in place and utilized by the Administrative Area. Accounting and Human Resources should come in soon.

The platform, provided by Oracle, eliminates manual operations thus adding efficiency and timely response to processes such as acquisitions, distribution, inventories, contracts and payments, among others.

Synergies between the Bank and the subsidiaries will also be importantly boosted as the ERP model will integrate the accounting processes of all business units throughout the Corporation.

The remaining stages of the project are all running as planned and, as I have mentioned before, we expect to have the full NEOS platforms in place not before the second half of 2006.

Fee Income

It seems worthwhile to make a further comment on fees as it has been such a strong income driver. On slide number 5, an almost 43% growth was experienced on a year-on-year basis. When compared to operating expenses, we find out that we have reached a comfortable amount which covers almost 53% of these expenses, coming from figures below 30% only two years ago.

When compared to average interest earning assets, 40 basis points have been added in the last twelve months, as the Bank's income from fees now stands at 1.42% over generating assets.

Business Strategy & Performance

Let's now focus on the business strategy so that I may explain how some very important transformations have been going on, fueling these very successful results. The strategy can be analyzed at three different levels, all showing direct bearing on results, namely: markets, type of loans and products.

▪ Market Segments

Turning to slide number 6, you may identify the four main market segments where the Bank's portfolio is allocated. As I have commented before, a very important piece of our strategy is to foster those higher-yielding segments, actively promoting a shift of our loan portfolio.

As a result of our commercial efforts, you may observe, on the right hand side of the chart, how higher-yielding segments of high to middle-income individuals, together with middle-market companies, have grown by 8.5% and 4% respectively, quite above the average loan portfolio growth of 2.6%, on a yearly basis.

In the case of the lower-income segment of individuals, which also shows a high yield of 16.8%, involving interest income plus fees, the 12-month increase has been in line with the average portfolio. However, a much stronger dynamism has been perceived in the last months, increasing its growth rate to 3.1% in the first quarter as a consequence of the complete restructuring of the Credichile Division, to which I will refer later in more detail.

Conversely, though in line with the described strategy, lower-yielding loans to large corporations have decreased by 4.2% year-on-year.

This approach to large corporates, which encourages a better return on loans, is two-fold as is compensated with a higher retribution on fee income as non-loan businesses have been strongly promoted. On this respect, I can mention that fees perceived for special businesses, within this segment of large corporates, increased by 42% during the first quarter.

This effort towards higher-yielding opportunities is evident not only at the level of market segments, but also when considering different types of loans.

▪ Types of Loans

On the next slide, we can observe the performance, through a 12 month period, of the different kinds of loans offered by the Bank and how strongly the emphasis on added returns has been put in place.

In the upper left, we can see how commercial loans have experienced a strong growth of 7% in the middle-market company segment, whereas the outstanding of large corporations has diminished.

Clockwise on the slide, total consumer loans experienced a very relevant increase of more than 14%, strongly pulled by both segments of individuals with very high loan growth rates of 17% and 9% in the upper and lower brackets, respectively.

The same results were achieved in the leasing business with a strong emphasis on middle market corporations, vis-a-vis large companies.

▪ Products

As far as products are concerned, action has also been taken, and the credit card example is a good one, so please turn to slide 8.

Almost 21% of the banking plastics are Banco de Chile's and, as is shown in the bars, as much as 28.4% of all banking credit purchases are done with our cards, involving an increase of 30% in our client's purchases on a yearly basis. However, the loan business associated to these purchases is much lower. Indeed, Banco de Chile only grants 16.9% of the system's credit card loans.

Clearly, action had to be taken and the course was to downscale our retail market, thus reaching clients more prone to debt.

The result of this plan has been highly rewarding as credit card loans have increased by 16% in the last twelve-month period, as of March. I strongly expect the gap between purchases and loans to be further reduced.

Banco CrediChile

Undoubtedly, our lower-end consumer division is a keystone for achieving this goal. Allow me to elaborate some on this very important area as we switch to slide number 9. As you may know, last Monday a new brand name for this consumer division was launched. Though it may not seem significantly different than the previous name, the new Banco CrediChile brand involves a different vision, goals and know-how, from those of the old division. It has also involved a huge amount of team-work and a change of its internal perception of which we all feel very proud. The new name really responds to a new proposal, based on a diversified set of products on a low-cost platform.

On the products side, a full array of products and services is now being offered through Banco Credichile which include not only consumer loans, but also mortgage, pay-roll linked loans, Visa and Mastercard credit cards, lines of credit based on existing balances, savings for housing, deposits, full ATM network, debit cards, transactional internet, phone service and automatic payment of service statements : indeed, a full-service banking facility.

Technology-intensive distribution channels, simplified operational processes supported by especially designed management control tools, a credit risk analysis based on scoring criteria and the redesign of the collection procedures are the core of this business.

A silent work on this direction has been carried out since September and very promising results are already available: during the first quarter, fees for Credichile grew by 79%, expenses were reduced by 19% and the cost on risk diminished 13%, with overall consumer sales increasing by 4%. I trust, however, that this is only the beginning.

Funding

Let's now give a quick look to the liability side, where we can also find good news. On slide number 10, total customer funds, in an amount of 74 hundred billion pesos experienced a 15% year-on-year growth with mutual funds and non-interest bearing liabilities increasing the most, by 41% and 16%, respectively. During the 12-month period ending March, the number of checking accounts increased by 6% while total demand balances did so by 7%.

Banchile

As far as mutual funds are concerned, the Banchile subsidiary experienced an increase in its net income of 53% quarter-on-quarter, showing an almost 28% market share. However, synergies with the Bank business platforms are still wide. Let me share with you a couple of figures: out of Banchile individual customers, 53% have not opened a checking account with Banco de Chile. Conversely, 80% of the Bank's checking account holders are not currently clients of Banchile.

Repurchase of shares

Let me now address our last subject, so please turn to slide number 11. As we have been informing, in the Extraordinary Shareholder Meeting held on March 2003, the guideline for the repurchase of shares up to a total amount of 3% of the paid-in shares was approved. These guidelines were to be in place for a period of two years and the Board of Directors could decide, within this frame, upon executing the offer and could define the acquisition price within previously established ranges.

The buy-back offer was finally opened on March 27th, for a 30-day period and a total amount of 2.5% of the paid-in capital at a price of \$ 31 per share. The market response exceeded three times the offer to buy, and a pro-rata criteria had to be applied.

Once the offer was materialized, the value of the repurchased shares was deducted from the basic capital for legal and regulatory effects. Thus, Total Capital to Risk Adjusted Assets was reduced from 13.2% to 12.4%, still amply exceeding the regulatory floor of 10%.

In this way, the repurchase program does not jeopardize Banco de Chile's commercial strength. In fact, risk adjusted loans could be increased by roughly 1.7 billion dollars – organically or not- and still maintain a 10.5% Total Capital ratio, above the regulatory 10% and down from our current 12.4% ratio.

This increase would involve a loans growth rate near to 18% on our portfolio and would be equivalent to capture a 3% share of the market's total loans, as of today.

Ownership Structure

The new ownership structure resulting from the buy back is shown on slide number 12. It is worth mentioning that the controlling groups did not participate in the tender offer. The Luksic Group now shows participation on rights of 53.73% both directly and indirectly. On its part, the rights streaming from those shares pledged to the Central Bank, for the purpose of repaying SM-Chile's Subordinated Obligation, increased to 43.93%.

Final Remarks

Within an economic environment where expectations have gathered pace in the last months, supported by stronger figures, I am confident that our persistent and focused efforts will further increase Banco de Chile's value, both for our clients and shareholders.

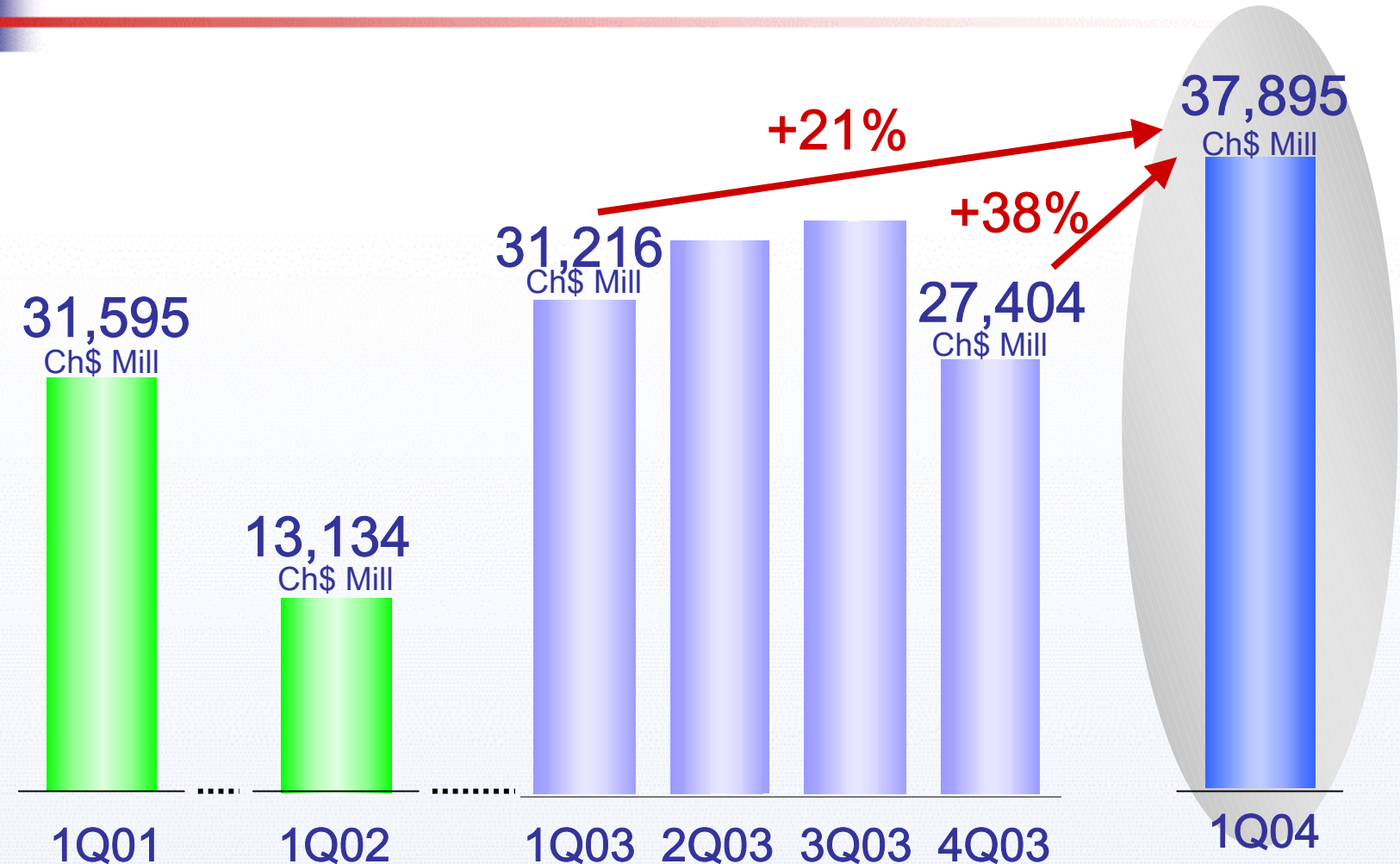
The background of the slide is a photograph of the interior of a grand, domed building, likely a government or institutional structure. The architecture features a large central dome with a circular skylight at the top. The walls are ornate, with classical columns and decorative moldings. In the foreground, several thick, blue ribbons with white stripes are draped diagonally across the frame, creating a sense of movement and depth. The lighting is bright, highlighting the architectural details.

First Quarter 2004 Results

Conference Call
Hosted by

Pablo Granifo, CEO

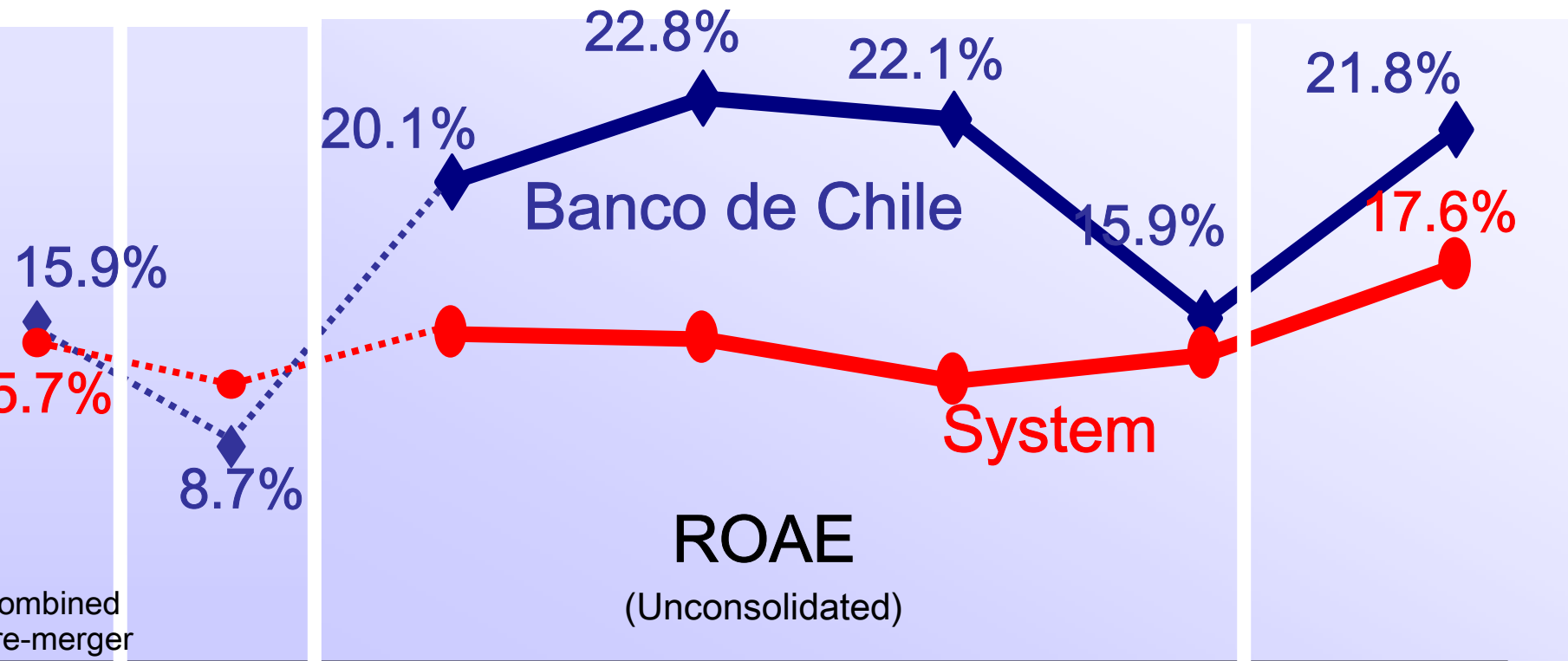
Banco de Chile's largest Net Income



Combined
Pre-merger

Banco de Chile
contributes by 20% to the
System's bottom line.

Above average profitability



combined
re-merger

2001 2002 1Q03 2Q03 3Q03 4Q03 1Q04

0.37	0.20	0.46	0.51	0.53	0.40	0.56
Earnings per Share (Ch\$) Quarterly						
Quarterly Average)						

Main effects on 1Q'04 Net Income

	YoY		QoQ	
□ Financial Income	-4.1%	↓	- 8.4%	↓
□ Fee Income	+42.6%	↑	+10.6%	↑
□ Gross Margin	+5.3%	↑	+5.4%	↑
□ Provisions	+8.6%	↑	- 13.3%	↓
□ Operating Expenses	+4.2%	↑	- 5.7%	↓

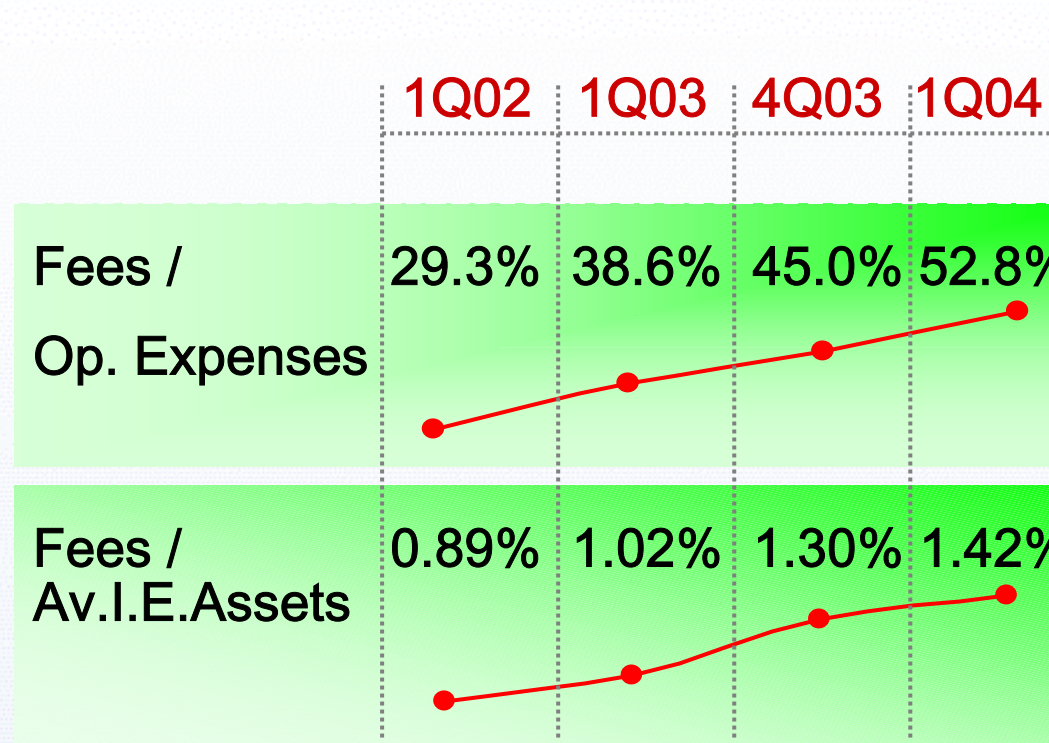
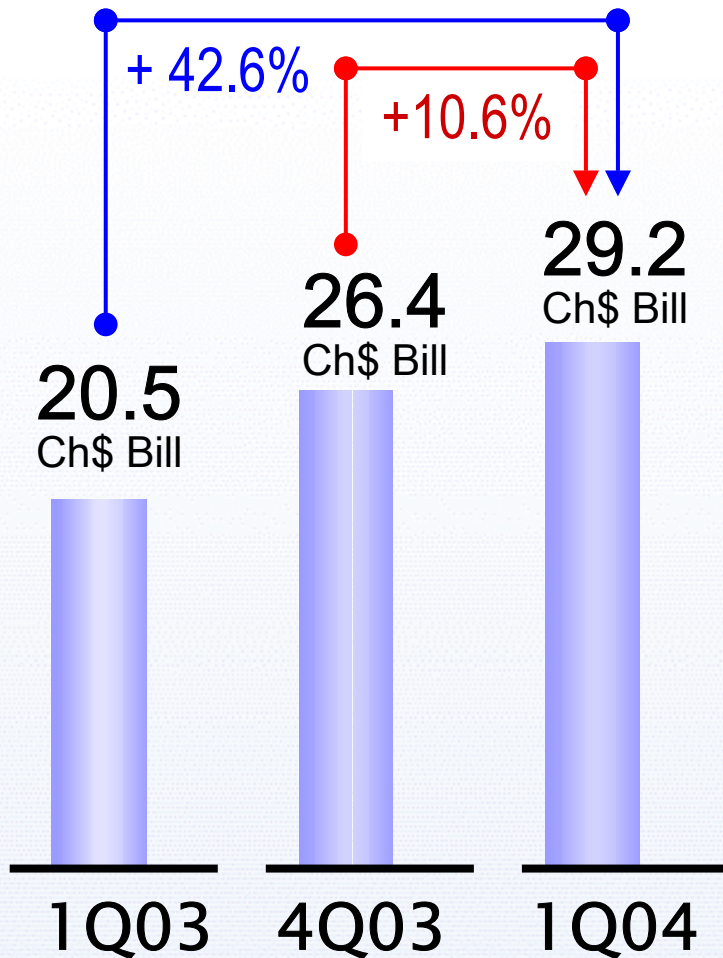
Total 1Q'04

Net Income +21.4% ↑ +38.3% ↑

Ch\$ 37,895 Mill.

Fees : A strong income driver

Fee Income



Markets: focused on higher yield

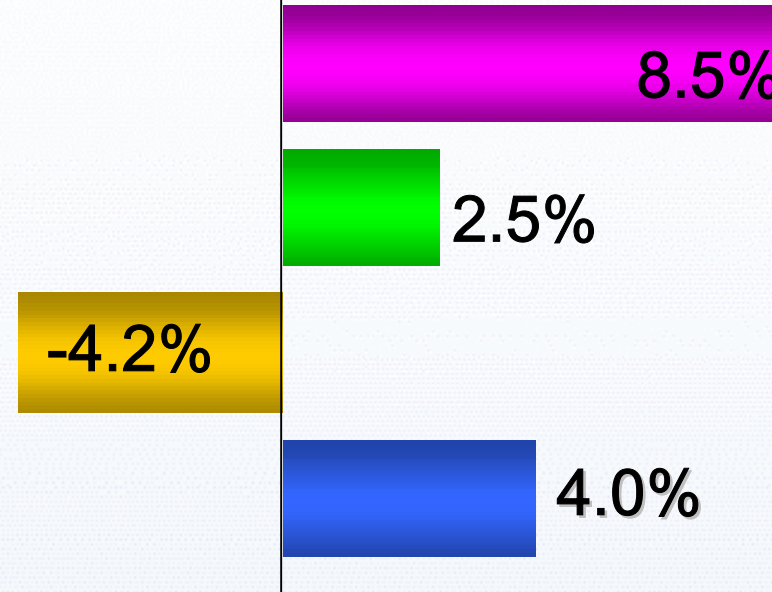
Gross Yield (1Q'04)

(Operating Income ⁽¹⁾ /Loans)

Retail	High & Middle Income	7.8%
	Lower Income	16.8%
Corporations	Large Companies	2.0%
	Middle Market	6.0%

YoY Growth

(Mar '04/ Mar '03)

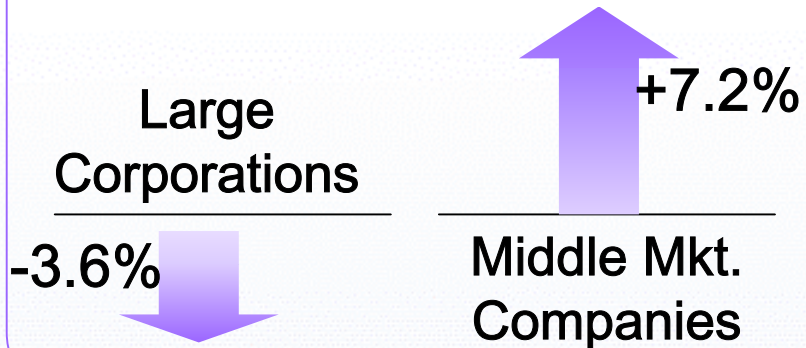


Operating Income= Net Interest Revenue + Net Fee Income

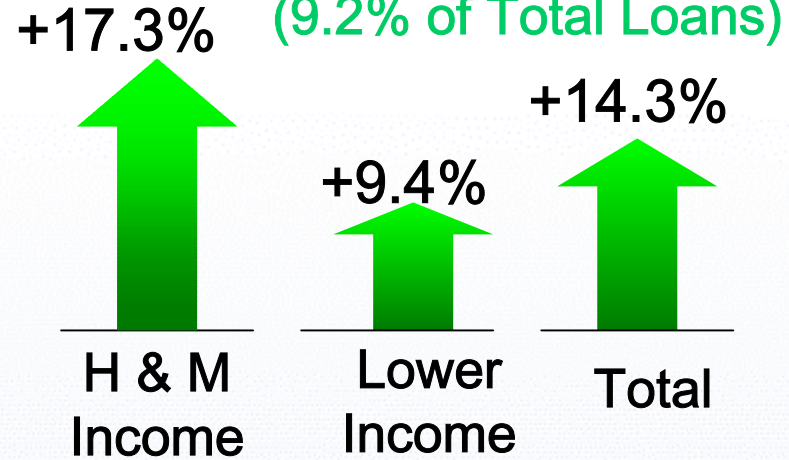
Types of Loans: Strategy-oriented performance

Year on Year Variations (Mar '04/Mar '03)

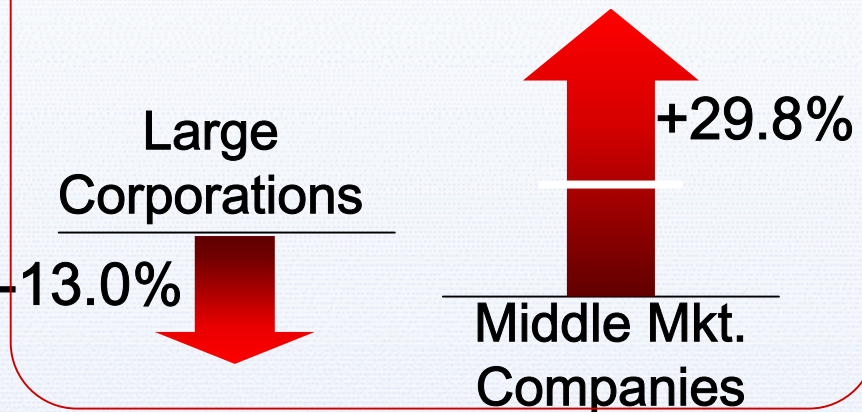
Commercial Loans (40% of Total Loans)



Consumer Loans (9.2% of Total Loans)



Leasing (4.4% of Total Loans)



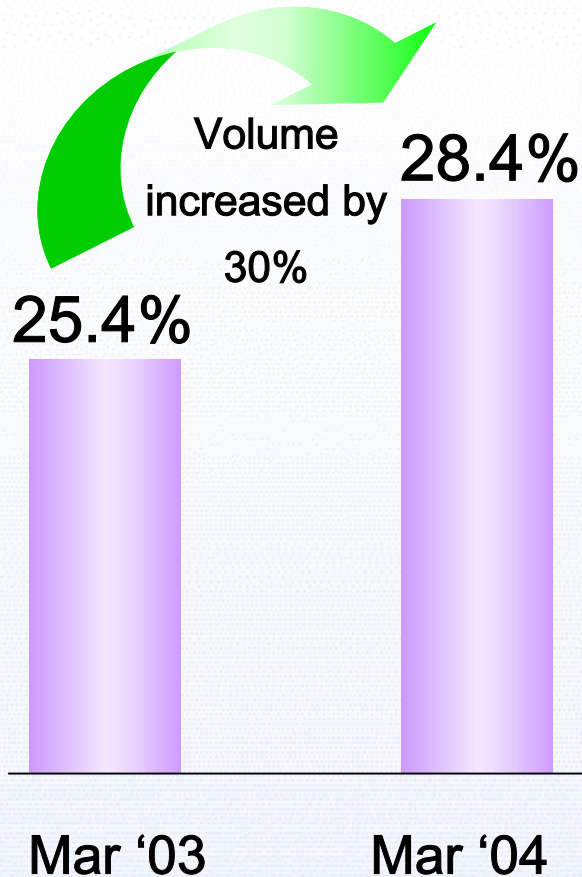
Total Loans



Products: Fostering Credit Cards

Market share

of Monthly Purchases
through Credit Cards



- In spite of an outstanding share on total purchases
- Credit Card Loans show a lower Market Share : 16.9% (Dec. 03)

Action:

- Downscale the retail market

Result:

- ✓ Credit Card Loans have increased by 16% YoY as of March.

Banco CrediChile : A new proposal

Products

- Full array of products and services under standardized criteria.

Channels

- Strengthen telemarketing & sales force.
- Improved network allowing increased client contact.
- Technical redesign of branches to foster efficiency.

Process

- Simplified operational process under a centralized structure.
- New tools in management control.
- Credit risk analysis based on scoring criteria.
- Improvement of collections procedures.

Response
after six month
work

	<u>QoQ</u>	<u>YoY</u>
✓ Net Fees	+79%	7 times
✓ Gross Margin	+ 7%	+10%
✓ Oper. Expenses	-19%	-18%
✓ Cost on Risk	-13%	-54%
✓ Consumer Sales	+ 4%	+91%

(As of 1Q'04)

Improved Funding Structure

As of Mar '04			YoY Growth
(Bill Ch\$)	(%)		(Mar '04/Mar '03)
2,042	27.6%	Non Interest Bearing Liabilities	+16.2%
3,736	50.5%	Savings & Time Deposits	+6.0%
<hr/>	<hr/>	<hr/>	<hr/>
5,778	78.1%	Total Customer Deposits	+9.4%
+	+		
1,619	21.9%	Mutual Funds	+41.2%
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7,397	100%	Total Customer Funds	+15.1%
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In the last 12 months, the number of checking accounts has increased by 6%

•While total balance has grown by 7%.

Share Repurchase Offer

- ❖ 2.5% of Paid-in Capital.
- ❖ Number of Shares to repurchase : 1,701,994,590.
- ❖ Offered Price Ch\$ 31 per share.

Market Response

- Number of shares offered : 5,000,844,940.
- Equivalent to 3 times the purchase offer.

Final Status (post purchase)

- BCH total issued shares : 68,079,783,605.
- Total shares with voting and div. rights : 66,377,789,015.
- Basic Capital : Mill.Ch\$ 510,076.
- Basic Cap./ Tot. Assets : 5.29% (from 5.84%).
- Total Cap / Risk Adj. Assets : 13.36% (from 13.21%)

Share Repurchase

Change in the Ownership Structure

	Before	After	
SM – Chile	•Luksic Group	31.92%	32.74%
	•Others	28.56%	29.29%
		60.48%	62.03%
	•SAOS	42.00%	43.08%
	18.48%	18.95%	
Luksic Group	20.47%	20.99%	
J. Ergas Group	7.14%	7.32%	
Chilean Pension Funds	4.60%	3.12%	
ADR's	0.73%	0.41%	
Other Minority Shareholders	6.58%	6.13%	
•Luksic Group (direct+indirect)	52.39%	53.73%	
•Rights on shares pledged	42.83%	43.93%	



FORWARD-LOOKING INFORMATION

The information contained herein incorporates by reference statements which constitute “forward-looking statements,” in that they include statements regarding the intent, belief or current expectations of our directors and officers with respect to our future operating performance. Such statements include any forecasts, projections and descriptions of anticipated cost savings or other synergies. You should be aware that any such forward-looking statements are not guarantees of future performance and may involve risks and uncertainties, and that actual results may differ from those set forth in the forward-looking statements as a result of various factors (including, without limitations, the actions of competitors, future global economic conditions, market conditions, foreign exchange rates, and operating and financial risks related to managing growth and integrating acquired businesses), many of which are beyond our control. The occurrence of any such factors not currently expected by us would significantly alter the results set forth in these statements.

Factors that could cause actual results to differ materially and adversely include, but are not limited to:

- changes in general economic, business or political or other conditions in Chile or changes in general economic or business conditions in Latin America;*
- changes in capital markets in general that may affect policies or attitudes toward lending to Chile or Chilean companies;*
- unexpected developments in certain existing litigation;*
- increased costs; and*
- unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms.*

You should not place undue reliance on such statements, which speak only as of the date that they were made. Our independent public accountants have not examined or compiled the forward-looking statements and, accordingly, do not provide any assurance with respect to such statements. These cautionary statements should be considered in connection with any written or oral forward-looking statements that we may issue in the future. We do not undertake any obligation to release public any revisions to such forward-looking statements after completion of this offering to reflect late events or circumstances or to reflect the occurrence of unanticipated events.