BANK OF CHILE
Form 20-F
June 25, 2004

As filed with the Securities and Exchange Commission on June 25, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington , D.C. 20549

FORM 20-F

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2003

Commission File Number 001-15266

BANCO DE CHILE
(Exact name of Registrant as specified in its charter)

BANK OF CHILE
(Translation of Registrant's name into English)

Republic of Chile
(Jurisdiction of incorporation or organization)

Banco de Chile
Ahumada 251
Santiago, Chile
(562) 637-1111
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing 600 shares of common stock, without nominal (par) value (ADSs)	New York Stock Exchange
Shares of common stock, without nominal (par) value	New York Stock Exchange (for listing purposes only)

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the Issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Shares of common stock: **68,079,783,605**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

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THE MERGER

On January 1, 2002, Banco de Chile merged with Banco de A. Edwards in a transaction in which Banco de Chile was the surviving corporate entity. As used in this annual report, unless the context otherwise requires, references to Banco de Chile relating to any date or period prior to January 1, 2002 (the effective date of the merger) are to Banco de Chile as it existed prior to the consummation of the merger, and such references relating to any date or period after January 1, 2002 are to Banco de Chile after the consummation of the merger.

PRESENTATION OF FINANCIAL INFORMATION

We prepare our audited consolidated financial statements in Chilean pesos and in accordance with generally accepted accounting principles in Chile, known as Chilean GAAP, and the rules of the *Superintendencia de Bancos e Instituciones Financieras*, known as the Chilean Superintendency of Banks. Together, these requirements differ in certain significant respects from generally accepted accounting principles in the United States, known as U.S. GAAP. References to Chilean GAAP in this annual report are to Chilean GAAP, as supplemented by the applicable rules of the Chilean Superintendency of Banks. See note 28 to our audited consolidated financial statements contained elsewhere in this annual report for a description of the material differences between Chilean GAAP and U.S. GAAP, as they relate to us and our consolidated subsidiaries, and a reconciliation to U.S. GAAP of net income and shareholders equity.

Pursuant to Chilean GAAP, unless otherwise indicated, financial data for all full-year periods through December 31, 2003 included in our audited consolidated financial statements and in the other financial information contained elsewhere in this annual report have been restated in constant Chilean pesos of December 31, 2003.

In this annual report, references to $, U.S.$, U.S. dollars and dollars are to United States dollars, references to pesos or Ch$ are to Chil pesos, and references to UF are to *Unidades de Fomento*. The *Unidad de Fomento*, or UF, is a unit of account which is linked to, and which is adjusted daily to reflect changes in, the Consumer Price Index. As of December 31, 2003, one UF equaled U.S.$28.23 and Ch$16,920. See note 1(c) to our audited consolidated financial statements. Percentages and certain dollar and peso amounts contained in this annual report have been rounded for ease of presentation.

This annual report contains translations of certain Chilean peso amounts into U.S. dollars at specified rates solely for your convenience. These translations should not be construed as representations that the Chilean peso amounts actually represent such U.S. dollar amounts, were converted from U.S. dollars at the rate indicated in preparing our audited consolidated financial statements or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Chilean pesos based on the Observed Exchange Rate, as described in Item 3. Key Information Selected Financial Data Exchange Rates, reported by the *Banco Central de Chile*, or the Central Bank, for December 30, 2003 (the latest practicable date, as December 31, 2003 was a banking holiday in Chile). The Observed Exchange Rate on June 23, 2004 was Ch$643.42=U.S.$1.00. The rate reported by the Central Bank is based on the rate for the prior business day in Chile and is the exchange rate specified by the Chilean Superintendency of Banks for use by Chilean banks in the preparation of their financial statements. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

Unless otherwise specified, all references in this annual report to loans are to loans and financial leases before deduction of allowances for loan losses, and all market share data presented in this annual report are based on information published periodically by the Chilean Superintendency of Banks. Non-performing loans include loans as to which either principal or interest is overdue and loans that do not accrue interest. Restructured loans as to which no payments are overdue are not ordinarily classified as non-performing loans. Past due loans include, with respect to any loan, the portion of principal or interest that is 90 or more days overdue; the entire outstanding balance of any loan is included in past due loans only after legal collection proceedings have been commenced. This practice differs from that normally followed in the United States, where the amount classified as past due would include the total principal and interest on all loans which have any portion overdue. See Item 4. Information on the Company Selected Statistical Information Classification of Loan Portfolio Based on the Borrower s Payment Performance.

Unless otherwise specified, all references to shareholders equity as of December 31 of any year are to shareholders equity after deducting our respective retained net income for such year, but all references to average shareholders equity for any year are to average shareholders equity including our respective retained net income.

Certain figures included in this annual report and in our audited consolidated financial statements have been rounded for ease of presentation. Percentage figures included in this annual report have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. For this reason, percentage amounts in this annual report may vary slightly from those obtained by performing the same calculations using the figures in our audited consolidated financial statements. Certain other amounts that appear in this annual report may similarly not sum due to rounding.

MACRO-ECONOMIC AND MARKET DATA

In this annual report, all macro-economic data relating to the Chilean economy is based on information published by the Central Bank. All market share and other data relating to the Chilean financial system as well as data on average return on shareholders equity are based on information published by the Chilean Superintendency of Banks. Information regarding the consolidated risk index of the Chilean financial system as a whole is not available. The Chilean Superintendency of Banks publishes the unconsolidated risk index for the financial system three times yearly in February, June and October.

PART I

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Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

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Item 2. Offer Statistics and Expected Timetable

Not Applicable.

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Item 3. Key Information

SELECTED FINANCIAL DATA

The following table presents historical financial information about us as of the dates and for each of the periods indicated. The following table should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements appearing elsewhere in this annual report. Our audited consolidated financial statements are prepared in accordance with Chilean GAAP and the rules of the Chilean Superintendence of Banks, which together differ in certain significant respects from U.S. GAAP. Note 28 to our audited consolidated financial statements provides a description of the material differences between Chilean GAAP and U.S. GAAP and a reconciliation to U.S. GAAP of net income for the years ended December 31, 2001, 2002 and 2003 and shareholders equity at December 31, 2002 and 2003.

Under Chilean GAAP, the merger between Banco de Chile and Banco de A. Edwards is accounted for as a pooling of interest on a prospective basis. As such, the historical financial statements for periods prior to the merger are not restated under Chilean GAAP. Under U.S. GAAP, the merger between the two banks, which have been under common control of Quiñenco S.A., since March 27, 2001, is accounted for in a manner similar to a pooling of interests under U.S. GAAP. As a consequence of the merger, we are required to restate our previously issued U.S. GAAP historical financial information to retroactively present the financial results for the merged bank as if Banco de Chile and Banco de A. Edwards had been combined throughout the periods during which common control existed. Under U.S. GAAP, the reported financial information for periods presented prior to March 27, 2001 reflects book values of Banco de A. Edwards, which had been under Quiñenco S.A. s control since September 2, 1999. See note 28 to our audited consolidated financial statements.

	At or for the year ended December 31,					
	1999	**2000**	**2001**	**2002**	**2003**	**2003**
	(in millions of constant Ch$ as of December 31, 2003, except share data)					**(in thousands of U.S.$)**
CONSOLIDATED INCOME STATEMENT DATA						
Chilean GAAP:						
Interest revenue	Ch$ 527,891	Ch$ 589,694	Ch$ 536,330	Ch$ 696,603	Ch$ 428,704	U.S.$ 715,198
Interest expense	(317,954)	(369,640)	(312,813)	(325,338)	(204,234)	(340,719)
Net interest revenue	209,937	220,054	223,517	371,265	224,470	374,479
Provisions for loan losses	(53,046)	(41,074)	(47,736)	(101,650)	(60,069)	(100,212)
Total fees and income from services, net	40,543	41,331	44,598	79,407	103,389	172,482
Total other operating income (loss), net	19,183	12,460	8,677	(30,850)	96,391	160,807
Total other income and expenses, net	5,091	10,817	10,166	(5,967)	8,746	14,590
Total operating expenses	(141,873)	(144,275)	(144,145)	(250,517)	(224,436)	(374,422)
Loss from price-level restatement	(5,812)	(9,802)	(6,010)	(9,692)	(4,036)	(6,733)
Income before income taxes	74,023	89,511	89,067	51,996	144,455	240,991
Income taxes	(2,050)	(1,607)	1,406	1,165	(13,902)	(23,192)
Net income	71,973	87,904	90,473	53,161	130,553	217,799
Earnings per share(1)	1.60	1.96	2.01	0.78	1.92	
Dividends per share(2)	1.21	2.02	1.95	2.02	0.78	
Number of shares (in millions)	44,932.70	44,932.70	44,932.70	68,079.78	68,079.78	
U.S. GAAP(3):						

Interest revenue	285,931	324,905	711,262	718,640	452,246	754,473
Interest expense	(175,805)	(210,557)	(414,761)	(346,487)	(204,148)	(340,576)
Net interest revenue	110,126	114,348	296,501	372,153	248,098	413,897
Provisions for loan losses	(68,177)	(36,457)	(53,895)	(107,657)	(27,369)	(45,659)
Net income	(8,225)	(95)	50,260	17,123	130,398	217,541
Earnings per share(1)	(0.36)	(0.00)	0.87	0.25	1.92	
Weighted average number of total shares(4)	23,147	23,147	57,587	68,080	68,080	

	At or for the year ended December 31,					
	1999	2000	2001	2002	2003	2003
	(in millions of constant Ch$ as of December 31, 2003, except share data)					(in thousands of U.S.$)
CONSOLIDATED BALANCE SHEET DATA						
Chilean GAAP:						
Cash and due from banks	449,841	515,640	549,225	683,187	856,834	1,429,438
Financial investments	1,181,795	1,442,069	1,716,197	1,614,890	1,916,324	3,196,964
Loans, net of allowances	3,667,699	3,887,540	3,876,574	6,004,927	6,075,955	10,136,390
Other assets	194,657	192,390	189,317	376,766	400,789	668,628
Total assets	5,493,992	6,037,639	6,331,313	8,679,770	9,249,902	15,431,420
Deposits	3,130,590	3,673,909	3,840,859	5,189,649	5,313,863	8,865,008
Other interest bearing liabilities	1,587,218	1,562,094	1,658,449	2,307,172	2,570,849	4,288,893
Other liabilities	364,772	391,411	417,686	558,537	669,514	1,116,937
Total liabilities	5,082,580	5,627,414	5,916,994	8,055,358	8,554,226	14,270,838
Shareholders equity	Ch$ 411,412	Ch$ 410,225	Ch$ 414,319	Ch$ 624,412	Ch$ 695,676	U.S.$ 1,160,582
U.S. GAAP[(3)]:						
Financial investments	258,964	220,418	1,691,483	1,448,460	1,631,019	2,720,995
Loans, net	2,035,351	2,225,145	5,771,574	5,666,719	5,737,421	9,571,621
Total assets	2,601,034	2,914,251	8,997,114	8,683,670	9,207,415	15,360,540
Total liabilities	2,361,546	2,498,659	7,819,816	7,390,907	7,866,761	13,123,955
Total shareholders equity	239,488	415,592	1,177,298	1,292,760	1,340,649	2,236,577

	At or for the year ended December 31,				
	1999	2000	2001	2002	2003
CONSOLIDATED RATIOS					
Chilean GAAP:					
Profitability and Performance					
Net interest margin[(5)]	4.15%	4.27%	3.87%	4.52%	2.75%
Return on average total assets[(6)]	1.16	1.57	1.44	0.59	1.45
Return on average shareholders equity[(7)]	19.49	23.68	23.21	8.69	20.01
Capital					
Average shareholders equity as a percentage of total assets	5.93	6.62	6.21	6.75	7.22
Bank regulatory capital as a percentage of minimum regulatory capital	235.44	203.86	197.67	218.35	202.71
Ratio of liabilities to regulatory capital[(8)]	14.97	17.46	18.27	14.10	15.14
Credit Quality					
Category B-, C and D loans as a percentage of total loans	5.74	5.75	6.28	6.69	5.16
Past due loans as a percentage of total loans	1.11	1.36	1.23	2.35	1.69
Allowances for loan losses as a percentage of loans category B-, C and D loans	52.27	52.52	54.60	52.43	55.54
Allowances for loan losses as a percentage of past due loans	270.08	222.46	278.71	149.06	170.03

Allowances for loan losses as a percentage of total loans	3.00	3.02	3.43	3.51	2.87
Past due amounts as a percentage of shareholders equity	12.38	16.89	15.26	23.44	15.17
Consolidated risk index	2.03	2.01	2.42	3.00	2.36
Operating Ratios					
Operating expenses/operating revenue	52.61	52.68	52.08	59.67	52.90
Operating expenses/average total assets	2.28	2.57	2.30	2.76	2.48
U.S. GAAP:					
Profitability and Performance					
Net interest margin(9)	2.18	2.22	5.12	4.53	3.03
Return on average total assets(10)	(0.13)%	0.00%	0.80%	0.19%	1.44%

(1) Earnings per share data are calculated by dividing net income by the weighted average of shares outstanding during the year. See footnote (4) to this table for an explanation of the weighted average calculation.

(2) Dividends per share data are calculated by dividing the amount of the dividend paid by the weighted average of shares outstanding during the year. See footnote (4) to this table for an explanation of the weighted average calculation.

(3) All U.S. GAAP numbers use Article 9 presentation. All U.S. GAAP figures have been calculated taking into account the U.S. GAAP adjustments set forth in note 28 to our audited consolidated financial statements.

(4) Common shares outstanding are presented giving effect to the weighted average number of shares of the merged bank outstanding during the year. The aggregate number is calculated based on an exchange ratio of 3.135826 shares of Banco de Chile for each outstanding share of Banco de A. Edwards. Banco de A. Edwards had 7,381.41 million shares outstanding immediately prior to the merger. For the years ended December 31, 1999 and 2000, the weighted average number of shares represents Banco de A. Edwards outstanding shares presented in terms of Banco de Chile shares using the exchange ratio discussed above. For the year ended December 31, 2001, Banco de Chile's and Banco de A. Edwards' shares have been combined as of March 27, 2001.

(5) Net interest revenue divided by average interest earning assets.

(6) Net income (loss) divided by average total assets.

(7) Net income (loss) divided by average shareholders equity.

(8) Total liabilities divided by bank regulatory capital.

(9) Net interest revenue under U.S. GAAP divided by average interest earning assets.

(10) Net income under U.S. GAAP divided by average total assets.

Exchange Rates

Chile has two currency markets, the *Mercado Cambiario Formal*, or the Formal Exchange Market, and the *Mercado Cambiario Informal*, or the Informal Exchange Market. Under the Central Bank Act, which is an organic constitutional law requiring a special majority vote of the Chilean Congress to be modified, the Central Bank determines which purchases and sales of foreign currencies must be carried out in the Formal Exchange Market. The Formal Exchange Market is comprised of the banks and other entities authorized to purchase and sell foreign currencies by the Central Bank. The conversion from pesos to U.S. dollars of all payments and distributions with respect to the ADSs must be carried out at the spot market rate in the Formal Exchange Market.

For purposes of the operation of the Formal Exchange Market, the Central Bank sets a monthly reference exchange rate, or *dolar acuerdo*, taking internal and external inflation into account. The reference exchange rate is adjusted daily to reflect variations in parities between the peso and each of the U.S. dollar, the Euro and the Japanese yen. The daily Observed Exchange Rate for a given date is the average exchange rate of the transactions conducted in the Formal Exchange Market on the immediately preceding banking day, as certified by the Central Bank.

Prior to September 1999, authorized transactions by banks were generally transacted within a certain band above or below the reference exchange rate. In order to maintain the average exchange rate within such limits, the Central Bank would intervene by selling and buying foreign currencies on the Formal Exchange Market.

On September 2, 1999, the Central Bank resolved to eliminate the exchange rate band as an instrument of exchange rate policy, introducing more flexibility to the exchange market. For this measure, the monetary authority considered the international financial scenario, the domestic inflation rate, the level of the external accounts, and the market development of hedge exchange financial instruments. At the same time, the Central Bank announced that an intervention in the exchange market would take place only in special and qualified cases.

Purchases and sales of foreign currencies that may be effected outside the Formal Exchange Market can be carried out in the Informal Exchange Market. The Informal Exchange Market reflects transactions carried out at informal exchange rates by entities not expressly authorized to operate in the Formal Exchange Market, such as certain foreign exchange houses and travel agencies. There are no limits on the extent to which the rate of exchange in the Informal Exchange Market can fluctuate above or below the Observed Exchange Rate. On December 30, 2003 (the latest practicable date, as December 31, 2003 was a banking holiday in Chile), the average exchange rate in the Informal Exchange Market was Ch$592.75 per U.S.$1.00, or 1.11% lower than the published Observed Exchange Rate of Ch$599.42 per U.S. $1.00.

The following table sets forth the annual low, high, average and period-end Observed Exchange Rate for U.S. dollars for each year beginning in 1999, as reported by the Central Bank:

	Daily Observed Exchange Rate Ch$ per U.S.$(1)			
Year	**Low(2)**	**High(2)**	**Average(3)**	**Period End**
1999	Ch$ 468.69	Ch$ 550.93	Ch$ 508.78	Ch$ 527.70
2000	501.04	580.37	539.49	572.68
2001	557.13	716.62	634.94	656.20
2002	641.75	756.56	688.94	712.38
2003	593.10	758.21	691.40	599.42
December	593.10	621.27	602.90	599.42
2004				
January	559.21	596.78	573.64	596.78
February	571.35	598.60	584.31	594.32
March	588.04	623.21	603.91	623.21
April	596.61	624.84	608.19	624.84
May	622.25	644.42	635.76	632.32
June(4)	636.02	649.45	645.20	643.42

Source: Central Bank.

(1) Nominal figures.

(2) Exchange rates are the actual low and high, on a day-by-day basis for each period.

(3) The average of monthly average rates during the year.

(4) Period from June 1, 2004 through June 23, 2004.

The Observed Exchange Rate on June 23, 2004 was Ch$643.42 = U.S.$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

RISK FACTORS

The risks and uncertainties described below are not the only ones that we face. Additional risks and uncertainties that we do not know about or that we currently think are immaterial may also impair our business operations. Any of the following risks if they actually occur, could materially and adversely affect our business, results of operations, prospects and financial condition.

We are subject to market risks that are presented both in this subsection and in Item 5. Operating and Financial Review and Prospects.

Risks Relating to our Operations and the Banking Industry

The growth of our loan portfolio may expose us to increased loan losses, and its rate of growth may decrease in the future.

From December 31, 1998 to December 31, 2003, our aggregate loan portfolio, net of interbank loans (on an unconsolidated basis) grew by 121.2% in nominal terms and 92.3% in real terms to Ch$6,065,621 million. During the same period, our consumer loan portfolio grew by 172.6% in nominal terms and 137.1% in real terms to Ch$478,093 million, each in accordance with the loan classification system of the Chilean Superintendency of Banks. On a combined basis (combining Banco de Chile and Banco de A. Edwards), from December 31, 1998 to December 31, 2003, the aggregate loan portfolio of both banks, net of interbank loans (on an unconsolidated basis) grew by 32.0% in nominal terms and 14.8% in real terms to Ch$6,065,621 million. During the same period, on a combined basis, the consumer loan portfolio of both banks grew by 62.0% in nominal terms and 40.9% in real terms to Ch$478,093 million, each calculated in accordance with the loan classification system of the Chilean Superintendency of Banks. (Because the method of aggregation of loans used by the Chilean Superintendency of Banks for its public information differs in minor respects from that used by us for internal accounting purposes, the foregoing figures may differ from the figures included in our audited consolidated financial statements.) Further expansion of our loan portfolio (particularly in the lower-middle to middle income consumer and small- and medium-sized corporate business areas) can be expected to expose us to a higher level of loan losses and require us to establish higher levels of allowances for loan losses. Our loan portfolio may not continue to grow at the same or similar rates in the future.

According to the Chilean Superintendency of Banks, from December 31, 1998 to December 31, 2003, the aggregate amount of loans outstanding in the Chilean banking system (on an unconsolidated basis) grew by 39.6% in nominal terms and 21.4% in real terms to Ch$32,831,720 million. A decline in the rate of growth of the Chilean economy could adversely affect the rate of growth of our loan portfolio and our risk index and, accordingly, increase our required allowances for loan losses. See Item 4. Information on the Company Selected Statistical Information.

Restrictions imposed by banking regulations may restrict our operations and thereby adversely affect our financial condition and results of operations.

We are subject to regulation by the Chilean Superintendency of Banks. In addition, we are subject to regulation by the Central Bank with regard to certain matters, including interest rates and foreign exchange transactions. See Item 4. Information on the Company Regulation and Supervision. During the Chilean financial crisis of 1982 and 1983, the Central Bank and the Chilean Superintendency of Banks strictly controlled the funding, lending and general business matters of the banking industry in Chile.

Pursuant to the *Ley General de Bancos*, or the General Banking Law, all Chilean banks may engage in additional businesses depending on the risk of the activity and the strength of the bank. The General Banking Law also applies to the Chilean banking system a modified version of the capital adequacy guidelines issued by the Basel Committee on Banking Regulation and Supervisory Practices, or Basel Committee, and limits the discretion of the Chilean Superintendency of Banks to deny new banking licenses. There can be no assurance that regulators will not in the future impose more restrictive limitations on the activities of banks, including us, than those that are currently in effect. Any such change could have a material adverse effect on our financial condition or results of operations.

We reported a negative cash flow from operating activities for the years ended December 31, 2000, 2001 and 2003, which could have an adverse effect on our ability to operate in the future.

During 2000, 2001 and 2003, we reported a negative cash flow from our operations. During those years, we invested a large amount of cash in Central Bank securities in order to meet our technical reserve requirements as a result of higher current account and other demand deposits levels, resulting in negative operating cash flow. From time to time, we may need to invest large amounts of cash in order to meet regulatory requirements. Given current low interest rates, our customers tend to maintain deposits in checking accounts and in other demand deposits, which are included in the technical reserve requirement, which may also result in a need to invest more cash in highly liquid products such as Central Bank securities. Either or both of these needs may affect our cash flow from operations. There can be no assurance that we will not report a negative cash flow from operating activities in the future.

Increased competition and industry consolidation may adversely affect our operations.

The Chilean market for financial services is highly competitive. We compete with other Chilean private sector domestic and foreign banks, with Banco del Estado de Chile, a public sector bank, and with large department stores that make consumer loans to a large portion of the Chilean population. In 2002, two new private sector banks affiliated with Chile s largest department stores began their operations, mainly as consumer and medium-sized corporate niche banks. In 2003, a new niche bank oriented at servicing corporations began its operations, and two new authorizations were granted by the Chilean Superintendency of Bank for the creation of additional banks, oriented at servicing both individuals and corporations. The lower-middle to middle income portions of the Chilean population and the small- and medium-sized companies have become the target markets of several banks, and competition with respect to these customers is likely to increase. As a result, net interest margins in these subsegments are likely to decline. Although we believe that demand for financial products and services from lower-middle to middle income individuals and from small- and medium-sized companies will continue to grow during the remainder of the decade, there can be no assurance that net interest margins will be maintained at their current levels.

We also face competition from non-bank competitors with respect to some of our credit products, such as credit cards and consumer loans. Non-bank competition from large department stores has become increasingly significant in the consumer lending sector. In addition, we face competition from competitors such as leasing, factoring and automobile finance companies, with respect to credit products, and mutual funds, pension funds and insurance companies, with respect to savings products and mortgage loans. Currently, banks continue to be the main suppliers of leasing, factoring and mutual funds, and the insurance sales business has experienced rapid growth. See Item 4. Information on the Company Business Overview Competition.

The increase in competition within the Chilean banking industry in recent years had led to, among other things, consolidation in the industry. For example, on August 1, 2002, Banco Santiago and Banco Santander-Chile, the then-second and third largest banks in Chile, respectively, merged creating Chile s largest bank. In 2003, Banco del Desarrollo merged with Banco Sudameris. We expect the trends of increased competition and consolidation to continue and result in the formation of new large financial groups. Consolidation, which can result in the creation of larger and stronger banks, may adversely affect our financial condition and results of operations by affecting the net interest margins we are able to generate and by increasing our costs of operations.

Our exposure to small businesses and lower-middle income individuals could lead to higher levels of past due loans and subsequent charge-offs.

Although we historically emphasized banking for large and medium-sized businesses, an increasing number of our corporate customers (approximately 9.6% of the value of the total loan portfolio) currently consist of small companies (those with annual sales of less than Ch$300 million) and, to a lesser extent, individual customers (approximately 2.6% of the value of the total loan portfolio at December 31, 2003) in the lower income individuals subsegment (annual income between Ch$1.8 million and Ch$5.4 million). Our strategy includes increasing lending and providing other services to attract additional lower-middle income individuals and small companies as customers. Small companies and lower-middle to middle income individuals are likely to be more severely affected by adverse developments in the Chilean economy than large corporations and high income individuals. Consequently, in the future we may experience higher levels of past due loans, which could result in higher allowances for loan losses. There can be no assurance that the levels of past due loans and subsequent charge-offs will not be materially higher in the future. See Item 4. Information on the Company Business Overview Principal Business Activities.

An affiliate of ours may be obligated to sell shares of our stock in the public market if we do not pay sufficient dividends.

As of December 31, 2003, Sociedad Administradora de la Obligacion Subordinada SAOS S.A., or SAOS, our affiliate, holds 42% of our shares as a consequence of our 1996 reorganization. The reorganization was partially due to our 1989 repurchase from the Central Bank of certain non-performing loans that we had previously sold to the Central Bank and later exchanged for a subordinated obligation without a fixed term, known as *deuda subordinada*, or subordinated debt. Under the terms of a repayment obligation in favor of the Central Bank that SAOS assumed to replace the Central Bank subordinated debt, SAOS may be required to sell some of our shares to the public. See Item 4. Information on the Company History and Development of the Bank History The 1982-1983 Economic Crisis and the Central Bank Subordinated Debt.

In exchange for assuming the Central Bank indebtedness, SAOS received from SM-Chile S.A., a holding company that controls us and SAOS, 63.6% of our shares as collateral for this indebtedness. As a result of our merger with Banco de A. Edwards, the percentage of our shares held by SAOS decreased to 42.0%. Dividends received from us are the sole source of SAOS s revenue, which it must apply to repay this indebtedness. However, under SAOS s agreement with the Central Bank, we have no obligation to distribute dividends to our shareholders. To the extent distributed dividends are not sufficient to pay the amount due on this indebtedness, SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that SAOS commits to pay with future dividends. If the cumulative deficit balance exceeds an amount equal to 20% of our capital and reserves, the Central Bank may require SAOS to sell a sufficient number of shares of our stock owned by SAOS to pay the entire accumulated deficit amount. As of April 30, 2004, SAOS maintained a deficit balance with the Central Bank of Ch$37,080 million, equivalent to 7.2% of our capital and reserves. As of the same date, Ch$102,438 million would have represented 20% of our capital and reserves. If from time to time in the future our shareholders decide to retain and capitalize all or part of our annual net income in order to finance our future growth, and to distribute stock dividends among our shareholders, the Central Bank may require us to pay the portion of the net income corresponding to shares owned by SAOS in cash to SAOS. If we distribute stock dividends and the Central Bank does not require us to pay that portion in cash, the shares received by SAOS must be sold by SAOS within the following 12 months. The shareholders of SM-Chile will have a right of first refusal with respect to that sale.

We are unable to determine the likelihood that the Central Bank would require SAOS to sell shares of our common stock or that SAOS will otherwise be required to sell any stock dividends distributed by us, nor can we determine the number of such shares SAOS may be required to sell. If SAOS is required to sell shares of our stock in the public market, that sale could adversely affect the prevailing market price of our stock.

Our results of operations are affected by interest rate volatility.

Our results of operations depend to a great extent on our net interest revenue. In 2003, net interest revenue represented 52.9% of our operating revenue. Changes in market interest rates could affect the interest rates earned on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities, leading to a reduction in our net interest revenue. Interest rates are highly sensitive to many factors beyond our control, including the reserve policies of the Central Bank, deregulation of the financial sector in Chile, domestic and international economic and political conditions and other factors. Any volatility in interest rates could have a material adverse effect on our financial condition or results of operations. The average annual short-term interest rate (based on the rate paid by Chilean financial institutions) for 90 to 360 day deposits was 3.74% in 2001, 1.94% in 2002, and 1.76% in 2003. The average long-term interest rate based on the Chilean Central Bank s eight-year duration bonds was 5.52% in 2001, 4.54% in 2002, and 3.96% in 2003. See Item 5. Operating and Financial Review and Prospects Overview Inflation and Item 5. Operating and Financial Review and Prospects Overview Interest Rates.

Risks Relating to our ADSs

Our principal shareholders may have interests that differ from those of our other shareholders and their significant shareownership may have an adverse effect on the future market price of our ADSs and shares.

As of December 31, 2003, L.Q. Inversiones Financieras S.A., a holding company beneficially owned by Quiñenco S.A., beneficially owned approximately 52.45% of our outstanding voting rights. These principal shareholders are in a position to elect a majority of the members of our board of directors, direct our management and control substantially all matters that are to be decided by a vote of the shareholders, including fundamental corporate transactions.

Actions by our principal shareholders with respect to the disposition of the shares or ADSs they beneficially own, or the perception that such actions may occur, may adversely affect the trading price of our shares on the various stock exchanges on which they are listed and, consequently, the market price of the ADSs.

There may be a lack of liquidity and a limited market for our shares and ADSs.

We merged with Banco de A. Edwards, a Chilean Bank, effective as of January 1, 2002. Prior to the merger, there was no public market for our shares outside Chile or for our ADSs. While our ADSs have been listed on the New York Stock Exchange, or NYSE, since the first quarter of 2002, there can be no assurance that an active trading market for our ADSs will be sustained. During 2003, a daily average of 10,770 American Depositary Receipts, or ADRs, were traded on the NYSE. Although our shares are traded on the Santiago Stock Exchange, the Valparaiso Stock Exchange and the Chilean Electronic Stock Exchange, the market for our shares in Chile is small and illiquid. At December 31, 2003, approximately 11.91% of our outstanding shares are held by shareholders other than our principal shareholders, including SM-Chile and SAOS.

If an ADS holder withdraws the underlying shares from the ADR facility, the small size of the market and its low liquidity in general, and our concentrated ownership in particular, may impair the ability of the ADS holder to sell the shares in the Chilean market in the amount and at the price and time such holder desires, and could increase the volatility of the price of our ADSs.

You may be unable to exercise preemptive rights.

The *Ley Sobre Sociedades Anonimas No. 18,046* and the *Reglamento de Sociedades Anonimas*, or the Chilean Corporations Law and its regulations require that whenever we issue new common stock for cash, we grant preemptive rights to all of our shareholders (including holders of ADSs) to purchase a sufficient number of shares to maintain their existing ownership percentage. Such an offering would not be possible unless a registration statement under the Securities Act of 1933, as amended, or the Securities Act, were effective with respect to such rights and common stock or an exemption from the registration requirements thereunder were available.

We may elect not to make a registration statement available with respect to the preemptive rights and the common stock, in which case you may not be able to exercise your preemptive rights. If a registration statement is not filed, the depositary will sell such holders preemptive rights and distribute the proceeds thereof if a premium can be recognized over the cost of any such sale.

Developments in other emerging markets may adversely affect the market price of the ADSs and shares.

The market price of the ADSs may be adversely affected by declines in the international financial markets and adverse world economic conditions. The market for Chilean securities is, to varying degrees, influenced by economic and market conditions in other emerging market countries, especially those in Latin America. Although economic conditions are different in each country, investors reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including Chile. Since the fourth quarter of 1997, the international financial markets have experienced volatility. Developments in other countries may adversely affect the market price of the ADSs. If the current economic situation in Argentina continues to deteriorate, or if similar developments occur in other international financial markets in the future, the market price of the ADSs could be adversely affected.

Chile has in the past imposed controls on foreign investment and repatriation of investments that affected an investment in, and earnings from, our ADSs.

Equity investments in Chile by persons who are not Chilean residents have historically been subject to various exchange control regulations that restrict the repatriation of the investments and earnings therefrom. In April 2001, the Central Bank eliminated most of the regulations that affected foreign investors, although foreign investors still have to provide the Central Bank with information related to equity investments and must conduct such operations within the Formal Exchange Market. Additional Chilean restrictions applicable to holders of our ADSs, the disposition of the shares underlying them or the repatriation of the proceeds from such disposition or the payment of dividends may be imposed in the future, and we cannot advise you as to the duration or impact of such restrictions if imposed.

If for any reason, including changes in Chilean law, the depositary were unable to convert Chilean pesos to U.S. dollars, investors would receive dividends and other distributions, if any, in Chilean pesos.

We are required to withhold for tax purposes 35% of any dividend we pay to you.

Owners of ADSs are entitled to receive dividends on the underlying shares to the same extent as the holders of shares. Dividends received by holders of ADSs will be paid net of foreign currency exchange fees and expenses of the depositary and will be subject to Chilean withholding tax of up to 35% of the dividend, which we will withhold and pay to the Chilean tax authorities. Any dividend distributions made in property (other than common stock) will be subject to the same Chilean tax rules as cash dividends. See "Item 10. Additional Information--Taxation--Chilean Tax Considerations."

Risks Relating to Chile

Currency fluctuations could adversely affect the value of our ADSs and any distributions on the ADSs.

The Chilean government s economic policies and any future changes in the value of the Chilean peso against the U.S. dollar could affect the dollar value of our common stock and our ADSs. The peso has been subject to large devaluations in the past and could be subject to significant fluctuations in the future. In the period from December 31, 1998 to December 31, 2003, the value of the U.S. dollar relative to the Chilean peso increased approximately 10.0%, as compared to an 8.2% decrease in value in the period from December 31, 1994 to December 31, 1998.

Chilean trading in the shares underlying our ADSs is conducted in pesos. Cash distributions with respect to our shares of common stock are received in Chilean pesos by the depositary, which then converts such amounts to U.S. dollars at the then-prevailing exchange rate for the purpose of making payments in respect of our ADSs. If the value of the Chilean peso falls relative to the U.S. dollar, the dollar value of our ADSs and any distributions to be received from the depositary will be reduced. In addition, the depositary will incur customary currency conversion costs (to be borne by the holders of our ADSs) in connection with the conversion and subsequent distribution of dividends or other payments. See Item 10. Additional Information Exchange Controls.

Inflation could adversely affect the value of our ADSs and financial condition and results of operations.

Although Chilean inflation has moderated in recent years, Chile has experienced high levels of inflation in the past. High levels of inflation in Chile could adversely affect the Chilean economy and, indirectly, the value of our ADSs. The annual rate of inflation (as measured by changes in the Consumer Price Index and as reported by the *Instituto Nacional de Estadisticas*, or the Chilean National Institute of Statistics) during the last five years ended December 31, 2003 and the first five months of 2004 was:

Year	**Inflation (Consumer Price Index)**
1999	2.3%
2000	4.5
2001	2.6
2002	2.8
2003	1.1
2004 (through May 31)	1.1%

Source: Chilean National Institute of Statistics

Although we currently benefit from inflation in Chile due to the structure of our assets and liabilities (*i.e.*, we have a significant amount of deposits that are not indexed to the inflation rate and do not accrue interest while a significant portion of our loans are indexed to the inflation rate), our operating results and the value of our ADSs in the future may be adversely affected by changing levels of inflation, and Chilean inflation could change significantly from the current level.

Our growth and profitability depends on the level of economic activity in Chile and elsewhere.

A substantial amount of our loans are to borrowers doing business in Chile. Accordingly, the recoverability of these loans in particular, and our results of operations and financial condition in general, are dependent to a significant extent on the level of economic activity in Chile. The Chilean economy has been influenced, to varying degrees, by economic conditions in other emerging market countries. There can be no assurance that the Chilean economy will continue to grow in the future or that future developments in or affecting the Chilean economy, will not materially and adversely affect our business, financial condition or results of operations. Furthermore, although our operations (with the exception of our branch in New York, our agency in Miami and our three representative offices located in Buenos Aires, Sao Paulo and Mexico City) are currently limited to Chile, we may in the future pursue a strategy of expansion into other Latin American countries. The potential success of such strategy will depend in part on political, social and economic developments in such countries.

According to data published by the Central Bank, the Chilean economy grew at a rate of 3.4% in 2001, 2.2% in 2002 and 3.3% in 2003. The reduction in growth prevailing in recent years, as compared to the 1990s, has adversely affected the overall asset quality of the Chilean banking system. According to information published by the Chilean Superintendency of Banks, the unconsolidated risk index of the Chilean financial system as a whole increased from 1.50% in October 1998 to 1.82% in October 2003 (the latest figures available for the financial system). Our results of operations and financial condition could also be affected by changes in economic or other policies of the Chilean government, which has exercised and continues to exercise a substantial influence over many aspects of the private sector, or other political or economic developments in Chile.

Argentina s insolvency and default on its public debt which deepened the existing financial economic and political crisis in that country, has adversely affected Chile. If Argentina s economic environment does not improve, the economy in Chile, as both a neighboring country and a trading partner, could also be adversely affected and could experience slower growth than in recent years.

Chile has corporate disclosure and accounting standards different from those you may be familiar with in the United States.

The accounting, financial reporting and securities disclosure requirements in Chile differ from those in the United States. Accordingly, the information about us available to you will not be the same as the information available to shareholders of a U.S. company.

There are also important differences between Chilean and U.S. accounting and financial reporting standards. As a result, Chilean financial statements and reported earnings generally differ from those that would be reported based on U.S. accounting and reporting standards. See note 28 to our audited consolidated financial statements.

As a regulated financial institution, we are required to submit to the Chilean Superintendency of Banks unaudited unconsolidated balance sheets and income statements, excluding any note disclosure, prepared in accordance with Chilean GAAP on a monthly basis. The Chilean Superintendency of Banks makes this information public within approximately three months of receipt. The Chilean Superintendency of Banks also makes summary financial information available within three weeks of receipt. Such disclosure differs in a number of significant respects from information generally available in the United States with respect to U.S. financial institutions.

Chilean disclosure requirements for publicly listed companies differ from those in the United States in some important respects. In addition, although Chilean law imposes restrictions on insider trading and price manipulation, the Chilean securities markets are not as highly regulated and closely supervised as the U.S. securities markets.

Chilean law provides for fewer and less well-defined shareholders rights.

Our corporate affairs are governed by our *estatutos*, or bylaws, and the laws of Chile. Under such laws, our shareholders may have fewer or less well-defined rights than they might have as shareholders of a corporation incorporated in a U.S. jurisdiction. For example, our shareholders would not be entitled to appraisal rights in the event of a merger or other business combination undertaken by us.

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements. These statements appear throughout this annual report, including, without limitation, under Item 4. Information on the Company and Item 5. Operating and Financial Review and Prospects. Examples of such forward-looking statements include:

- projections of operating revenues, net income (loss), net income (loss) per share, capital expenditures, dividends, capital structure or other financial items or ratios;
- statements of our plans, objectives or goals, including those related to anticipated trends, competition and regulation;
- statements about our future economic performance or that of Chile or other countries in which we operate; and
- statements of assumptions underlying such statements.

Words such as believe, anticipate, plan, expect, intend, target, estimate, project, potential, predict, forecast, guideline, and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. These statements may relate to (1) our asset growth and financing plans, (2) trends affecting our financial condition or results of operations and (3) the impact of competition and regulations, but are not limited to such topics. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those described in such forward-looking statements included in this annual report as a result of various factors (including, without limitation, the actions of competitors, future global economic conditions, market conditions, foreign exchange rates and operating and financial risks), 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, 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 towards lending to Chile or Chilean companies;
- increased costs;
- unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms; and
- the factors discussed under "Item 3. Key Information Risk Factors."

You should not place undue reliance on forward-looking statements, which speak only as of the date that they were made. This cautionary statement 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 publicly any revisions to such forward-looking statements after the filing of this annual report to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

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Item 4. Information on the Company

HISTORY AND DEVELOPMENT OF THE BANK

Overview

Our bank was founded in 1893, and we believe that we have been, for much of our recent history, among the largest and most profitable Chilean banks in terms of return on assets and shareholders equity. We are engaged primarily in commercial banking in Chile, providing general banking services to a diverse customer base that includes large corporations, small and mid-sized businesses and individuals.

Our legal name is Banco de Chile S.A., and we are organized as a banking corporation under the laws of the Republic of Chile and are licensed by the Chilean Superintendency of Banks to operate as a commercial bank. Our principal executive offices are located at Ahumada 251, Santiago, Chile. Our telephone number is +56 (2) 637-1111 and our website is www.bancochile.cl. Our registered agent in the United States is Banco de Chile, New York Branch. Its office is located at 535 Madison Avenue, 9th Floor, New York, New York 10022; its telephone number is +1 (212) 758-0909.

We are a full-service financial institution providing, directly and indirectly through our subsidiaries and affiliates, a wide variety of credit and non-credit products and services to all segments of the Chilean financial market. Our operations are organized in six principal business areas:

- large corporations;
- middle market companies;
- international banking;
- retail banking;
- treasury and money market operations; and
- operations through subsidiaries.

Our corporate banking services include commercial loans, including working capital facilities and trade finance, foreign exchange, capital market services, cash management and non-credit services such as payroll and payment services. We also provide a wide range of treasury and risk management products to our corporate customers, and we provide our individual customers with credit cards, residential mortgage, auto and consumer loans as well as traditional deposit services such as checking and savings accounts and time deposits.

We offer international banking services through our branch in New York, our agency in Miami, representative offices in Buenos Aires, Sao Paulo and Mexico City and a worldwide network of correspondent banks. In addition to our commercial banking operations, through our subsidiaries, we offer a variety of non-banking financial services including securities brokerage, mutual fund management, financial advisory services, factoring, insurance brokerage, securitization and collection and sales services.

As of December 31, 2003, we had:

- total assets of Ch$9,249,902 million (U.S.$15,431 million);
- loans outstanding of Ch$6,255,346 million (U.S.$10,436 million);
- deposits of Ch$5,313,863 million (U.S.$8,865 million); and
- shareholders' equity including net income of Ch$695,676 million (U.S.$1,161 million).

According to information published by the Chilean Superintendency of Banks, as of December 31, 2003, we were the second largest private bank in Chile in terms of total loans (excluding interbank loans) with a market share of 18.5%.

We are headquartered in Santiago, Chile and, as of December 31, 2003, had 9,133 employees and delivered financial products and services through a nationwide network of 224 branches, 2,970 automated teller machines, or ATMs, (823 of which are owned by us) located throughout Chile, and other electronic distribution channels.

History

We were established in 1893 as a result of the merger of Banco Nacional de Chile, Banco Agricola and Banco de Valparaiso, which created the largest privately held bank in Chile. To the best of our knowledge, we retained this status until the mid-1990s and remained the largest private bank in Chile until mid-2002.

Beginning in the early 1970s, the Chilean government assumed control of a majority of Chilean banks, then in operation, and all but one of the foreign banks operating at the time closed their branches and offices in Chile. Throughout this era, we remained privately owned, with the Chilean government owning participating shares which it sold to private investors in 1975.

We developed a well-recognized name in Chile and expanded our operations in foreign markets where we developed an extensive network of correspondent banks. In 1906, we established a representative office in London, which we maintained until 1985, when our foreign operations were centralized at the New York branch.

In 1987, the General Banking Law was amended to permit banks to offer, through subsidiaries, certain services which Chilean regulators considered complementary to commercial banking services. As a consequence, in 1987 and 1988, we established four subsidiaries to provide the full range of financial products and services permitted by the amended General Banking Law. The General Banking Law was further amended in 1997 to permit banks, through their subsidiaries, to offer factoring, securitization and insurance brokerage services. As a result, in 1999 we established our insurance brokerage and factoring subsidiaries.

Merger with Banco de A. Edwards

At a special board meeting held on August 7, 2001, our board of directors unanimously approved a preliminary merger agreement with Banco de A. Edwards, resolved to seek the necessary regulatory approvals and resolved to summon a general extraordinary shareholders meeting to approve the merger once the regulatory approvals had been obtained. At an extraordinary shareholders meeting held on December 6, 2001, our shareholders approved the merger with Banco de A. Edwards, which became effective on January 1, 2002. In January 2002, we were listed in the NYSE under the symbol BCH. During 2002, our shares were also listed on the Latin American Stock Exchange of the Madrid Stock Exchange, or Latibex, and on the London Stock Exchange, or the LSE.

In 2002, we focused our attention on our integration with Banco de A. Edwards in an effort to expand our customer base and improve our competitive position across a broad spectrum of market segments and products. Consequently, 2002 was a year of significant strategic decision-making, and of multiple adjustments to our operating structure. During the course of 2002, we decided to maintain a multiple brand strategy, and we currently use the Banco de Chile brand name with our corporate and middle-income individual clients, the Banco Edwards brand name with our high-income individual clients, the Banco Credichile brand name with our lower-income individual clients and the Leasing Andino brand name for all our leasing transactions. We concluded the merger process at the end of 2002 with the consolidation of the new corporate structure and the integration of our technological platforms. We believe that we achieved operational and technological continuity, thereby assuring our continued level of quality in customer service. During the process, we merged and integrated more than 50 branches, with successful results in terms of customer retention. In 2001 and 2002, we incurred merger related costs of approximately Ch$14,735 million and Ch$31,193 million, respectively. In 2003, no further costs related to the merger were incurred.

In 2003, we began to more fully benefit from the opportunities and strengths that were made available by the merger. We also established and developed the groundwork for Neos, our technological investment platform project, which we believe will improve our service standards and increase efficiency.

The 1982-1983 Economic Crisis and the Central Bank Subordinated Debt

During the 1982-1983 economic crisis, the Chilean banking system experienced significant instability. The financial crisis required that the Central Bank and the Chilean government provide assistance to most Chilean private sector banks, including us.

During this period, we experienced significant financial difficulties, as a result of which the Chilean government assumed administrative control over us. In 1985 and 1986, we increased our capital and sold shares representing 88% of our capital to more than 30,000 new shareholders. As a result, no single shareholder held a controlling stake in our company. In 1987, the Chilean Superintendency of Banks returned to our shareholders the control and administration of the bank.

Subsequent to the 1982-1983 economic crisis, like most major Chilean banks, we sold certain of our non-performing loans to the Central Bank at face value on terms that included a repurchase obligation. The repurchase obligation was later exchanged for subordinated debt of each participating bank issued in favor of the Central Bank. In 1989, pursuant to Law No. 18,818, banks were permitted to repurchase the portfolio of non-performing loans previously sold to the Central Bank for a price equal to the economic value of such loans, provided that a bank assumed a subordinated obligation equal to the difference between the face value of its loans and their economic value. In November 1989 we repurchased our portfolio of non-performing loans from the Central Bank and assumed the Central Bank s subordinated debt relating to our non-performing loans.

The original repayment terms of our Central Bank subordinated debt, which at December 31, 1989 equaled approximately Ch$1,049,198 million, or U.S.$1,750 million, required that a certain percentage of our income before provisions for the subordinated debt be applied to repay this obligation. The Central Bank subordinated debt did not have a fixed maturity, and payments were made only to the extent that we earned income before provisions for the subordinated debt. In 1993 we applied 72.9% of our income before provisions for the Central Bank subordinated debt to the repayment of this debt. In 1994 we applied 67.6% and in 1995 we applied 65.8% of our income before provisions for the Central Bank subordinated debt to the repayment of this debt.

In November 1996, pursuant to Law No. 19,396, our shareholders approved a reorganization by which Banco de Chile was converted to a holding company named SM-Chile. In turn, SM-Chile organized a new wholly owned banking subsidiary named Banco de Chile to which it contributed all of its assets and liabilities other than the Central Bank subordinated debt. SM-Chile then created SAOS, a second wholly owned subsidiary that, pursuant to a prior agreement with the Central Bank, assumed a new repayment obligation in favor of the Central Bank that replaced the Central Bank subordinated debt in its entirety.

This Central Bank indebtedness, for which SAOS is solely responsible and for which there is no recourse to us or SM-Chile, was equal to the unpaid principal of the Central Bank subordinated debt that it replaced but had terms that differed in some respects, the most important of which included a rescheduling of the debt for a term of 40 years providing for equal annual installments and a pledge of our shares as collateral for such debt. The Central Bank indebtedness bears interest at a rate of 5.0% per year and is denominated in UF. See Item 5. Operating and Financial Review and Prospects Overview Inflation UF-denominated Assets and Liabilities for a further explanation of UF.

In exchange for assuming the Central Bank indebtedness, SAOS received from SM-Chile, a holding company that beneficially owns us and SAOS, 63.6% of our shares as collateral for this indebtedness. As a result of our merger with Banco de A. Edwards, the percentage of our shares held by SAOS decreased to 42.0%. Dividends received from us are the sole source of SAOS s revenue, which it must apply to repay this indebtedness. However, under SAOS s agreement with the Central Bank, we have no obligation to distribute dividends to our shareholders. To the extent distributed dividends are not sufficient to pay the amount due on this indebtedness, SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that SAOS commits to pay with future dividends. If the cumulative deficit balance exceeds an amount equal to 20% of our capital and reserves, the Central Bank may require SAOS to sell a sufficient number of shares of our stock owned by SAOS to pay the entire accumulated deficit amount. As of April 30, 2004, SAOS maintained a deficit balance with the Central Bank of Ch$37,080 million, equivalent to 7.2% of our capital and reserves. As of the same date, Ch$102,438 million would have represented 20% of our capital and reserves. See Item 3. Key Information Risk Factors Risks Relating to our Operations and the Banking Industry An affiliate of ours may be obligated to sell shares of our stock in the public market if we do not pay sufficient dividends.

If from time to time in the future our shareholders decide to retain and capitalize all or part of our annual net income in order to finance our future growth, and to distribute stock dividends among our shareholders, the Central Bank may require us to pay the portion of the net income corresponding to shares owned by SAOS in cash to SAOS. If we distribute stock dividends and the Central Bank does not require us to pay that portion in cash, the shares received by SAOS must be sold by SAOS within the following 12 months. The shareholders of SM-Chile will have a right of first refusal with respect to that sale.

Capital Expenditures

The following table reflects our capital expenditures in each of the three years ended December 31, 2001, 2002 and 2003:

	For the Year Ended December 31,		
	2001	**2002**	**2003**
	(in millions of constant Ch$ as of December 31, 2003)		
Computer equipment	Ch$ 7,005	Ch$ 7,653	Ch$ 3,418
Furniture, machinery and installations	2,768	3,497	2,497
Real estate	375	646	593
Vehicles	66	321	297
Subtotal	10,214	12,117	6,805
Software	953	3,270	4,408
Total	Ch$ 11,167	Ch$ 15,387	Ch$ 11,213

Our budget for capital expenditures in 2004 is Ch$25,834 million, substantially all of which will be used in Chile. Capital expenditures planned for 2004 consist mainly of expenditures for information technology, including the implementation of a technological innovation platform project designed to improve efficiency and service quality, which we refer to as Neos. Other capital expenditures include disbursements necessary to maintain and improve our existing branch office infrastructure and other maintenance required in the ordinary course of our business.

BUSINESS OVERVIEW

Business Strategy

Our long-term strategy is to maintain our position as a leading bank in Chile, providing a broad range of financial products and services to large corporations, small and mid-sized companies and individuals nationwide. As part of this strategy, we operate under a multi-brand approach in order to target the different market segments, taking advantage of our well positioned brand names: Banco de Chile, Banco de A. Edwards, Banchile, Banco Credichile and Leasing Andino. Our strategy is focused on:

- delivering superior customer service that responds to the specific needs of our customers in each market segment;
- enhancing profitability by increasing revenues from fee-based services through the development of new services and active cross-selling of such services to our customers;
- continuing to focus on measures that control costs and otherwise enhance productivity to improve our existing efficiency standards; and
- further developing the international products and services that we offer to our customers.

The key components of our strategy are described below.

Deliver Superior Customer Service

Our banking strategy is focused on developing long-term relationships with our customers by emphasizing customer service and providing a broad range of financial products and services. As the Chilean economy recovers, we expect that our corporate and individual customers will continue to require more comprehensive credit and non-credit financial services than in the past.

- In the large corporations business area, we are focused on increasing offerings of specialized lending products, treasury and cash management services.
- In the middle market companies business area, we intend to increase our lending activities and offerings of fee-based services such as electronic banking, import-export financial services, financial advisory services and cash management services.
- To expand our high- and middle-income individual customer base, we intend to (1) market a broad range of products and services to high- and middle-income individuals, (2) cross-sell products and services such as mutual funds, lease financing, factoring, insurance and securities brokerage services and (3) develop new services targeted to the specific needs of these customers.
- To increase the relative importance of the business generated by lower to middle-income individuals, we intend to (1) develop new products and services at competitive prices, (2) strengthen our distribution channels, (3) overhaul the branches that service these clients and (4) reposition our retail banking image by using the Banco Credichile brand name.

Expand Fee-Based Services

In recent years, our margins from traditional lending activities have declined significantly and, as a result, we have increasingly shifted our focus to developing other sources of revenue such as fee-based products and services. Our consolidated income from fees and other services has continued to grow over the last three years and was Ch$103,389 million in 2003, an increase of 30.2% from Ch$79,407 million in 2002. We seek to continue to grow fee revenue by developing new services and by cross-selling these services to our base of existing customers. In our corporate business, we intend to actively market fee-based services such as electronic banking, receivables collection, payroll services, supplier payments, investment advisory services and cash management. In our retail banking business area, we seek to increase revenues from fee-based services such as telephone and electronic banking, ATMs, general checking services, credit cards, mutual funds, securities brokerage and insurance brokerage.

Maintain Focus on Operating Efficiencies

In 2003, our consolidated operating expenses represented approximately 52.9% of our operating revenue. As the Chilean banking sector continues to grow, we believe that a low-cost structure will become increasingly important to compete profitably.

We have invested heavily in technology during recent years (approximately Ch$7,653 million in 2002 and Ch$3,418 million in 2003) and plan to continue to focus on technology in the future to achieve further improvements in customer service and operating efficiency. In 2003, we began the first stage of Neos, and in 2003, capital expenditures associated with Neos amounted to Ch$2,871 million. We estimate that our Neos related capital expenditures will amount to Ch$11,946 million in 2004.

Provide Competitive International Products and Services

We intend to provide to our primarily Chilean customer base a complete array of international products at competitive prices. Our primary focus in this respect will be on trade financing of customer related operations, one of our traditional areas of international activity. To implement this strategy, we intend to take advantage of our New York branch and Miami agency to strengthen our relationships with Chilean businesses engaged in international trade.

There can be no assurance that we will be able to realize our strategic objectives. For a discussion of certain risks applicable to our operations and to Chile that may affect our ability to meet our objectives, see Item 3. Key Information Risk Factors.

Ownership Structure

The following diagram shows ownership structure at December 31, 2003:

Share Repurchase Program

On March 20, 2003, at an extraordinary shareholders meeting, our shareholders approved the establishment of a share repurchase program to be conducted on the various Chilean stock exchanges on which our shares are listed and/or through a tender offer conducted in accordance with the Chilean Corporations Law. Up to one percent of our issued shares may be bought directly in the Chilean stock exchanges in a twelve-month period, without requiring a tender offer. The program is expected to last for two years from June 5, 2003.

Under the terms of the share repurchase program, the maximum percentage of shares to be repurchased cannot exceed the equivalent of three percent of our paid-in capital and the minimum price that we will pay for the shares must be the weighed average of the closing prices of the shares as quoted by the Santiago Stock Exchange for the 45 business days preceding the repurchase. The maximum price that we may pay for the shares is 15% in excess of that average.

The Central Bank authorized the program on June 2, 2003, subject to the following conditions:

- we must request prior approval of the offering price from the Central Bank when we decide to sell any shares acquired under the program; and

- the shares may only be purchased through retained net income from prior years.

The Chilean Superintendency of Banks authorized the program on July 2, 2003.

On March 25, 2004, our board of directors resolved to commence a tender offer for 1,701,994,590 of our shares, representing 2.5% of our total capital, at a purchase price of Ch$31 per share. The tender offer expired on April 26, 2004. 5,000,844,940 shares were tendered in the tender offer. Given that the number of acceptance orders received exceeded the number of shares we were authorized to repurchase, pursuant to the terms of the offer, we repurchased shares on a pro-rata basis.

The shares bought under the share repurchase program must be sold within 24 months of their respective acquisition. Otherwise, paid-in capital must be reduced by the amount of the repurchased shares that were not resold. Shareholders will have a preferential right to acquire the repurchased shares if we decide to sell them unless our board of directors approves the sale of up to 1.0% of our shares during a twelve-month period on any stock exchange on which our shares are listed. Repurchased shares, although registered in our name, do not have voting or dividend rights.

Principal Business Activities

We are a full-service financial institution providing, directly and indirectly through our subsidiaries and affiliates, a wide variety of credit and non-credit products and services to all segments of the Chilean financial market. The following diagram illustrates, in summary form, our principal business areas, which operate through us or, in the case of Operations through subsidiaries, through our subsidiaries:

The following table provides information on the composition of our loan portfolio and our consolidated net income before tax for the year ended December 31, 2003, allocated among our principal business areas:

	Loans		Consolidated net income before tax (1)
	(in millions of constant Ch$ as of December 31, 2003, except for percentages)		
Large corporations	Ch$ 2,606,504	41.8%	Ch$ 50,583
Middle market companies	1,559,263	24.9	38,155
International banking	270,717	4.3	12,202
Retail banking	1,732,369	27.7	36,561
Treasury and money market operations	8,501	0.1	19,142
Operations through subsidiaries	77,992	1.2	21,266
Other (adjustments and eliminations)	-	-	(33,454)
Total	Ch$ 6,255,346	100.0%	Ch$ 144,455

(1) Consolidated net income before tax consists of the sum of operating revenues and other income and expenses, net, and the deduction for operating expenses and provisions for loan losses. The net income before tax breakdown shown is used for internal reporting, planning and marketing purposes and is based on, among other things, our estimated funding cost and direct and indirect cost allocations. This breakdown may differ in some respects from breakdowns of our operating income for financial reporting and regulatory purposes. Separate information on the operations, assets and income of our eight financial services subsidiaries and affiliates is provided below under "--Operations through Subsidiaries."

The following table provides our consolidated operating revenues, for the period indicated, allocated among our principal business areas:

	For the Year Ended December 31,		
	2001	2002	2003
	(in millions of constant Ch$ as of December 31, 2003)		
Large corporations	Ch$ 61,991	Ch$ 91,578	Ch$ 88,286
Middle market companies	86,222	111,021	106,078
International banking	18,567	2,615	16,377
Retail banking	86,801	147,112	145,572
Treasury and money market operations	17,251	25,389	22,768
Operations through subsidiaries	20,848	41,787	52,900
Other (adjustments and eliminations)	(14,888)	320	(7,731)
Total	Ch$ 276,792	Ch$ 419,822	Ch$ 424,250

The following table provides a geographic market breakdown of our operating revenues for the years indicated.

	For the Year Ended December 31,		
	2001	2002	2003
	(in millions of constant Ch$ as of December 31, 2003)		
Chile	Ch$ 262,263	Ch$ 418,701	Ch$ 409,587
Banking operations	241,415	376,914	356,687

Operations through subsidiaries	20,848	41,787	52,900
Foreign branch operations	14,529	1,121	14,663
New York	11,220	(1,473)	11,834
Miami	3,309	2,594	2,829
Total	Ch$ 276,792	Ch$ 419,822	Ch$ 424,250

Large Corporations

In general, our large corporations business area services domestic companies with annual sales in excess of Ch$12,000 million, multinational corporations, financial institutions, governmental entities and companies affiliated with Chile s largest conglomerates (regardless of size). This business area offers these

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companies a broad range of products and services tailored to their specific needs. These services include deposit-taking and lending in both pesos and foreign currency, trade and project financing and various non-credit services, such as collection, supplier payments and payroll management. In addition, our large corporations business area offers a broad range of banking products and services including working capital financing, lines of credit, commercial loans, leasing, corporate financial services, foreign trade financing, letters of credit in domestic and foreign currencies, mortgage loans, payment and asset management services, checking accounts and time deposits, and, through our subsidiaries, brokerage, mutual funds and investment fund management services. All of our branches (except the Credichile branches) provide services to our large corporations business area customers directly and indirectly.

Our large corporate customers are engaged in a wide spectrum of industry sectors. As of December 31, 2003, this business area had primarily made loans to customers engaged in:

- financial services (approximately 30.1% of all loans made by this business area);
- construction (approximately 15.4% of loans made by this business area);
- manufacturing (approximately 13.8% of all loans made by this business area);
- trade (approximately 12.4% of all loans made by this business area); and
- agriculture (approximately 8.8% of all loans made by this business area).

See Selected Statistical Information.

At December 31, 2003, we had approximately 2,117 large corporate debtors. Loans to large corporations totaled approximately Ch$2,606,504 million at December 31, 2003, representing 41.8% of our total loans at that date. Our large corporations business area accounted for Ch$50,583 million of our consolidated net income before tax for the year ended December 31, 2003.

The following table sets forth the composition of our portfolio of loans to large corporations as of December 31, 2003:

	As of December 31, 2003	
	(in millions of constant Ch$ as of December 31, 2003, except for percentages)	
Commercial loans	Ch$ 1,625,068	62.4%
Foreign trade loans	432,204	16.6
Contingent loans	247,802	9.5
Leasing contracts	124,956	4.8
Mortgage loans	70,920	2.7
Consumer loans	274	0.0
Other loans	105,280	4.0
Total	Ch$ 2,606,504	100.0%

Our large corporations business area s loan portfolio consists principally of unsecured loans with maturities between one and six months and of medium- and long-term loans to finance fixed assets, investment projects and infrastructure projects. In addition, our large corporations business area issues contingent credit obligations in the form of letters of credit, bank guarantees and similar obligations in support of the operations of our large corporate customers. See Selected Statistical Information.

The market for loans to large corporations in Chile in recent years has been characterized by reduced profit margins, due in part to the greater direct access of such customers to domestic and international capital markets and other sources of funds. As a result, we have been increasingly focused on generating fee services, such as payroll processing, dividend payments and billing services as well as computer banking services. This strategy has enabled us to maintain profitable relationships with our large corporate customers while preserving the ability to extend credit when appropriate opportunities arise.

We are party to approximately 3,414 payment service contracts and approximately 839 collection service contracts with large corporate customers. Under these payment contracts, we provide large corporate customers with a system to manage their accounts and make payments to suppliers, pension funds and employees, thereby reducing administrative costs. We believe that cash management and payment service contracts provide a source of low-cost deposits and the opportunity to cross-market our products and fees to payees, many of whom maintain accounts with us. Under our collection contracts, we act as a collection agent for our large corporate customers, providing centralized collection services for their accounts receivables and other similar payments.

Middle Market Companies

We serve the financing needs of small and medium-size companies through our middle market companies business area. We generally define middle market companies as those with annual sales of between Ch$300 million and Ch$12,000 million and small or emerging companies as those with annual sales of between Ch$45 million and Ch$300 million. As of December 31, 2003, our middle market companies business area had approximately 66,765 checking account holders, of which approximately 74% are small or emerging companies. In terms of loans amounts, however, approximately 60.9% of the middle market companies business area s total loan portfolio represents loans to medium-size companies.

Our middle market companies business area offers its customers a broad range of financial products, including project financing, working capital financing, mortgage loans and debt rescheduling, as well as other alternatives such as leasing operations, factoring, mutual funds, insurance and securities brokerage services and collection services (through our Banchile subsidiaries). We also offer our clients full advisory services aimed at facilitating foreign trade, as well as comprehensive financing and service alternatives.

We have developed a set of services designed to facilitate and optimize the operational and financial management of small and medium size companies. These services include payment services (such as employee compensation, taxes and employee benefits), payments to suppliers and automated bill payments. We provide most of these services through remote service channels, such as the internet and, as of December 31, 2003, delivered such services to approximately 24,400 customers. We also provide account receipts and instrument collection services through electronic means. All of these products and services are available through our nationwide branch network.

Through our subsidiaries, our middle market companies business area offers our customers a full range of financial advisory, stock brokerage, mutual fund management and general and life insurance brokerage services.

The following table sets forth the composition of our portfolio of loans to middle market companies as of December 31, 2003:

	As of December 31, 2003	
	(in millions of constant Ch$ as of December 31, 2003, except for percentages)	
Commercial loans	Ch$ 749,408	48.2%
Mortgage loans	315,641	20.2
Leasing contracts	139,278	8.9
Foreign trade loans	119,210	7.6
Contingent loans	98,498	6.3
Consumer loans(1)	11,098	0.7
Other loans	126,130	8.1
Total	Ch$ 1,559,263	100.0%

(1) Certain commercial loans to individuals are classified as consumer loans.

Our middle market companies business area s loan portfolio consists primarily of short- and long-term commercial loans and mortgage loans. At December 31, 2003, this business area had primarily made loans to customers engaged in:

- trade (23.9% of loans made by this business area);
- financial services (18.2% of loans made by this business area);
- agriculture (16.5% of loans made by this business area);
- manufacturing (15.6% of loans made by this business area);
- transport and storage (5.9% of loans made by this business area); and
- construction (5.9% of loans made by this business area).

See Selected Statistical Information.

At December 31, 2003, we had Ch$1,559,263 million of outstanding loans to small and medium-size companies, representing 24.9% of our total loan portfolio at that date. Small and medium-size banking clients accounted for approximately Ch$38,155 million of our consolidated net income before tax for the year ended December 31, 2003.

Commercial Loans. Our middle market companies business area s commercial loans, which mainly consist of project financing and working capital loans, are denominated in pesos, UF or U.S. dollars. Commercial loans may have fixed or variable rates of interest and generally mature between one and three months from the date of the loan. At December 31, 2003, our middle market companies business area had outstanding commercial loans of Ch$749,408 million, representing 48.2% of the middle market companies business area s total loans and 12.0% of our total loans at that date.

Mortgage Loans. Our middle market companies business area s commercial mortgage loans are denominated in UF and generally have maturities of between five and 30 years. At December 31, 2003, this business area had granted mortgage loans outstanding of approximately Ch$315,641 million, representing 20.2% of the middle market companies business area s total loans and 5.0% of our total loans at such date.

International Banking

Through our international banking business area, we offer a range of international services, principally import and export financing, letters of credit, guarantees and other forms of credit support, as well as currency swaps, banking services and treasury services for our corporate clients in Chile and abroad.

Our international banking business area has two main lines of business: foreign currency products and management of our international network. This business area deals with all banking products that involve foreign currency, including those related to foreign trade. Our international banking business area designs foreign currency products, educates our account officer sales force about our foreign currency products, monitors our market share participation and promotes the use of our foreign currency products. Included in this business area is a group of foreign trade specialists that advises our customers about our services related to insurance, shipping and customs, with the objective of obtaining the most desirable conditions for the non-banking stages of our customers foreign trade transactions.

Our international banking business area does not, however, have credit granting authority for these purposes. Instead, the area participates in a team effort with the account officers who establish credit limits, and our international banking trade specialists interact directly with our customers, ensuring that the price they pay for our services is adequate and that the quality of the services provided meets pre-established levels.

As of December 31, 2003, we had Ch$658,280 million in foreign trade loans, representing 10.5% of our total loans as of that date, and Ch$106,810 million in letters of credit and other contingent obligations related to foreign trade operations, representing 1.7% of our total loans as of that date.

Our international banking business area also manages our international network. This network is made up of a branch in New York and an agency in Miami, three representative offices (located in Mexico City, Sao Paulo and Buenos Aires) and approximately 700 correspondent banks. We have established credit relations with 200 correspondent banks and an account relationship with approximately 43 correspondent banks.

We use our international network in order to:

- obtain all our foreign currency funding for either trade or general purposes (short- or medium-term) for our Santiago, Chile head office and our foreign branches;
- supply additional savings alternatives to our predominantly Chilean customers;
- provide banking services to our corporate customers who operate outside of Chile;
- provide treasury and cash management services and lending alternatives to our corporate customers on an international basis;
- diversify our loan and investment portfolio by identifying, mainly through our representative offices, opportunities in dealing with selected customers in pre-approved countries; and
- obtain commercial information on foreign companies that do business in Chile and business opportunities for our Chilean customers seeking to expand to new markets abroad.

The following table sets forth, as of December 31, 2003, the composition of our portfolio of loans originated through our New York branch and Miami agency:

	As of December 31, 2003	
	New York Branch	Miami Agency
	(in millions of constant Ch$ as of December 31, 2003)	
Foreign trade loans	Ch$ 29,673	Ch$ 31,141
Commercial loans	58,264	37,494
Interbank loans	391	4,331
Contingent loans	3,045	4,337
Other loans	799	209
Total	Ch$ 92,172	Ch$ 77,512

The following table sets forth, as of December 31, 2003, the sources of funding for our New York branch and for the Miami agency:

	As of December 31, 2003			
	New York Branch		Miami Agency	
	(in millions of constant Ch$ as of December 31, 2003, except for percentages)			
Current accounts	Ch$ 85,376	22.1%	Ch$ 20,482	13.4%
Certificates of deposits and time deposits	199,694	51.6	123,771	80.8
Other demand deposits	50,574	13.1	4,018	2.6
Contingent liabilities	3,045	0.8	4,337	2.8
Foreign borrowings	43,292	11.2	256	0.2
Other liabilities	4,578	1.2	241	0.2
Total	Ch$ 386,559	100.0%	Ch$ 153,105	100.0%

New York Branch. Our wholly owned New York branch was established in 1982 and provides a range of general banking services, including deposit-taking, mainly to non-residents of the United States. At December 31, 2003, the New York branch had total assets of Ch$417,810 million, including a loan portfolio of Ch$92,172 million, representing 1.5% of our total loan portfolio. Of the New York branch s loans, Ch$58,264 million were commercial loans, mostly to large private corporations in Chile and in other Latin American countries. The remaining Ch$33,908 million were principally foreign trade loans, amounting to Ch$29,673 million, and contingent loans (letters of credit and stand-by letters of credit), amounting to Ch$3,045 million. In 2003, our New York branch recognized a net income of Ch$10,661 million, primarily as a result of the sale of Latin American investment securities.

Investments in bonds and foreign securities were Ch$258,266 million at December 31, 2003, most of which consisted of private sector bonds. The New York branch s allowances for loan losses totaled Ch$681 million, which represented 0.7% of the branch s loan portfolio at December 31, 2003. In addition, our New York branch had Ch$100 million in country risk allowances.

Funding sources for the New York branch include current account, money market accounts and deposits for less than 30 days of Ch$224,432 million, time deposits of Ch$111,212 million and foreign borrowings of Ch$43,292 million, which is also the outstanding balance of the branch s long-term syndicated bank loans.

As of December 31, 2003, the New York branch had capital of Ch$31,250 million (including net income of Ch$10,661 for the year).

At December 31, 2003, the New York branch did not have past due loans. Although the New York branch manages its assets and liabilities locally, it follows the same credit processes as are followed in Santiago, Chile and all credit decisions are made by our account officers in Santiago, Chile.

Miami Agency. Our wholly owned Miami agency was opened in 1995 and provides a range of traditional commercial banking services, mainly to non-residents of the United States, including deposit-taking, providing credit to finance foreign trade and making loans to individuals or Chilean companies involved in foreign trade. Additionally, our Miami agency provides correspondent banking services to financial institutions, including working capital loans, letters of credit and bankers acceptances. At December 31, 2003, our Miami agency had total assets of Ch$159,333 million, a loan portfolio of Ch$77,512 million representing 1.2% of our total loan portfolio, and an investment portfolio of Ch$61,070 million. Our Miami agency s loan portfolio at December 31, 2003 consisted primarily of Ch$37,494 million of commercial loans to Latin American private sector companies, including Chilean companies with operations in other Latin American countries, and Ch$31,141 million of foreign trade loans. The agency s funding sources include demand deposits, money market accounts and deposits for less than 30 days (Ch$77,225 million), time deposits (Ch$71,045 million) and contingent liabilities (Ch$4,337 million). The equity of the Miami agency as of December 31, 2003 was Ch$6,229 million, including net income of Ch$734 million for the year.

At December 31, 2003, the Miami agency did not have past due loans. Allowances for loan losses amounted to Ch$580 million, not including the Ch$495 million in country risk allowances. Although the Miami agency manages its assets and liabilities locally, it follows the same credit processes as are followed in Santiago, Chile, and all credit decisions are made by our account officers in Santiago, Chile.

Individual customer accounts and our deposit taking activities are monitored under strict customer approval procedures that are encompassed in our anti-money laundering program.

Representative offices. The principal function of our representative offices in Argentina, Brazil and Mexico is to search for business opportunities in the areas of trade finance and private sector financing and to monitor the development and evolving economies of these countries. These offices serve as points of contact for our customers who have business with or operate directly within these countries.

Retail Banking

Our retail banking business area serves the needs of retail customers from high- to lower-middle income individuals, with service being segmented according to the client s income. At December 31, 2003, loans made by this business area represented 27.7% of our total loan portfolio. Approximately Ch$36,561 million of our net income before tax for the year ended December 31, 2003 was accounted for by our retail banking business area.

The following table sets forth the composition of our retail banking business area s loan portfolio as of December 31, 2003:

	As of December 31, 2003	
	(in millions of constant Ch$ as of December 31, 2003, except for percentages)	
Mortgage loans	Ch$ 741,469	42.8%
Consumer loans	466,721	26.9
Commercial loans	86,766	5.0
Leasing contracts	4,722	0.3
Contingent loans	912	0.1
Foreign trade loans	37	0.0
Other loans[1]	431,742	24.9
Total	Ch$ 1,732,369	100.0%

(1) Other loans include primarily mortgage loans financed by our general borrowings and lines of credit.

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High- and Middle-Income Individuals. We define high- and middle-income individuals as those with annual income in excess of Ch$5.4 million (in 2003, per capita annual income in Chile was approximately Ch$2.5 million).

Our high- and middle-income individuals subsegment offers our customers a broad range of retail banking products, including residential mortgage loans, lines of credit and other consumer loans, credit cards, checking accounts, savings accounts and time deposits. We also offer mutual funds and brokerage services to individuals as described under Operations through Subsidiaries below. At December 31, 2003, we had outstanding extensions of credit to approximately 259,141 high- and middle-income individuals, including approximately 35,361 residential loans, 223,785 lines of credit, 110,838 other consumer loans and 237,758 credit card accounts. At the same date, this area maintained 302,487 checking accounts, 123,213 savings accounts and 59,743 time deposits.

We provide service to high- and middle-income individual customers through a network of 172 branches including four specialized Private Banking centers, 18 specialized transaction centers and 2,970 ATMs (823 of which are owned by us) located throughout Chile that form part of a network operated by Redbanc S.A., a company owned by us and 13 other private sector financial institutions. Since 1994, we have offered a nationwide phone-banking service that permits our high- and middle-income individual customers to receive balances and other account-related information, transfer funds between accounts and effect a wide variety of credit transactions. In 1997, we launched a full 24-hour banking service under the brand *TodaHora* and our homepage on the internet to better serve our high- and middle-income individual customers.

Installment Loans. Our consumer installment loans to high- and middle-income individuals are generally incurred, up to a customer s approved credit limit, to finance the cost of goods or services, such as cars, travel and household furnishings. Consumer loans are denominated in both pesos and UF, bear interest at fixed or variable rates of interest and generally are repayable in installments of up to 36 months.

At December 31, 2003, we had Ch$309,318 million in installment loans, which accounted for 66.3% of the retail banking business area s consumer loans. A majority of installment loans are denominated in pesos and are payable monthly.

Mortgage Loans. At December 31, 2003, there were outstanding mortgage loans of Ch$687,602 million to high- and middle-income individuals, which represented 39.7% of the retail banking business area s total loans and 11.0% of our total loan portfolio. A feature of our mortgage loans to individuals is that mortgaged property typically secures all of a mortgagor s credit with us, including credit card and other loans.

Our residential mortgage loans generally have maturities between five and 30 years and are generally denominated in UF. To reduce our exposure to interest rate fluctuations and inflation with respect to our residential loan portfolio, a majority of these residential loans are currently funded through the issuance of mortgage finance bonds, which are recourse obligations with payment terms that are matched to the residential loans and which bear a real market interest rate plus a fixed spread over the rate of change in the UF. Chilean banking regulations limit the amount of a residential mortgage loan that may be financed with a mortgage finance bond to the lesser of 75% of the purchase price of the property securing the loan or the appraised value of such property. In addition, we generally require that the monthly payments on a residential mortgage loan not exceed 25% of the borrower s household after-tax monthly income.

We have promoted the expansion of a mortgage-lending product, which we call *Mutuos Hipotecarios* as an alternative form to traditional financing of mortgage loans with mortgage bonds. Whereas our traditional mortgage loans are financed by means of mortgage finance bonds, *Mutuos Hipotecarios* are financed with our general funds, especially long-term subordinated bonds. *Mutuos Hipotecarios* is a product that is tradable among banks, investment funds and insurance companies. *Mutuos Hipotecarios* offer the opportunity to finance 80% of the lower of the purchase price or the appraised value of the property, as opposed to the 75% that a standard mortgage would allow.

At December 31, 2003, we were Chile s second largest private sector bank in terms of amount of mortgage loans and, based on information prepared by the Chilean Superintendency of Banks; we accounted for approximately 17.3% of the residential mortgage loans in the Chilean banking system and approximately 23.3% of such loans made by private sector banks.

Credit Cards. We issue both Visa and MasterCard credit cards, and our product portfolio includes both personal and corporate cards. In addition to traditional cards, our credit card portfolio also includes co-branded cards (*Travel Club* and *Global Pass*), and 41 affinity card groups (of which 31 are associated with our co-branded programs and e-cards under the brand name NetCard).

As of December 31, 2003, we had 260,305 valid accounts, with 399,005 cards in the high-middle income individuals subsegment. Total charges on our cards during 2003 amounted to Ch$335,234 million, with Ch$288,256 million corresponding to purchases and service payments in Chile and abroad and Ch$46,978 million corresponding to cash advances (both within Chile and abroad). These charge volumes represent a 27.0% market share in terms of volume of use of bank credit cards issued in Chile.

As of December 31, 2003, our credit card loans in the high- and middle-income individuals subsegment amounted to Ch$61,461 million and represented 13.2% of our retail banking business area s consumer loans.

Two Chilean companies that are affiliated with us, Transbank S.A. and Nexus S.A., provide us with merchant acquisition and credit card processing services. As of December 31, 2003, Transbank had 18 shareholders and Nexus had seven shareholders, all of which are banks. As of December 31, 2003, our equity ownership in Transbank was 17.4% and our equity interest in Nexus was 25.8%.

We believe that the Chilean market for credit cards has a high potential for growth, especially among consumers in the middle-income subsegment, that average merchant fees will continue to decline and that stores that do not currently accept credit cards will generally begin to do so. We also believe that, in addition to the other banks that operate in Chile, our main competitors are department store cards and other non-banking businesses involved in the issuance of credit cards.

Debit Cards. We have different types of cards with debit options. Depending on their specifications, these cards can be used for banking transactions on the ATMs that operate on the local network, Redbanc, the Visa International PLUS network, the local network of merchants participating in the local Redcompra debit program or the international network of merchants associated with the Electron program. We have given these debit cards different names (*Chilecard Normal*, *Chilecard Plus*, *Chilecard Electron, Chilecard Empresas, Banjoven*, *Cheque Electronico, Multiedwards, Cuenta Directa* and *Cuenta Familiar*) based on their specific functions and the relevant brand and target market to which they are oriented. In order to promote the use of debit cards in Chile, in October 2000 we and other banks associated with Transbank launched a promotional campaign to encourage the use of Redcompra debit cards as a means of payment at local stores. We have attained a 30.3% market share of debit card transactions, with more than 10.1 million transactions performed in 2003.

Lines of Credit. We had 223,785 approved lines of credit to customers in our high- and middle-income individuals subsegment at December 31, 2003 and outstanding advances to 164,544 individuals totaling Ch$89,299 million, or 5.2% of the retail banking business area total loans.

Our individual lines of credit are generally available on a revolving basis, up to an approved credit limit, and may be used for any purpose. Advances under lines of credit are denominated in pesos and bear interest at a rate that is set monthly. At the customer s option, a line of credit loan may be renewed and re-priced for successive monthly periods, in each case subject to minimum monthly payments.

Deposit Products. We seek to increase our deposit-taking activities as a means of diversifying our sources of funding. We believe that the deposits of our individual customers provide us with a relatively low cost, stable funding source, as well as the opportunity to cross-market our other products and services. We offer a broad range of checking accounts, time deposits and savings accounts to our individual customers. Checking accounts are peso-denominated and mostly non-interest bearing (approximately 0.2% of total retail checking accounts are interest-bearing) and savings accounts are denominated in UF and bear interest at a fixed rate. Time deposits are denominated in pesos, UF and U.S. dollars. Most time deposits bear interest at a fixed rate with a term of 30 to 360 days.

While historically demand has been mainly for UF-denominated deposits during times of high inflation, demand for deposits denominated in pesos has increased in the current environment of lower and more stable inflation rates in Chile.

At December 31, 2003, the retail banking business area administered 302,487 checking accounts for approximately 293,509 customers with an aggregate balance of Ch$324,902 million. At such date, our checking account balances totaled approximately Ch$1,227,877 million and represented 14.4% of our total liabilities.

Lower Income Individuals Credichile. We offer products and services to the lower-middle to middle income portions of the Chilean population through Credichile, which we established specifically to serve the needs of customers in this market subsegment. Credichile represents a distinct delivery channel for our products and services in this market subsegment, maintaining a separate brand and network of 52 Credichile branches and nine other credit centers. Credichile offers our customers a range of products, including consumer loans, credit cards, auto loans and residential mortgage loans and a special demand deposit account (see *Bancuenta* below) targeted at low-income customers. At December 31, 2003, Credichile had approximately 142,783 customers and total loans outstanding of Ch$159,552 million, representing 2.6% of our total loan portfolio at that date.

Improved economic conditions in Chile over the last decade and the growth of the Chilean middle class has resulted in increased demand for consumer credit by lower-middle income individuals, whom we classify as persons with annual income between Ch$1.8 million and Ch$5.4 million. Many of these individuals have not had prior exposure to banking products or services. Credichile focuses on developing and marketing innovative segment-oriented products to satisfy the needs of individuals in this subsegment while introducing them to the banking system and complements the services offered in our other business areas, especially our large corporations business area, by offering services to employers such as direct deposit capabilities that engender the use of our services by employees.

The Chilean Superintendency of Banks requires greater allowances for loan losses with lower credit classifications, such as those of Credichile. Credichile employs its own credit scoring system and other criteria to evaluate and monitor credit risk. Credichile seeks to ensure the quality of our loan portfolio through adherence to our loan origination procedures, particularly the use of our credit scoring system and credit management policies, including the use of credit bureaus and the services of the Chilean Superintendency of Banks. Credichile uses rigorous procedures for collection of past due loans. Socofin S.A., our specialized collection subsidiary, provides collection services. We believe that we have the necessary procedures and infrastructure in place to manage the exposure to a higher degree of credit risk that Credichile presents. These procedures allow us to take advantage of the higher growth and earnings potential of this subsegment of the banking industry while helping to manage the exposure to higher risk. See Item 3. Key Information Risk Factors Risks Relating to our Operations and the Banking Industry The growth of our loan portfolio may expose us to increased loan losses, and its rate of growth may decrease in the future.

Consumer Lending. Credichile provides short- to medium-term consumer loans and credit card services. As of December 31, 2002, Credichile had approximately 125,071 consumer loans that totaled Ch$90,096 million outstanding at December 31, 2003. As of the same date, Credichile customers had 28,404 valid credit card accounts, with loans of Ch$5,846 million and total charges of Ch$2,378 million.

Bancuenta. Credichile introduced Bancuenta as a basic deposit product that provides consumers flexibility and ease of use, and which allows us to tap a section of the consumer market that previously was not part of the banking system. The Bancuenta account is a non-interest bearing demand deposit account without checking privileges targeted at customers who want a secure and comfortable means of managing and accessing their money. The customer may use the ATM card linked to the Bancuenta account (which may include a revolving line of credit) to make deposits or automatic payments to other Credichile accounts through a network of ATMs available through the Redbanc system.

At December 31, 2003, Credichile had approximately 451,207 Bancuenta accounts. Bancuenta account holders pay an annual fee, a fee each time the account holder draws on the Bancuenta line of credit and interest on any outstanding balance under the line of credit. All fees and interest due on a Bancuenta account are withdrawn automatically on a monthly basis from funds available in the account. Bancuenta allows us to offer our large corporate customers the ability to pay their employees by direct deposit of funds into the individual employee s account at Credichile. We believe this product can lead to stronger long-term relationships with our large and middle market corporate customers and with the employees of such customers.

Treasury and Money Market Operations

Our treasury and money market operations business area provides a wide range of financial services to our customers including currency intermediation, forwards contracts, interest rate swaps, transactions under repurchase agreements and investment products based on bonds, mortgage notes and deposits. We also offer investments in mutual funds and stock brokerage services.

In addition to providing services, our treasury and money market business area is focused on managing currency, interest rate and maturity gaps, ensuring adequate liquidity levels and managing our investment portfolio. This business area also performs the intermediation of fixed-income instruments, currencies and derivatives. Interest rate gap management is aimed at generating an adequate funding structure, prioritizing our capitalization and asset and liability cost structure and funding source diversification.

The treasury and money market business area is also in charge of monitoring compliance with regulatory deposit limits, technical reserves and maturity and rate matches, and monitors our adherence to the security margins defined by regulatory limits, as well as risk limits for rate, currency and investment gaps. The treasury and money market business area continually monitors the funding costs of the local financial system, comparing them with our costs.

Our investment portfolio as of December 31, 2003 amounted to Ch$1,916,324 million, of which 71.2% corresponded to securities issued by the Central Bank and the Chilean Government, 14.2% corresponded to securities from foreign issuers, 12.1% corresponded to securities issued by local financial institutions and 2.5% corresponded to securities issued by Chilean corporate issuers. Our investment strategy is designed with a view to supplementing our expected profitability, risks and economic variable projections. Our investment strategy is kept within regulatory limits as well as internal limits defined by our financial committee and our Asset and Liability Management Committee, or ALCO.

Operations through Subsidiaries

We have made several strategic long-term investments in financial services companies, which are engaged in activities complementary to our commercial banking activities. Our principal goal in making these investments is to develop a comprehensive financial services group capable of meeting the diverse financial needs of our current and potential clients.

Chile s General Banking Law, which took effect in 1981, restricted the ability of Chilean banks to provide non-banking financial services, although prior thereto we had established a leasing subsidiary in 1977 and a mutual fund subsidiary in 1980. In 1987, the law was amended and banks were permitted to offer, through subsidiaries, certain services considered complementary to commercial banking activities. During the period from 1987 to 1989, we established two additional subsidiaries to provide the full range of financial products and services that could be offered indirectly by Chilean banks under Chilean law. These products and services include financial leasing, financial advisory services, mutual funds and securities brokerage services. The General Banking Law was further amended in 1997 to extend the scope of permissible activities of banks and their subsidiaries to include factoring, securitization and insurance brokerage, all of which have been incorporated by us as new activities.

On April 23, 1999, we increased our 65% interest in Leasing Andino S.A. by acquiring, together with Banchile Asesoria Financiera S.A., all of the shares of Leasing Andino owned by Orix Corporation. On July 1, 1999, we acquired the remaining 6,380 shares outstanding in Leasing Andino and, consequently, held 100% of this company s share capital. Leasing Andino was then dissolved and we assumed all of its rights and obligations. We are continuing the financing lease activities developed by Leasing Andino, and have maintained the Leasing Andino brand and trademark.

On June 27, 2002, we acquired 100% of the shares of Promarket S.A. and Socofin. These subsidiaries are closed corporations (*sociedad anonima cerrada*). For a description of the business activities of these subsidiaries, see Sales Services and Collection Services.

The following table sets forth information with respect to our financial services subsidiaries at December 31, 2003:

	As of or for the year ended December 31, 2003		
	Assets	**Shareholders' Equity**	**Net Income (loss)**
	(in millions of constant Ch$ as of December 31, 2003)		
Banchile Corredores de Bolsa S.A	Ch$ 248,664	Ch$ 29,959	Ch$ 9,010
Banchile Administradora General de Fondos S.A	10,849	9,454	5,767
Banchile Factoring S.A	70,875	7,021	1,910
Banchile Asesoria Financiera S.A	1,443	1,212	781
Banchile Corredores de Seguros Ltda.	3,839	3,271	718
Banchile Securitizadora S.A	7,272	547	26
Promarket S.A	703	278	(72)
Socofin S.A	Ch$ 3,792	Ch$ 775	Ch$ 138

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The following table sets out our ownership interest in our financial services subsidiaries at December 31, 2003:

	Ownership	
	Direct	**Indirect**
Banchile Administradora General de Fondos S.A.	99.98%	0.02%
Banchile Corredores de Seguros Ltda.	99.75	0.25
Banchile Corredores de Bolsa S.A.	99.68	0.31
Banchile Factoring S.A.	99.52	0.48
Banchile Asesoria Financiera S.A.	99.94	-
Banchile Securitizadora S.A.	99.00	1.00
Promarket S.A.	99.00	1.00
Socofin S.A.	99.00	1.00

Each of these subsidiaries is incorporated under the laws of Chile.

Securities Brokerage Services. We provide securities brokerage services through Banchile Corredores de Bolsa S.A. Banchile Corredores is registered with the *Superintendencia de Valores y Seguros*, or the Chilean Superintendency of Securities and Insurance, the regulator of Chilean open stock corporations, as a securities broker and is a member of the Santiago Stock Exchange and the Chilean Electronic Stock Exchange. Since it was founded in 1989, Banchile Corredores has provided stock brokerage services, fixed income investments and foreign exchange products to individuals and businesses through our branch network. During the year ended December 31, 2003, Banchile Corredores had an aggregate trading volume on the Santiago Stock Exchange and the Chilean Electronic Stock Exchange of approximately Ch$3,102,399 million. At December 31, 2003, Banchile Corredores had equity of Ch$29,959 million, and for the year ended December 31, 2003, had net income of Ch$9,010 million, which represented 6.9% of our consolidated net income for such period.

Mutual and Investment Fund Management. Since 1980, we have provided mutual fund management services through Banchile Administradora General de Fondos (formerly Banchile Administradora de Fondos Mutuos S.A.). As of December 31, 2003, according to data prepared by the Chilean Superintendency of Securities and Insurance, Banchile Administradora General de Fondos was the largest mutual fund manager in Chile, managing 28.5% of all Chilean mutual funds assets. At December 31, 2003, Banchile Administradora General de Fondos operated 35 mutual funds and managed Ch$1,414,227 million in net assets on behalf of 116,255 corporate and individual participants. Banchile Administradora General de Fondos also operates an investment fund, Banchile Trust, and manages Ch$7,000 million in assets on behalf of 370 participants.

The following table sets forth information regarding the various mutual funds managed by Banchile Administradora General de Fondos at December 31, 2003:

Name of Fund	Type of Fund	Net Asset Value As of December 31, 2003 (in millions of constant Ch$)
Utilidades	Fixed income (short/medium term)	Ch$ 354,047
Liquidez 2000	Fixed income (short term)	163,399
Deposito XXI	Fixed income (medium/long term)	184,185
Corporativo	Fixed income (short term)	149,591
Estrategico	Fixed income (medium/long term)	89,858
Corporate Dollar Fund	Fixed income (short term)	85,704
Horizonte	Fixed income (medium/long term)	58,039
Patrimonial	Fixed income (short term)	54,027
Performance	Fixed income (short/medium term)	67,401
Banchile Acciones	Equity	40,263
Ahorro	Fixed income (medium/long term)	36,024
Alianza	Debt/Equity (medium/long term)	34,993
Disponible	Fixed income (short term)	17,343
Crecimiento	Fixed income (short term)	13,814
Inversion	Fixed income (medium/long term)	10,226
Operacional	Fixed income (short term)	8,876
Capitalisa Accionario	Equity	6,537
Renta Futura	Fixed income (short/medium term)	6,177
Euro Money Market Fund	Fixed income (short term)	4,409
Emerging Fund	Debt/Equity	3,950
Latin America Fund	Debt/Equity	3,911
Cobertura	Fixed income (medium/long term)	3,853
Dolar Fund	Fixed income (medium/long term)	3,687
U.S. Fund	Debt/Equity	2,973
Global	Debt/Equity	1,720
U.S. High Technology Fund	Debt/Equity	1,660
Asia Fund	Debt/Equity	1,402
Euro Fund	Debt/Equity	1,348
Technology Fund	Debt/Equity	1,132
U.S. Stability Fund	Debt/Equity	922
International Bond	Fixed income (medium/long term)	668
Euro Technology Fund	Debt/Equity	635
Medical & Health-Care Fund	Debt/Equity	633
U.S. Bond Fund	Fixed income (medium/long term)	420
Telecommunication Fund	Debt/Equity	400
Total		Ch$ 1,414,227

At December 31, 2003, Banchile Administradora General de Fondos had equity of Ch$9,454 million and for the year ended December 31, 2003, had net income of Ch$5,767 million, which represented 4.4% of our consolidated net income for such period.

Factoring Services. We provide factoring services to our customers through Banchile Factoring S.A. Through this service, we purchase our customers outstanding debt portfolios, such as bills, notes, promissory notes or contracts, advancing them the cash flows involved and performing the collection of the related instruments. As of December 31, 2003, Banchile Factoring had net income of Ch$1,910 million, with a 27.2% return on shareholders equity and an estimated 21.0% market share in Chile s factoring industry.

Financial Advisory Services. We provide financial advisory and other investment banking services to our customers through Banchile Asesoria Financiera S.A. The services offered by Banchile Asesoria Financiera are directed primarily to our corporate customers and include advisory services regarding mergers and acquisitions, restructuring, project financing and strategic alliances. As of December 31, 2003, Banchile Asesoria Financiera had equity of Ch$1,212 million, and for the year ended December 31, 2003, had net income of Ch$781 million.

Insurance Brokerage. We provide insurance brokerage services to our customers through Banchile Corredores de Seguros Ltda. At the beginning of 2000 we began to offer life insurance policies associated with consumer loans and non-credit related insurance to our individual clients and the general public. As of December 31, 2003, Banchile Corredores de Seguros had equity of Ch$3,271 million, and for the year ended December 31, 2003, had net income of Ch$718 million. Banchile Corredores de Seguros had a 2.4% market share by amount of policies sold by insurance brokerage companies during 2001, the latest year for which information is available for insurance brokerage companies.

Securitization Services. We offer investment products to meet the demands of institutional investors such as private pension funds and insurance companies through Banchile Securitizadora S.A. This subsidiary securitizes financial assets, which involves the issuance of a debt instrument, with a credit rating, that can be traded in the Chilean marketplace, backed by a bundle of revenue-producing assets of the client company. As of December 31, 2003, Banchile Securitizadora had a net equity of Ch$547 million, and for the year ended December 31, 2003 had net income of Ch$26 million. Banchile Securitizadora had a 15.7% market share by volume of assets securitized as of March 31, 2004.

Sales Services. Promarket manages the direct sales force that sells and promotes our products and services (such as checking accounts, consumer loans and credit cards), together with those of our subsidiaries, and researches information about potential customers. As of December 31, 2003, Promarket had equity of Ch$278 million, and for the year ended December 31, 2003 had net loss of Ch$72 million.

Collection Services. We provide judicial and extra-judicial collection services of loans on our behalf or on behalf of third parties through Socofin. As of December 31, 2003, Socofin had equity of Ch$775 million, and for the year ended December 31, 2003 had a net income of Ch$138 million.

Distribution Channels and Electronic Banking

Our distribution network provides integrated financial services and products to our customers through a wide range of channels. This network includes ATMs, branches, on-line banking and phone-banking devices. We own and operate 823 ATMs, and are connected to the nationwide Redbanc ATM network of approximately 2,970 ATMs. In addition, we are connected to the nationwide Banco Estado ATM network of approximately 801 ATMs. These ATMs allow customers to conduct self-service banking transactions during banking and non-banking hours.

As of December 31, 2003, we had a network of 224 retail branches throughout Chile. The branch system serves as a distribution network for all of the products and services offered to our customers. Our full-service branches accept deposits, disburse cash, offer the full range of our retail banking products such as consumer loans, automobile financing, credit cards and checking accounts, lend to small- and medium-size companies and provide information to current and potential customers.

We offer electronic banking services to our customers 24 hours a day through our internet website, www.bancochile.cl, which has homepages that are segmented by market. Our retail homepage offers a broad range of services, including the payment of bills, electronic fund transfers, stop payment and non-charge orders, as well as a wide variety of account inquiries. Our middle market companies homepage offers services including our office banking service, *Banconexion Web*, which enables our middle market companies customers to perform all of their banking transactions from their offices. Both homepages offer our customers the sale of third-party products with exclusive benefits. We also have a homepage designed for our investor customers, through which they can perform transactions such as stock trading, time deposit taking and opening savings accounts. Our foreign trade customers can rely on our international business homepage, which enables them to inquire about the status of their foreign trade transactions and perform transactions such as opening letters of credit, recording import collection and hedging on instructions and letters of credit. In 2003, approximately 124,900 individual customers and 26,600 corporate customers performed close to 8.4 million transactions monthly on our website.

In addition, we provide our customers with access to a 24-hour phone-banking call center that grants them access to account information and allows them to effect fund transfers and certain payments. This service, through which we receive approximately 1,146,000 calls per month, has enabled us to develop customer loyalty campaigns, sell financial services and products, answer specialized inquiries about our remote services and receive and resolve complaints by customers and non-customers.

We are, in conjunction with 13 other private Chilean banks, a shareholder of Redbanc S.A., a corporation that executes electronic transfer services and provides support services to banks through the installation, operation, maintenance and development of equipment and systems for the automatic and electronic transfer of funds. The availability of this transfer capability facilitates our ability to service our customers efficiently.

In 2001, in association with Banco de Credito e Inversiones, we created a company called Comercio Electronico Artikos Chile S.A. with the purpose of providing Chilean companies with the opportunity to trade their products and services on an electronic basis through the internet. We supplement this service with a wide range of financial services and electronic payment means. Artikos Chile uses the Commerce One platform, a world leader in business-to-business technological solutions.

Competition

Overview

The Chilean market for banking and other financial services is highly competitive, and we face significant competition in each of our principal areas of operation. The Chilean financial services market consists of a number of distinct sectors. The most important sector, commercial banking, includes 25 privately owned banks and one public sector bank, Banco del Estado. The privately owned banks have traditionally been divided between those that are principally Chilean-owned, of which there are twelve, and those that are principally foreign-owned, of which there are 13. At December 31, 2003, three banks, Banco Santander-Chile (22.6%), our bank (18.5%) and the public sector bank, Banco del Estado (13.0%) together accounted for 54.1% of all outstanding loans by Chilean financial institutions, net of interbank loans. Chilean-owned banks together accounted for 60.1% of total loans outstanding while foreign-owned banks accounted for 39.9% of total loans outstanding.

As a commercial bank offering a range of services to all types of businesses and individual customers, we face a variety of competitors, ranging from other large, privately owned commercial banks to more specialized entities like niche banks. The principal commercial banks in Chile include Banco Santander-Chile, Banco de Credito e Inversiones and BBVA Banco BHIF, which we consider to be our primary competitors. Nevertheless, we face competition to a lesser extent from Banco del Estado, which has a larger distribution network and larger customer base than we do. Banco del Estado, which operates under the same regulatory regime as Chilean private sector banks, was the third largest bank in Chile at December 31, 2003, with outstanding loans, net of interbank loans, of Ch$4,255,307 million, representing a 13.0% market share, according to data published by the Chilean Superintendency of Banks.

In the large corporations business area, we consider our strongest competitors to be Banco Santander-Chile, Banco de Credito e Inversiones and BBVA Banco BHIF. We also consider these banks to be our most significant competitors in the middle market companies business area.

In the retail banking business area, we compete with other private sector Chilean banks, as well with Banco del Estado. Among private Chilean banks, we consider our strongest competitors in this business area to be Banco Santander-Chile and Banco de Credito e Inversiones, as each of these banks has developed business strategies that focus on the lower-middle to middle income subsegments of the Chilean population. In the individual banking sector, particularly with respect to high-income individuals, we compete with both private Chilean and foreign-owned banks and consider our strongest competitors in this market to be Banco Santander-Chile and Citibank.

The Chilean banking industry has experienced increased levels of competition in recent years, including from foreign banks, which has led to, among other things, consolidation in the industry. Consequently, strategies have, on an overall basis, been aimed at reducing costs and improving efficiency standards. Our income may decrease due to the extent and intensity of competition.

We expect the trend of increased competition and consolidation to continue, particularly in connection with the formation of new large financial groups and the creation of new niche banks. In this regard, in mid-1996 Banco Santander of Spain took control of Banco Osorno and merged it into its Chilean operations, changing its name to Banco Santander-Chile. In addition, Banco O Higgins and Banco de Santiago merged in January 1997, forming Banco Santiago. In 1999, Banco Santander of Spain took control of Banco Santiago. In August 2002, Banco Santiago and Banco Santander Chile, the second and fourth largest banks in Chile at that date, respectively, merged and became Chile s largest bank. In 2003, Banco del Desarrollo merged with Banco Sudameris. Although we believe that we are currently large enough to compete effectively in our target markets, any further consolidation in the Chilean financial system may adversely affect our competitive position in the Chilean financial services industry.

Historically, commercial banks in Chile have competed in the retail market against each other, with finance companies and with department stores, the latter two having traditionally been focused on consumer loans to middle- and low-income subsegments. However, finance companies have gradually disappeared as most of them have been merged into the largest banks.

Non-bank competition from large department stores has become increasingly significant in the consumer lending sector. Indeed, two new consumer-oriented banks, affiliated with Chile s largest department stores have been established during recent years. Although these new banks had a market share of less than 1% as of December 31, 2003, according to the Chilean Superintendency of Banks, the opening of these banks is likely to bring increased competition into the consumer banking business.

In addition, some local investor groups have announced their intention to incorporate new banks in 2004. We expect that the addition of these new banks will lead to greater competition, particularly in banking services directed to middle-income individuals.

The following table provides certain statistical information on the Chilean financial system as of December 31, 2003:

	As of December 31, 2003							
	Assets		Loans(1)		Deposits		Shareholders Equity(2)	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
	(in millions of constant Ch$ as of December 31, 2003, except percentages)							
Domestic private sector banks	Ch$ 21,407,497	43.4%	Ch$ 15,465,806	47.1%	Ch$ 12,451,497	44.3%	Ch$ 1,849,326	42.6%
Foreign-owned banks	20,420,456	41.5	13,110,607	39.9	11,235,418	40.0	2,115,539	48.7
Private sector total	Ch$ 41,827,953	84.9	Ch$ 28,576,413	87.0	Ch$ 23,686,915	84.3	Ch$ 3,964,865	91.3
Banco del Estado	7,431,151	15.1	4,255,307	13.0	4,406,461	15.7	378,934	8.7
Total banking system	Ch$ 49,259,104	100.0%	Ch$ 32,831,720	100.0%	Ch$ 28,093,376	100.0%	Ch$ 4,343,799	100.0%

Source: Chilean Superintendency of Banks
(1) Net of interbank loans.
(2) Shareholders' equity includes net income for purposes of this table.

Loans

The following table sets forth our market share in terms of loans (excluding interbank loans), and our principal private sector competitors, as of the dates indicated:

	Bank Loans(1)				
	As of December 31,				
	1999	2000	2001	2002	2003
Banco Santander-Chile	12.3%	11.5%	11.7%	24.7%	22.6%
Banco de Chile	12.4	12.7	12.1	18.7	18.5
Banco de Credito e Inversiones	8.1	7.9	9.0	10.4	11.2
BBVA Banco BHIF	5.4	5.8	6.0	6.7	7.3
Banco Santiago(2)	16.1	15.8	16.1	-	-
Banco de A. Edwards(3)	7.7	8.3	7.4	-	-
Total market share for six banks	62.0%	62.0%	62.3%	60.5%	59.6%

Source: Chilean Superintendency of Banks
(1) For ease of comparison, interbank loans have been eliminated.
(2) Banco Santiago merged with Banco Santander-Chile in August 2002.
(3) Banco de A. Edwards merged with us on January 1, 2002.

Risk Index

At October 31, 2003, our unconsolidated risk index of 2.40% was higher than the financial system s 1.82%. For a discussion of risk index, see Selected Statistical Information. The following graph illustrates the five-year history of our unconsolidated loan portfolio risk index compared to the risk index of total loans in the Chilean financial system as of October 31 for each of the years indicated.

Source: Chilean Superintendency of Banks

Our unconsolidated risk index primarily increased in 2002 and 2003 (relative to prior years) as a result of our merger with Banco de A. Edwards.

The following table sets forth the unconsolidated risk index of the six largest private sector banks and that of the financial system as a whole (including such six banks) at October 31 in each of the last five years:

	Unconsolidated Risk Index As of October 31,				
	1999	2000	2001	2002	2003
Banco Santiago[1]	1.39%	1.34%	1.26%	-	-
Banco de A. Edwards[2]	2.79	2.90	3.23	-	-
Banco de Credito e Inversiones	1.57	1.95	1.63	1.34%	1.30%
BBVA Banco BHIF	2.11	2.18	1.81	1.68	1.42
Banco Santander-Chile	1.23	1.42	1.38	1.61	1.85
Banco de Chile	2.07	2.01	2.03	2.98	2.40
Financial system	1.98%	2.08%	1.90%	1.95%	1.82%

Source: Chilean Superintendency of Banks

(1) Banco Santiago merged with Banco Santander-Chile in August 2002.

(2) Banco de A. Edwards merged with us on January 1, 2002.

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Credit Quality

At December 31, 2003, according to information published by the Chilean Superintendency of Banks, we had an unconsolidated ratio of past due loans to total loans of 1.74%. The following table sets forth the ratio of past due loans to total loans for the six largest private sector banks at December 31 in each of the last three years:

	Past Due Loans to Total Loans		
	As of December 31,		
	2001	2002	2003
Banco Santiago[1]	1.37%	-	-
Banco de A. Edwards[2]	3.31	-	-
Banco de Credito e Inversiones	1.37	1.09%	1.11%
Banco de Chile	1.29	2.43	1.74
BBVA Banco BHIF	2.10	1.97	1.91
Banco Santander-Chile	1.36	2.15	2.24
Total for six banks	1.65%	2.03%	1.83%

Source: Chilean Superintendency of Banks

(1) Banco Santiago merged with Banco Santander-Chile in August 2002.

(2) Banco de A. Edwards merged with us on January 1, 2002.

Deposits

We had deposits of Ch$4,867,113 million at December 31, 2003 on an unconsolidated basis. In unconsolidated terms, our 17.3% of the market share for deposits, including borrowings from domestic financial institutions, placed us in second place among private sector banks. The following table sets forth the market shares in terms of deposits for the six private sector banks with the largest market share as of December 31 in each of the last three years:

	Deposits		
	As of December 31,		
	2001	2002	2003
Banco Santiago[1]	13.4%	-	-
Banco de A. Edwards[2]	6.6	-	-
BBVA Banco BHIF	5.3	6.9%	7.7%
Banco de Credito e Inversiones	9.2	10.3	10.8
Banco de Chile	12.7	16.7	17.3
Banco Santander-Chile	12.7	22.1	19.9
Total market share for six banks	59.9%	56.0%	55.7%

Source: Chilean Superintendency of Banks

(1) Banco Santiago merged with Banco Santander-Chile in August 2002.

(2) Banco de A. Edwards merged with us on January 1, 2002.

Shareholders Equity

With Ch$565,123 million in shareholders equity (not including net income), according to information published by the Chilean Superintendency of Banks, at December 31, 2003, we were the second largest private sector commercial bank in Chile in terms of shareholders equity.

The following table sets forth the level of shareholders equity for the largest private sector banks in Chile as of December 31 in each of the last three years:

	Shareholders' Equity		
	As of December 31,		
	2001	2002	2003
	(in millions of constant Ch$ as of December 31, 2003)		
Banco de A. Edwards(1)	Ch$ 238,508	-	-
Banco Santiago(2)	437,160	-	-
BBVA Banco BHIF	237,133	Ch$ 239,135	Ch$ 237,470
Banco de Credito e Inversiones	228,834	257,211	287,854
Banco de Chile	323,846	571,251	565,123
Banco Santander-Chile	Ch$ 376,357	Ch$ 813,949	Ch$ 810,417

Source: Chilean Superintendency of Banks
(1) Banco de A. Edwards merged with us on January 1, 2002.
(2) Banco Santiago merged with Banco Santander-Chile in August 2002.

Return on Average Shareholders Equity

Our return on average shareholders equity (including net income for the year) for the year ended December 31, 2003 was 20.4%, according to information published by the Chilean Superintendency of Banks. The following table sets forth our return on average shareholders equity and the returns of our principal competitors and the Chilean financial system, in each case as of December 31 in each of the last five years:

	Return on Average Shareholders' Equity Year Ended December 31,				
	1999	2000	2001	2002	2003
Banco de A. Edwards(1)	(4.2)%	1.5%	4.3%	-	-
Banco Santiago(2)	12.3	20.2	24.6	-	-
BBVA Banco BHIF	5.7	7.4	6.3	8.8%	10.6%
Banco de Chile	19.5	23.6	23.7	8.9	20.4
Banco de Credito e Inversiones	14.1	19.2	22.0	20.7	22.4
Banco Santander-Chile	16.8	22.3	22.3	16.9	22.7
Total average financial system	9.2%	12.6%	15.9%	13.7%	15.1%

Source: Chilean Superintendency of Banks
(1) Banco de A. Edwards merged with us on January 1, 2002.
(2) Banco Santiago merged with Banco Santander-Chile in August 2002.

Efficiency

For the year ended December 31, 2003, our operating expenses as a percentage of our operating revenues, or efficiency ratio, was 55.4%, mainly influenced by non-recurring charges related to the merger.

The following table sets forth the efficiency ratios of the six largest private sector Chilean banks at December 31 in each of the last three years:

	Efficiency Ratio[(1)]		
	As of December 31,		
	2001	2002	2003
Banco Santiago[(2)]	50.3%	-	-
Banco de A. Edwards[(3)]	65.3	-	-
Banco Santander-Chile	46.6	50.1%	46.5%
Banco de Credito e Inversiones	55.5	54.8	51.3
Banco de Chile	56.3	61.0	55.4
BBVA Banco BHIF	64.1	64.6	61.0
Average for six banks	54.4%	55.5%	51.4%

Source: Chilean Superintendency of Banks
(1) Calculated by dividing operating expense by operating revenue.
(2) Banco Santiago merged with Banco Santander-Chile in August 2002.
(3) Banco de A. Edwards merged with us on January 1, 2002.

REGULATION AND SUPERVISION

In Chile, only banks may maintain checking accounts for their customers, conduct foreign trade operations and, together with financial companies, accept time deposits. The principal authorities that regulate financial institutions in Chile are the Chilean Superintendency of Banks and the Central Bank. Chilean banks are primarily subject to the General Banking Law and secondarily, to the extent not inconsistent with that law, the provisions of the Chilean Corporations Law governing public corporations, except for certain provisions that are expressly excluded.

The modern Chilean banking system dates back to 1925 and has been characterized by periods of substantial regulation and state intervention as well as periods of deregulation. The most recent period of deregulation commenced in 1975 and culminated in the adoption of a series of amendments to the General Banking Law. That law, amended most recently in 2004, granted additional powers to banks, including general underwriting powers for new issues of certain debt and equity securities and the power to create subsidiaries to engage in activities related to banking, such as brokerage, investment advisory, mutual fund services, administration of investment funds, factoring, securitization products and financial leasing services. Following the Chilean banking crisis of 1982 and 1983, the Chilean Superintendency of Banks assumed control of 19 banks representing approximately 51% of the total loans in the banking system. As part of the assistance that the Chilean government provided to Chilean banks, the Central Bank permitted banks to sell to it a certain portion of their problem loan portfolios at the book value of the loan portfolios. Each bank then repurchased such loans at their economic value (which, in most cases, was substantially lower than the book value at which the Central Bank had acquired the loans), with the difference to be repaid to the Central Bank out of future income. Pursuant to Law No. 18,818, which was passed in 1989, this difference was converted into subordinated debt.

The Central Bank

The Central Bank is an autonomous legal entity created by the Chilean Constitution. It is subject to the Chilean Constitution and its organic constitutional law, the *ley organica constitucional*. To the extent not inconsistent with the Chilean Constitution or the Central Bank s organic constitutional law, the Central Bank is also subject to private sector laws, but is not subject to the laws applicable to the public sector. It is directed and administered by a board of directors composed of five members designated by the President of Chile, subject to Senate approval.

The legal purpose of the Central Bank is to maintain the stability of the Chilean peso and the orderly functioning of Chile s internal and external payment system. The Central Bank s powers include setting reserve requirements, regulating the amount of money and credit in circulation, and establishing regulations and guidelines regarding finance companies, foreign exchange (including the Formal Exchange Market) and banks deposit-taking activities.

The Chilean Superintendency of Banks

Banks are supervised and controlled by the Chilean Superintendency of Banks, an independent Chilean governmental agency. The Chilean Superintendency of Banks authorizes the creation of new banks and has broad powers to interpret and enforce legal and regulatory requirements applicable to banks and financial companies. Furthermore, in case of noncompliance with its legal and regulatory requirements, the Chilean Superintendency of Banks has the ability to impose sanctions. In extreme cases, it can appoint, with the prior approval of the board of directors of the Central Bank, a provisional administrator to manage a bank. It must also approve any amendment to a bank s bylaws or any increase in its capital.

The Chilean Superintendency of Banks examines all banks from time to time, generally at least once a year. Banks are also required to submit unconsolidated unaudited financial statements to the Chilean Superintendency of Banks on a monthly basis and to publish their unaudited financial statements at least four times a year in a newspaper with countrywide coverage. Financial statements as of December 31 must be audited. In addition, banks are required to provide extensive information regarding their operations at various periodic intervals to the Chilean Superintendency of Banks. A bank s annual financial statements and the opinion of its independent auditors must also be submitted to the Chilean Superintendency of Banks.

Any person wishing to acquire, directly or indirectly, 10.0% or more of the share capital of a bank must obtain the prior approval of the Chilean Superintendency of Banks. The absence of such approval will cause the holder of such shares so acquired not to have the right to vote such shares. The Chilean Superintendency of Banks may only refuse to grant its approval, based on specific grounds set forth in the General Banking Law.

According to Article 35 bis of the General Banking Law the prior authorization of the Chilean Superintendency of Banks is required for:

- the merger of two or more banks;
- the acquisition of all or a substantial portion of a banks' assets and liabilities by another bank;
- the control by the same person, or controlling group, of two or more banks; or
- a substantial increase in the share ownership of a bank by a controlling shareholder of that bank.

Such prior authorization is required solely when the acquiring bank or the resulting group of banks would own a significant market share in loans, defined by the Chilean Superintendency of Banks to be more than 15.0% of all loans in the Chilean banking system. The intended purchase, merger or expansion may be denied by the Chilean Superintendency of Banks. Alternatively, a purchase, merger or expansion, when the acquiring bank or resulting group would own a market share in loans defined by the Chilean Superintendency of Banks to be more than 20.0% of all loans in the Chilean banking system, may be conditioned on one or more of the following:

- that the bank or banks maintain an effective equity higher than 8.0% and up to 14.0% of their risk weighted assets;

- that the technical reserve established in Article 65 of the General Banking Law be applicable when deposits exceed one and a half times the resulting bank s paid-in capital and reserves; or

- that the margin for interbank loans be diminished to 20.0% of the resulting bank's effective equity.

If the acquiring bank or resulting group would own a market share in loans defined by the Chilean Superintendency of Banks to be more than 15% but less than 20%, the authorization will be conditioned on the bank or banks maintaining an effective equity not lower than 10% of their risk-weighted assets for the time set forth by the Chilean Superintendency of Banks, which may not be less than one year.

Pursuant to the regulations of the Chilean Superintendency of Banks, the following ownership disclosures are required:

- banks are required to inform the Chilean Superintendency of Banks of the identity of any person owning, directly or indirectly, 5.0% or more of such banks shares;

- holders of ADSs must disclose to the depositary the identity of beneficial owners of ADSs registered under such holders' names; and

- the depositary is required to notify the bank as to the identity of beneficial owners of ADSs, which such depositary has registered and the bank, in turn, is required to notify the Chilean Superintendency of Banks as to the identity of the beneficial owners of the ADSs representing 5.0% or more of such bank s shares.

In addition, the regulations require bank shareholders who individually hold 10.0% or more of a bank s capital stock and who are controlling shareholders to periodically inform the Chilean Superintendency of Banks of their financial condition.

Limitations on Types of Activities

Chilean banks can only conduct those activities allowed by the General Banking Law, including: making loans, factoring and leasing activities, accepting deposits and, subject to limitations, making investments and performing financial services. Investments are restricted to real estate for the bank s own use, gold, foreign exchange and debt securities. Through subsidiaries, banks may also engage in other specific financial service activities such as securities brokerage services, mutual fund management, investment fund management, financial advisory, securitization and leasing activities. Subject to specific limitations and the prior approval of the Chilean Superintendency of Banks and the Central Bank, Chilean banks may own majority or minority interests in foreign banks.

On March 2, 2002 the Central Bank authorized banks to pay interest on checking accounts. On March 20, 2002 the Chilean Superintendency of Banks published guidelines establishing that beginning on June 1, 2002, banks could offer a new checking account product that pays interest. The Chilean Superintendency of Banks also stated that these accounts may be subject to minimum balance limits and different interest rates depending on average balances held in the account. This product is optional and banks may also charge fees for the use of this new product. For banks with a solvency score of less than A the Central Bank has also imposed additional caps to the interest rate that can be charged.

Deposit Insurance

The Chilean government guarantees up to 90.0% of the principal amount of certain time and demand deposits held by individuals in the Chilean banking system. The Chilean government guarantee covers those obligations with a maximum value of UF108 per person (Ch$1,827,360 or U.S.$3,049 as of December 31, 2003) per calendar year.

Reserve Requirements

Deposits are subject to a reserve requirement of 9.0% for demand deposits and 3.6% for time deposits. The Central Bank has statutory authority to increase these percentages to up to 40% for demand deposits and up to 20% for time deposits, to implement monetary policy.

In addition, we are subject to a reserve requirement applicable to Chilean banks pursuant to which we must hold a certain amount of assets in cash or in highly liquid instruments. This reserve is equal to the amount by which the daily balance of:

- deposits in checking accounts;
- other demand deposits or obligations payable on demand and incurred in the ordinary course of business;
- other deposits unconditionally payable immediately or within a term of less than 30 days; and
- time deposits payable within ten days

in the aggregate exceeds 2.5 time the amount of our capital and reserves.

Chilean regulations also require that gaps between assets and liabilities maturing within less than 30 days not exceed a bank s basic capital and that gaps among assets and liabilities maturing within less than 90 days not exceed twice a bank s equity.

The interest rate mismatches of a bank s foreign currency liabilities may not exceed 8.0% of its effective equity ratio.

Minimum Capital

Under the General Banking Law, a bank must have a minimum paid-in capital and reserves of UF800,000 (Ch$13,536 million or U.S.$22.0 million as of December 31, 2003). However, a bank may begin its operations with 50.0% of such amount, provided that it has a effective equity ratio (defined as effective equity as a percentage of risk weighted assets) of not less than 12.0%. When such a bank s paid-in capital reaches UF600,000 (Ch$10,152 million or U.S.$17.0 million as of December 31, 2003) the effective equity ratio requirement is reduced to 10.0%.

Capital Adequacy Requirements

According to the General Banking Law, each bank should have an effective equity of at least 8.0% of its risk weighted assets (net) of required allowances. Effective equity is defined as the aggregate of:

- a bank's paid-in capital and reserves, known as capital *basico*, or net capital base;

- its subordinated bonds, considered at the issuing price (but decreasing 20.0% for each year during the period commencing six years prior to maturity), but not exceeding 50.0% of its net capital base; and

- its voluntary allowances for loan losses, up to 1.25% of risk weighted assets to the extent these allowances exceed those required by law or regulation.

Banks should also have a net capital base of at least 3.0% of its total assets (net) of required allowances. An amendment to the General Banking Law enacted on November 7, 2001 eliminated the exclusion of the investment in subsidiaries and foreign branches from the calculation of net capital base.

The calculation of risk-weighted assets is based on a five category risk classification system to be applied to a bank assets that is based on the Basel Committee recommendations.

Lending Limits

Under the General Banking Law, Chilean banks are subject to certain lending limits, including the following material limits:

- a bank may not extend to any entity or individual (or any one group of related entities), directly or indirectly, unsecured credit in an amount that exceeds 5.0% of the bank s effective equity, or in an amount that exceeds 25.0% of its effective equity if the excess over 5.0% is secured by certain assets with a value equal to or higher than such excess. In the case of foreign export trade financing, the 5.0% ceiling for unsecured credits is raised to 10.0% and the 25.0% ceiling for secured credits to 30.0%. In the case of financing infrastructure projects built through the concession mechanism, the 5.0% ceiling for unsecured credits is raised to 15.0% if secured by a pledge over the concession, or if granted by two or more banks or finance companies which have executed a credit agreement with the builder or holder of the concession;

- a bank may not extend loans to another financial institution subject to the General Banking Law in an aggregate amount exceeding 30.0% of its effective equity;

- a bank may not directly or indirectly grant a loan whose purpose is to allow an individual or entity to acquire shares of the lender bank;

- a bank may not lend, directly or indirectly, to a director or any other person who has the power to act on behalf of the bank; and

- a bank may not grant loans to related parties (including holders of more than 1.0% of its shares) on more favorable terms than those generally offered to non-related parties. Loans granted to related parties are subject to the limitations described in the first bullet point above. In addition, the aggregate amount of loans to related parties may not exceed a bank s effective equity.

In addition, the General Banking Law limits the aggregate amount of loans that a bank may grant to its employees to 1.5% of its effective equity, and provides that no individual employee may receive loans in excess of 10.0% of this 1.5% limit. Notwithstanding these limitations, a bank may grant to each of its employees a single residential mortgage loan for personal use once during such employee s term of employment.

Allowances for Loan Losses

Chilean banks are required to provide to the Chilean Superintendency of Banks detailed information regarding their loan portfolio on a monthly basis. Each bank is also required to maintain global allowances for loan losses, the amount of which must at least equal the aggregate amount of its outstanding loans multiplied by the greater of (1) its risk index or (2) 0.75%. See Selected Statistical Information for an explanation of the risk index and other information regarding allowances for loan losses. As of October 31, 2003, our unconsolidated risk index was 2.40% compared with an average for the Chilean financial system as a whole (*i.e.*, all banks) of 1.82%, as of that date (the latest available information for 2003 for the Chilean financial system).

Banks in Chile are also required to maintain individual allowances for loans on which any payment of principal or interest is 90 days or more overdue. Individual allowances for loan losses equal to 100.0% of the past due portion of such past due loan are required to the extent that the loan is unsecured. In the event that non-payment of a portion of a loan permits a bank to accelerate the loan, and the bank commences legal proceedings against the debtor to collect the full amount of the loan, the individual loan loss allowances must be equal to 100.0% of the loan within 90 days as of the filing of the lawsuit. The Chilean Superintendency of Banks has ruled that in the case of past due loans, individual allowances for loan losses should be made only for the difference between 100.0% of the past due portion of a past due loan (or the full amount of the loan if the preceding sentence applies) and the allowances made for such loan when calculating the global loan loss allowances. As of December 31, 2003, the aggregate amount of our individual allowances for loan losses was 22.0% of the required minimum allowances for loan losses. Prior to January 1, 2004, a bank could also voluntarily maintain additional allowances for loan losses in excess of the minimum amounts required as global and individual allowances.

Classification of Banks

The Chilean Superintendency of Banks regularly examines and evaluates each financial institution s credit management process, including its compliance with the loan classification guidelines, and on that basis classifies banks and other financial institutions into five categories. In accordance with amended regulations effective as of January 1, 2004, Category I is reserved for financial institutions that have been rated level A (the highest rating) in terms of solvency and management. Category II is reserved for financial institutions that have been rated level A in terms of solvency and level B in terms of management; or level B in terms of solvency and level A in terms of management or level B in terms of solvency and level B in terms of management. Category III is reserved for financial institutions that have been rated level B in terms of solvency, and level B in terms of management for two or more consecutive review periods; or level A in terms of solvency and level C in terms of management or level B in terms of solvency and level C in terms of management. Category IV is reserved for financial institutions that are rated level A or B in terms of solvency that have been rated level C in terms of management for two or more consecutive review periods. Category V is reserved for financial institutions that have been rated level C in terms of solvency, irrespective of their level of management.

For classification purposes, banks are rated according to their solvency using the following guidelines: Level A banks are those banks whose effective equity (after deduction of accumulated losses during the financial year) to risk weighted assets ratio is equal or greater than 10.0 %. Level B banks are those whose effective equity (after deduction of accumulated losses during the financial year) to risk weighted assets ratio is equal or greater than 8.0% and lower than 10.0%, and level C banks are those whose effective equity (after deduction of the accumulated losses during the financial year) to risk weighted assets ratio is lower than 8.0%.

For classification purposes, a bank s management is rated as follows: Level A banks are those banks that are not rated as level B or C banks. Level B banks are those banks that show some level of weakness in their internal controls, information systems, timely follow up of risks, private risk rating or capacity to face contingency scenarios. Level C banks are those banks that have shown significant deficiencies in their internal controls, information systems, timely follow up of risks, private risk rating or capacity to face contingency scenarios.

We have been classified in Category I since December 1991, when the classification system established by the Chilean Superintendency of Banks became applicable to us.

In addition, in accordance with the new regulations effective as of January 1, 2004, banks are classified in categories 1, 2, 3 and 4 depending on how the models and methods used by the bank to classify its loan portfolio and determine allowances for loan losses and possible losses vary from those determined by the Chilean Superintendency of Banks. Category 1 banks are those banks whose methods and models are satisfactory to the Chilean Superintendency of Banks. Category 1 banks are entitled to continue using the same methods and models they currently have in place. A bank classified as a Category 2 bank must maintain the minimum levels of allowances established by the Chilean Superintendency of Banks while its board of directors is made aware of the problems detected by the Chilean Superintendency of Banks and takes steps to correct them. Finally, banks classified as categories 3 and 4 banks must maintain the minimum levels of allowances established by the Chilean Superintendency of Banks until they are authorized by the Chilean Superintendency of Banks to do otherwise.

Classification of Loan Portfolio

For purposes of these new classifications, loans are divided into: (i) consumer loans (including loans granted to individuals for the purpose of financing the acquisition of consumer goods or payment of services); (ii) residential mortgage loans (including loans granted to individuals for the acquisition, construction or repair of residential real estate, in which the value of the property covers at least 100% of the amount of the loan); (iii) leasing operations (including consumer leasing, commercial leasing and residential leasing); (iv) factoring operations and (v) commercial loans (includes all loans other than the loans described in (i) through (iv) above).

In accordance with the new regulations effective as of January 1, 2004, the models and methods used to classify our loan portfolio must follow the following guiding principles, which have been established by the Chilean Superintendency of Banks.

Models based on the individual analysis of borrowers

- Requires the assignment of a risk category level to each borrower and its respective loans.
- Must consider the following risk factors within the analysis: industry or sector of the borrower, owners or managers of the borrower, its financial situation, its payment capacity and payment behavior.

One of the following risk categories must be assigned to each loan and borrower upon finishing the analysis:

- Classifications A1, A2 and A3 correspond to borrowers with no apparent credit risk.
- Classification B corresponds to borrowers with some credit risk but no apparent deterioration of payment capacity.

- Classifications C1, C2, C3, C4, D1 and D2 correspond to borrowers whose loans have deteriorated.

- For loans classified as A1, A2, A3 and B, the board of directors of a bank is authorized to determine the levels of required allowances. For loans classified in Categories C1, C2, C3, C4, D1 and D2, the bank must have the following levels of allowances:

Classification	Estimated range of loss	Allowance
C1	Up to 3%	2%
C2	More than 3% up to 19%	10%
C3	More than 19% up to 29%	25%
C4	More than 29% up to 49%	40%
D1	More than 49% up to 79%	65%
D2	More than 79%	90%

Models based on group analysis

- Suitable for the evaluation of a large number of borrowers whose individual loan amounts are relatively small. These models are intended to be used primarily to analyze loans to individuals and small companies.
- Levels of required services are to be determined by us, according to the estimated loss that may result from the loans, by classifying the loan portfolio using one or both of the following models:

  - A model based on the characteristics of the borrowers and their outstanding loans. Borrowers and their loans with similar characteristics will be placed into groups and each group will be assigned a risk level.
  - A model based on the behavior of a group of loans. Loans with analogous past payment histories and similar characteristics will be placed into groups and each group will be assigned a risk level.

Additional Allowances

Under the new regulations, banks may create allowances above the limits described above only to cover specific risks that have been authorized by their board of directors. The concept of voluntary allowances has been eliminated by the new regulation.

Obligations Denominated in Foreign Currencies

Foreign currency denominated obligations of Chilean banks are subject to four requirements:

- There is a reserve requirement of 9.0% for demand deposits and 3.6% for time deposits. See Reserve Requirements above;

- A bank s risk adjusted net asset (liability) foreign currency position cannot exceed 20% of its net capital base;

- Under Central Bank regulations applicable since August 31, 1999, (1) the aggregate amount of our net foreign currency liabilities having an original maturity of less than 30 days cannot exceed our net capital base and (2) the aggregate amount of our net foreign currency liabilities having an original maturity of less than 90 days cannot exceed twice our net capital base; and

- Since June 30, 2000, the interest rate mismatches of our foreign currency liabilities may not exceed 8.0% of our net capital base.

Capital Markets

Under the General Banking Law, banks in Chile may purchase, sell, place, underwrite and act as paying agents with respect to certain debt securities. Likewise, banks in Chile may place and underwrite certain equity securities. Bank subsidiaries may also engage in debt placement and dealing, equity issuance advice and securities brokerage, as well as in financial leasing, mutual fund and investment fund administration, factoring, investment advisory services and merger and acquisition services. The Chilean Superintendency of Banks generally regulates these subsidiaries. However, the Chilean Superintendency of Securities and Insurance regulates some of these subsidiaries. The Chilean Superintendency of Securities and Insurance is the regulator of the Chilean securities market and of open stock corporations.

Legal Provisions Regarding Banking Institutions with Economic Difficulties

The General Banking Law provides that if specified adverse circumstances exist at any bank, its board of directors must correct the situation within 30 days from the date of receipt of the relevant financial statements. If the board of directors is unable to do so, it must call a special shareholders meeting to increase the capital of the bank by the amount necessary to return the bank to financial stability. If the shareholders reject the capital increase, or if it is not effected within the term and in the manner agreed to at the meeting, or if the Chilean Superintendency of Banks does not approve the board of directors proposal, the bank will be barred from increasing its loan portfolio beyond that stated in the financial statements presented to the board of directors and from making any further investments in any instrument other than in instruments issued by the Central Bank. In such a case, or in the event that a bank is unable to make timely payment in respect of its obligations or if a bank is under provisional administration of the Chilean Superintendency of Banks, the General Banking Law provides that the bank may receive a two-year term loan from another bank. The terms and conditions of such a loan must be approved by the directors of both banks, as well as by the Chilean Superintendency of Banks, but need not be submitted to the borrowing bank s shareholders for their approval. In any event, a creditor bank cannot grant interbank loans to an insolvent bank in an amount exceeding 25.0% of the creditor bank s effective equity. The board of directors of a bank that is unable to make timely payment of its obligations must present a reorganization plan to its creditors in order to capitalize the credits, extend their respective terms, forgive debts or take other measures for the payment of the debts. If the board of directors of a bank submits a reorganization plan to its creditors and such arrangement is approved, all subordinated debt issued by the bank, whether or not matured, will be converted by operation of law into common stock in the amount required for the ratio of effective equity to risk-weighted assets not to be lower than 12.0%. If a bank fails to pay an obligation, it must notify the Chilean Superintendency of Banks, which shall determine if the bank is solvent.

Dissolution and Liquidation of Banks

The Chilean Superintendency of Banks may establish that a bank should be liquidated for the benefit of its depositors or other creditors when such bank does not have the necessary solvency to continue its operations. In such case, the Chilean Superintendency of Banks must revoke a bank s authorization to exist and order its mandatory liquidation, subject to agreement by the Central Bank. The Chilean Superintendency of Banks must also revoke a bank s authorization if the reorganization plan of such bank has been rejected twice. The resolution by the Chilean Superintendency of Banks must state the reason for ordering the liquidation and must name a liquidator, unless the Superintendent of Banks assumes this responsibility. When a liquidation is declared, all checking accounts, other demand deposits received in the ordinary course of business, other deposits unconditionally payable immediately or that have a maturity of no more than 30 days, and any other deposits and receipts payable within 10 days, are required to be paid by using existing funds of the bank, its deposits with the Central Bank or its investments in instruments that represent its reserves. If these funds are insufficient to pay these obligations, the liquidator may seize the rest of the bank s assets, as needed. If necessary and in specified circumstances, the Central Bank will lend the bank the funds necessary to pay these obligations. Any such loans are preferential to any claims of other creditors of the liquidated bank.

Investments in Foreign Securities

Under current Chilean banking regulations, banks in Chile may grant loans to foreign individuals and entities and invest in certain foreign currency securities. Chilean banks may only invest in equity securities of foreign banks and certain other foreign companies which may be affiliates of the bank or which would support the bank s business if such companies were incorporated in Chile. Banks in Chile may also invest in debt securities traded in formal secondary markets. Such debt securities shall qualify as (1) securities issued or guaranteed by foreign sovereign states or their central banks or other foreign or international financial entities, and (2) bonds issued by foreign companies. Such foreign currency securities must have a minimum rating as follows:

Rating Agency	Short Term	Long Term
Moody's	P2	Baa3
Standard and Poor's	A3	BBB-
Fitch IBCA	F2	BBB-

A Chilean bank may invest in securities having a minimum rating as follows, provided that in case the total amount of these investments exceeds 20%, (or 30% in certain cases), of the effective equity of the bank, an allowance of 100% of the excess shall be established by the bank:

Rating Agency	Short Term	Long Term
Moody's	P2	Ba3
Standard and Poor's	A3	BB-
Fitch IBCA	F2	BB-

If investments in these securities and certain loans referred to below exceed 70% of the effective equity of the bank, an allowance for 100% of the excess shall be established, unless the excess, up to 70% of the bank s effective equity, is invested in securities having a minimum rating as follows:

Rating Agency	Short Term	Long Term
Moody's	P1	Aa3
Standard and Poor's	A-1+	AA-
Fitch IBCA	F1+	AA-

Subject to specific conditions, a bank may grant loans in dollars to subsidiaries or branches of Chilean companies located abroad, to companies listed on foreign stock exchanges authorized by the Central Bank and, in general, to individuals and entities domiciled abroad, as long as the Central Bank is kept informed of such activities.

In the event that the sum of the investments of a bank in foreign currency and of the commercial and foreign trade loans granted to foreign individuals and entities exceeds 70.0% of the effective equity of such bank, the excess is subject to a mandatory reserve of 100.0%

PROPERTY, PLANTS AND EQUIPMENT

We are domiciled in Chile, and own the approximately 71,000 square meter building, located at Ahumada 251, Santiago, Chile, that serves as our executive offices, and which serves as the executive offices for most our subsidiaries. In addition, we own an approximately 15,000 square meter building located at Huerfanos 740, Santiago, Chile, where the remainder of our executive offices are located. At December 31, 2003, we owned the properties on which 125 of our full service branches are located (approximately 98,000 square meters of office space). We lease office space for our remaining 99 full service branches and for the New York branch and Miami agency, as well as for our representative offices. We also own properties throughout Chile for back office and administrative operations, as well as for storage of documents and other purposes. We believe that our facilities are adequate for our present needs and suitable for their intended purposes.

We also own approximately 140,000 square meters in mainly recreational physical facilities in Chile, which we use to assist our employees in maintaining a healthy work and life balance and which we use for incentive and integration activities.

SELECTED STATISTICAL INFORMATION

The following information is included for analytical purposes and should be read in conjunction with our audited consolidated financial statements as well as Item 5. Operating and Financial Review and Prospects.

Average Balance Sheets, Interest Earned on Interest Earning Assets and Interest Paid on Interest Bearing Liabilities

The average balances for interest earning assets and interest bearing liabilities, including interest and readjustments received and paid, have been calculated on the basis of our daily balances and on the basis of monthly balances for our subsidiaries. These average balances are presented in Chilean pesos (Ch$), in UF and in foreign currencies (principally U.S. dollar). The UF is a unit of account which is linked to, and which is adjusted daily to reflect changes in, the Consumer Price Index. See notes 1(b) and (c) to our audited consolidated financial statements.

The nominal interest rate has been calculated by dividing the amount of interest and principal readjustment gain or loss during the period by the related average balance, both amounts expressed in constant pesos. The nominal rates calculated for each period have been converted into real rates using the following formulas:

Where:

Rp = real average rate for peso-denominated assets and liabilities (in Ch$ and UF) for the period;

Rd = real average rate for foreign currency-denominated assets and liabilities for the period;

Np = nominal average rate for peso-denominated assets and liabilities for the period;

Nd = nominal average rate for foreign currency-denominated assets and liabilities for the period;

D = devaluation rate of the Chilean peso to the dollar for the period; and

I = inflation rate in Chile for the period (based on the variation of the Consumer Price Index).

The real interest rate can be negative for a portfolio of peso-denominated loans when the inflation rate for the period is higher than the average nominal rate of the loan portfolio for the same period. A similar effect could occur for a portfolio of foreign currency-denominated loans when the inflation rate for the period is higher than the sum of the devaluation rate for the period and the corresponding average nominal rate of the portfolio.

The formula for the average real rate for foreign currency-denominated assets and liabilities (Rd) reflects a gain or loss in purchasing power caused by the difference between the devaluation rate of the Chilean peso and the inflation rate in Chile during the period.

The following example illustrates the calculation of the real interest rate for a U.S. dollar asset bearing a nominal annual interest rate of 10% (Nd = 0.10), assuming a 5% annual devaluation rate (D = 0.05) and a 12% annual inflation rate (I = 0.12):

In the example, since the inflation rate was higher than the devaluation rate, the real rate is lower than the nominal rate in dollars. If, for example, the annual devaluation rate were 15%, using the same numbers, the real rate in Chilean pesos would be 12.9%, which is higher than the nominal rate in dollars. Using the same numbers, if the annual inflation rate were greater than 15.5%, the real rate would be negative.

Because of the significant revaluation of the Chilean peso against the U.S. dollar in 2003 (the published Observed Exchange Rate was Ch$599.42 per U.S. $1.00 on December 31, 2003 as compared to Ch$712.38 per U.S. $1.00 on December 31, 2002), and the fact that nominal interest rates and the inflation rate were comparatively low in 2003, most real interest rates on foreign currency assets and liabilities shown in the tables in Selected Statistical Information are negative for 2003.

Contingent loans (consisting of guarantees and open and unused letters of credit) have been treated as interest bearing assets. Although the nature of the income derived from such assets is similar to a fee, Chilean banking regulations require that such income be accounted for as interest revenue. As a result of this treatment, the comparatively low rates of interest earned on these assets have a distorting effect on the average interest rate earned on total interest earning assets.

The real rate for contingent loans has been stated as the nominal rate, since we do not have an effective funding obligation for these loans. The foreign exchange gains or losses on foreign currency denominated assets and liabilities have not been included in interest revenue or expense. Similarly, interest on financial investments does not include trading gains or losses on these investments.

Nonperforming loans that are not yet 90 days or more overdue have been included in each of the various categories of loans, and therefore affect the various averages. Nonperforming loans consist of loans as to which either principal or interest is overdue *(i.e.,* non accrual loans) and restructured loans earning no interest. Nonperforming loans that are 90 days or more overdue are shown as a separate category of loans (Past due loans). Interest and/or indexation readjustments received on all non-performing loans during the periods are included as interest revenue.

Included in interbank deposits are current accounts maintained in the Central Bank and overseas banks. Such assets have a distorting effect on the average interest rate earned on total interest earning assets because:

- of balances maintained in the Central Bank, only the portion that is legally required to be held for liquidity purposes earns interest; and
- balances maintained in overseas banks earn interest on certain accounts in certain countries.

Consequently, the average interest earned on such assets is comparatively low. These deposits are maintained by us in these accounts to comply with statutory requirements and to facilitate international business, rather than to earn income.

The monetary gain or loss on interest earning assets and interest bearing liabilities is not included as a component of interest revenue or interest expense because inflation effects are taken into account in the calculation of real interest rates.

The following tables show, by currency of denomination, average balances and, where applicable, interest amounts, nominal and real rates for our assets and liabilities for the years ended December 31, 2001, 2002 and 2003:

	Year Ended December 31,											
	2001				**2002**				**2003**			
	Average balance	**Interest earned**	**Average nominal rate**	**Average real rate**	**Average balance**	**Interest earned**	**Average nominal rate**	**Average real rate**	**Average balance**	**Interest earned**	**Average nominal rate**	**Average real rate**
	(in millions of constant Ch$ as of December 31, 2003, except percentages)											
Assets												
Interest earning assets												
Interbank deposits												
Ch$	Ch$ -	Ch$ -	-	-	Ch$ -	Ch$ -	-	-	Ch$ -	Ch$ -	-	-
UF	-	-	-	-	-	-	-	-	-	-	-	-
Foreign currency	120,716	6,206	5.14%	17.37%	215,444	3,960	1.84%	7.52%	120,061	1,820	1.52%	(15.49)%
Total	120,716	6,206	5.14	17.37	215,444	3,960	1.84	7.52	120,061	1,820	1.52	(15.49)
Financial investments												
Ch$	194,873	15,679	8.05	5.27	459,185	49,455	10.77	7.73	780,556	8,555	1.10	0.03
UF	900,043	72,675	8.07	5.29	1,003,502	68,431	6.82	3.89	637,557	(37,029)	-	-
Foreign currency	467,427	21,570	4.61	16.78	375,701	12,882	3.43	9.20	361,055	9,189	2.55	(14.63)
Total	1,562,343	109,924	7.04	8.73	1,838,388	130,768	7.11	5.94	1,779,168	(19,285)	-	-
Commercial loans												
Ch$	416,545	85,712	20.58	17.48	888,260	138,528	15.60	12.43	1,126,735	127,495	11.32	10.14
UF	1,429,456	138,132	9.66	6.84	1,857,557	151,459	8.15	5.19	1,788,468	99,493	5.56	4.45
Foreign currency	187,404	12,512	6.68	19.09	300,318	6,965	2.32	8.03	247,813	3,134	1.26	(15.70)
Total	2,033,405	236,356	11.62	10.15	3,046,135	296,952	9.75	7.58	3,163,016	230,122	7.28	4.89
Consumer loans												
Ch$	187,365	47,795	25.51	22.28	365,522	85,858	23.49	20.10	394,782	80,870	20.48	19.21
UF	19,318	2,284	11.82	8.95	29,054	2,970	10.22	7.20	27,080	2,460	9.08	7.93
Foreign currency	-	-	-	-	-	-	-	-	-	-	-	-
Total	206,683	50,079	24.23	21.03	394,576	88,828	22.51	19.15	421,862	83,330	19.75	18.49

Interbank loans												
Ch$	64,627	2,685	4.15	1.48	63,947	2,315	3.62	0.78	54,470	1,346	2.47	1.39
UF	-	-	-	-	-	-	-	-	-	-	-	-
Foreign currency	36,237	2,891	7.98	20.54	36,473	1,416	3.88	9.68	29,249	568	1.94	(15.13)
Total	100,864	5,576	5.53	8.32	100,420	3,731	3.72	4.01	83,719	1,914	2.29	(4.39)
Leasing contracts												
Ch$	1,551	277	17.86	14.83	1,243	209	16.81	13.61	6,122	602	9.83	8.67
UF	116,903	15,312	13.10	10.19	173,147	21,272	12.29	9.21	209,882	20,990	10.00	8.84
Foreign currency	55,523	13,181	23.74	38.13	67,243	10,917	16.24	22.72	49,236	(4,676)	-	-
Total	173,977	28,770	16.54	19.15	241,633	32,398	13.41	12.99	265,240	16,916	6.38	7.19
Foreign trade loans												
Ch$	-	-	-	-	5,953	281	4.72	1.85	44,618	1,931	4.33	3.22
UF	-	-	-	-	972	66	6.79	3.86	12,690	497	3.92	2.82
Foreign currency	432,365	6,313	1.46	13.26	611,249	4,121	0.67	6.29	597,019	1,896	0.32	(16.49)
Total	432,365	6,313	1.46	13.26	618,174	4,468	0.72	6.25	654,327	4,324	0.66	(14.77)
Mortgage loans												
Ch$	-	-	-	-	-	-	-	-	-	-	-	-
UF	806,332	88,550	10.98	8.13	1,243,318	132,192	10.63	7.60	1,157,150	106,295	9.19	8.03
Foreign currency	-	-	-	-	-	-	-	-	-	-	-	-
Total	806,332	88,550	10.98	8.13	1,243,318	132,192	10.63	7.60	1,157,150	106,295	9.19	8.03
Contingent loans												
Ch$	37,189	2,715	7.30	7.30	44,515	1,409	3.17	3.17	44,549	1,343	3.01	3.01
UF	69,425	1,144	1.65	1.65	126,520	1,544	1.22	1.22	128,715	1,662	1.29	1.29
Foreign currency	184,795	381	0.21	0.21	199,231	324	0.16	0.16	221,558	256	0.12	0.12
Total	291,409	4,240	1.45	1.45	370,266	3,277	0.89	0.89	394,822	3,261	0.83	0.83
Past due loans												
Ch$	12,215	-	-	-	31,659	-	-	-	28,376	3	0.01	(1.05)
UF	36,002	316	0.88	(1.72)	103,352	29	0.03	(2.72)	97,931	4	-	(1.05)
Foreign currency	4,348	-	-	-	11,181	-	-	-	9,043	-	-	-
Total	52,565	316	0.60	(1.18)	146,192	29	0.02	(1.92)	135,350	7	0.01	(0.98)

Total interest earning assets												
Ch$	914,365	154,863	16.94	13.93	1,860,284	278,055	14.95	11.79	2,480,208	222,145	8.96	7.80
UF	3,377,479	318,413	9.43	6.61	4,537,422	377,963	8.33	5.36	4,059,473	194,372	4.79	3.68
Foreign currency	1,488,815	63,054	4.24	16.36	1,816,840	40,585	2.23	7.94	1,635,034	12,187	0.75	(16.13)
Total	Ch$ 5,780,659	Ch$ 536,330	9.28%	10.28%	Ch$ 8,214,546	Ch$ 696,603	8.48%	7.39%	Ch$ 8,174,715	Ch$ 428,704	5.24%	0.97%

	Year Ended December 31,											
	2001				2002				2003			
	Average balance	Interest earned	Average nominal rate	Average real rate	Average balance	Interest earned	Average nominal rate	Average real rate	Average balance	Interest earned	Average nominal rate	Average real rate
	(in millions of constant Ch$ as of December 31, 2003, except percentages)											
Assets												
Non interest earning assets Cash and due from banks												
Ch$	Ch$ 353,262	Ch$			Ch$ 494,748	Ch$			Ch$ 529,030	Ch$		
UF					383							
Foreign currency	45,802				67,826				112,839			
Total	399,064				562,957				641,869			
Allowances for loan losses												
Ch$	(124,235)				(222,593)				(191,835)			
UF												
Foreign currency	(4,598)				(3,914)				(3,849)			
Total	(128,833)				(226,507)				(195,684)			
Fixed assets												
Ch$	84,299				144,091				132,614			
UF												
Foreign currency	1,326				1,712				1,401			
Total	85,625				145,803				134,015			
Other assets												
Ch$	91,526				239,866				213,086			
UF	1,684				2,123				1,215			
Foreign currency	50,785				126,765				64,679			
Total	143,995				368,754				278,980			
Total non interest earning assets												
Ch$	404,852				656,112				682,895			
UF	1,684				2,506				1,215			
Foreign currency	93,315				192,389				175,070			
Total	499,851				851,007				859,180			

Total assets											
Ch$	1,319,217	154,863			2,516,396	278,055			3,163,103	222,145		
UF	3,379,163	318,413			4,539,928	377,963			4,060,688	194,372		
Foreign currency	1,582,130	63,054			2,009,229	40,585			1,810,104	12,187		
Total	Ch$ 6,280,510	Ch$ 536,330	%	%	Ch$ 9,065,553	Ch$ 696,603	%	%	Ch$ 9,033,895	Ch$ 428,704	%	%

	Year Ended December 31,											
	2001				2002				2003			
	Average balance	Interest paid	Average nominal rate	Average real rate	Average balance	Interest paid	Average nominal rate	Average real rate	Average balance	Interest paid	Average nominal rate	Average real rate
Liabilities	(in millions of constant Ch$ as of December 31, 2003, except percentages)											
Interest bearing liabilities												
Interest bearing demand deposits												
Ch$	Ch$ -	Ch$ -	-	-	Ch$ -	Ch$ -	-	-	Ch$ -	Ch$ -	-	-
UF	-	-	-	-	-	-	-	-	-	-	-	-
Foreign currency	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-	-	-
Savings accounts												
Ch$	-	-	-	-	-	-	-	-	-	-	-	-
UF	95,517	6,056	6.34%	3.61%	171,009	7,232	4.23%	1.37%	174,847	2,914	1.67%	0.59%
Foreign currency	-	-	-	-	-	-	-	-	-	-	-	-
Total	95,517	6,056	6.34	3.61	171,009	7,232	4.23	1.37	174,847	2,914	1.67	0.59
Time deposits												
Ch$	848,355	65,159	7.68	4.91	1,812,960	96,549	5.33	2.44	1,747,927	61,806	3.54	2.44
UF	1,327,686	96,552	7.27	4.51	944,398	41,855	4.43	1.57	779,979	18,555	2.38	1.30
Foreign currency	500,061	14,137	2.83	14.79	792,949	6,623	0.84	6.46	800,582	3,634	0.45	(16.37)
Total	2,676,102	175,848	6.57	6.56	3,550,307	145,027	4.08	3.11	3,328,488	83,995	2.52	(2.35)
Central Bank borrowings												
Ch$	31,088	1,766	5.68	2.96	57,113	2,137	3.74	0.90	64,256	1,547	2.41	1.32
UF	2,793	163	5.84	3.11	4,032	123	3.05	0.22	3,310	156	4.71	3.60
Foreign currency	-	-	-	-	-	-	-	-	677	18	2.66	(14.54)
Total	33,881	1,929	5.69	2.97	61,145	2,260	3.70	0.85	68,243	1,721	2.52	1.28
Repurchase agreements												
Ch$	130,326	8,715	6.69	3.94	212,405	8,814	4.15	1.29	213,171	6,891	3.23	2.14

UF	9,611	577	6.00	3.28	5,245	97	1.85	(0.94)	24,777	826	3.33	2.24
Foreign currency	37,715	2,316	6.14	18.49	157,772	1,557	0.99	6.62	113,001	979	0.87	(16.03)
Total	177,652	11,608	6.53	6.99	375,422	10,468	2.79	3.50	350,949	8,696	2.48	(3.70)
Mortgage finance bonds												
Ch$	-	-	-	-	-	-	-	-	-	-	-	-
UF	842,115	80,497	9.56	6.74	1,280,975	123,797	9.66	6.66	1,025,770	75,720	7.38	6.24
Foreign currency	-	-	-	-	-	-	-	-	-	-	-	-
Total	842,115	80,497	9.56	6.74	1,280,975	123,797	9.66	6.66	1,025,770	75,720	7.38	6.24
Other interest bearing liabilities(1)												
Ch$	21,581	8,580	39.76	36.16	36,450	3,652	10.02	7.00	43,297	7,929	18.31	17.06
UF	178,182	17,278	9.70	6.88	324,934	29,553	9.10	6.10	293,926	22,507	7.66	6.52
Foreign currency	393,395	11,017	2.80	14.76	394,986	3,349	0.85	6.48	678,301	752	0.11	(16.66)
Total	593,158	36,875	6.22	13.17	756,370	36,554	4.83	6.34	1,015,524	31,188	3.07	(8.51)
Total interest bearing liabilities												
Ch$	1,031,350	84,220	8.17	5.38	2,118,928	111,152	5.25	2.36	2,068,651	78,173	3.78	2.68
UF	2,455,904	201,123	8.19	5.41	2,730,593	202,657	7.42	4.48	2,302,609	120,678	5.24	4.13
Foreign currency	931,171	27,470	2.95	14.93	1,345,707	11,529	0.86	6.49	1,592,561	5,383	0.34	(16.47)
Total	Ch$ 4,418,425	Ch$ 312,813	7.08%	7.41%	Ch$ 6,195,228	Ch$ 325,338	5.25%	4.19%	Ch$ 5,963,821	Ch$ 204,234	3.42%	(1.87)%

(1) Other interest bearing liabilities primarily include foreign borrowings, subordinated bonds, bonds and borrowings from domestic financial institutions.

	Year Ended December 31,											
	2001				2002				2003			
	Average balance	Interest paid	Average nominal rate	Average real rate	Average balance	Interest paid	Average nominal rate	Average real rate	Average balance	Interest paid	Average nominal rate	Average real rate
Liabilities	(in millions of constant Ch$ as of December 31, 2003, except percentages)											
Non interest bearing liabilities												
Non interest bearing demand deposits												
Ch$	Ch$ 805,569	Ch$ -	-	-	Ch$ 1,207,113	Ch$ -	-	-	Ch$ 1,360,430	Ch$ -	-	-
UF	3,288	-	-	-	13,266	-	-	-	11,448	-	-	-
Foreign currency	258,403	-	-	-	373,359	-	-	-	456,051	-	-	-
Total	1,067,260	-	-	-	1,593,738	-	-	-	1,827,929	-	-	-
Contingent liabilities												
Ch$	37,083	-	-	-	44,460	-	-	-	44,426	-	-	-
UF	69,061	-	-	-	126,461	-	-	-	128,303	-	-	-
Foreign currency	185,029	-	-	-	199,575	-	-	-	222,085	-	-	-
Total	291,173	-	-	-	370,496	-	-	-	394,814	-	-	-
Other non interest bearing												
Ch$	34,690	-	-	-	111,716	-	-	-	107,331	-	-	-
UF	4,732	-	-	-	5,406	-	-	-	3,911	-	-	-
Foreign currency	74,386	-	-	-	177,088	-	-	-	83,682	-	-	-
Total	113,808	-	-	-	294,210	-	-	-	194,924	-	-	-
Shareholders equity												
Ch$	389,844	-	-	-	611,881	-	-	-	652,407	-	-	-
UF	-	-	-	-	-	-	-	-	-	-	-	-
Foreign currency	-	-	-	-	-	-	-	-	-	-	-	-
Total	389,844	-	-	-	611,881	-	-	-	652,407	-	-	-
Total non interest bearing liabilities and												

shareholders equity												
Ch$	1,267,186	-	-	-	1,975,170	-	-	-	2,164,594	-	-	-
UF	77,081	-	-	-	145,133	-	-	-	143,662	-	-	-
Foreign currency	517,818	-	-	-	750,022	-	-	-	761,818	-	-	-
Total	1,862,085	-	-	-	2,870,325	-	-	-	3,070,074	-	-	-
Total liabilities and shareholders equity												
Ch$	2,298,536	84,220	-	-	4,094,098	111,152	-	-	4,233,245	78,173	-	-
UF	2,532,985	201,123	-	-	2,875,726	202,657	-	-	2,446,271	120,678	-	-
Foreign currency	1,448,989	27,470	-	-	2,095,729	11,529	-	-	2,354,379	5,383	-	-
Total	Ch$ 6,280,510	Ch$ 312,813	-%	-%	Ch$ 9,065,553	Ch$ 325,338	-%	-%	Ch$ 9,033,895	Ch$ 204,234	-%	-%

Interest Earning Assets and Net Interest Margin

The following table analyzes, by currency of denomination, the levels of our average interest earning assets and net interest, and illustrates the comparative margins obtained, for each of the periods indicated.

	Year Ended December 31,		
	2001	2002	2003
	(in millions of constant Ch$ as of December 31, 2003, except for percentages)		
Total average interest earning assets			
Ch$	Ch$ 914,365	Ch$ 1,860,284	Ch$ 2,480,208
UF	3,377,479	4,537,422	4,059,473
Foreign currency	1,488,815	1,816,840	1,635,034
Total	5,780,659	8,214,546	8,174,715
Net interest earned(1)			
Ch$	70,643	166,903	143,972
UF	117,290	175,306	73,694
Foreign currency	35,584	29,056	6,804
Total	Ch$ 223,517	Ch$ 371,265	Ch$ 224,470
Net interest margin, nominal basis(2)			
Ch$	7.73%	8.97%	5.80%
UF	3.47	3.86	1.82
Foreign currency	2.39	1.60	0.42
Total	3.87%	4.52%	2.75%

(1) Net interest earned is defined as interest revenue earned less interest expense incurred.
(2) Net interest margin, nominal basis is defined as net interest earned divided by average interest earning assets.

Changes in Net Interest Revenue Volume and Rate Analysis

The following tables compare, by currency of denomination, changes in our net interest revenue between 2002 and 2003 and between 2001 and 2002 caused by (1) changes in the average volume of interest earning assets and interest bearing liabilities and (2) changes in their respective nominal interest rates. Volume and rate variances have been calculated based on movements in average balances over the period and changes in nominal interest rate, average interest earning assets and average interest bearing liabilities. The net change attributable to changes in both volume and rate has been allocated proportionately to the change in volume and the change in rate.

	Increase (Decrease) from 2001 to 2002 due to changes in		Net change from 2001 to 2002	Increase (Decrease) from 2002 to 2003 due to changes in		Net change from 2002 to 2003
	Volume	Rate		Volume	Rate	
Assets	(in millions of constant Ch$ as of December 31, 2003)					
Interest earning assets						
Interbank deposits						
Ch$	Ch$	Ch$	Ch$	Ch$	Ch$	Ch$
UF						
Foreign currency	3,150	(5,396)	(2,246)	(1,533)	(607)	(2,140)
Total	3,150	(5,396)	(2,246)	(1,533)	(607)	(2,140)
Financial investments						
Ch$	27,028	6,748	33,776	20,997	(61,897)	(40,900)
UF	7,802	(12,046)	(4,244)	(55,315)	(50,145)	(105,460)
Foreign currency	(3,762)	(4,926)	(8,688)	(485)	(3,208)	(3,693)
Total	31,068	(10,224)	20,844	(34,803)	(115,250)	(150,053)
Commercial loans						
Ch$	77,705	(24,889)	52,816	32,144	(43,177)	(11,033)
UF	37,121	(23,794)	13,327	(5,446)	(46,520)	(51,966)
Foreign currency	5,177	(10,724)	(5,547)	(1,064)	(2,767)	(3,831)
Total	120,003	(59,407)	60,596	25,634	(92,464)	(66,830)
Consumer loans						
Ch$	42,124	(4,061)	38,063	6,535	(11,523)	(4,988)
UF	1,028	(342)	686	(193)	(317)	(510)
Foreign currency						
Total	43,152	(4,403)	38,749	6,342	(11,840)	(5,498)
Interbank loans						
Ch$	(28)	(342)	(370)	(308)	(661)	(969)
UF						
Foreign currency	19	(1,494)	(1,475)	(241)	(607)	(848)
Total	(9)	(1,836)	(1,845)	(549)	(1,268)	(1,817)
Leasing contracts						
Ch$	(53)	(15)	(68)	512	(119)	393
UF	6,962	(1,002)	5,960	4,066	(4,348)	(282)
Foreign currency	2,430	(4,694)	(2,264)	(6,982)	(8,611)	(15,593)
Total	9,339	(5,711)	3,628	(2,404)	(13,078)	(15,482)
Foreign trade loans						
Ch$	281		281	1,675	(25)	1,650
UF	66		66	470	(39)	431

Foreign currency	2,001	(4,193)	(2,192)	(94)	(2,131)	(2,225)
Total	2,348	(4,193)	(1,845)	2,051	(2,195)	(144)
Mortgage loans						
Ch$						
UF	46,546	(2,904)	43,642	(8,741)	(17,156)	(25,897)
Foreign currency						
Total	46,546	(2,904)	43,642	(8,741)	(17,156)	(25,897)
Contingent loans						
Ch$	457	(1,763)	(1,306)	1	(67)	(66)
UF	755	(355)	400	27	91	118
Foreign currency	28	(85)	(57)	33	(101)	(68)
Total	1,240	(2,203)	(963)	61	(77)	(16)
Past due loans						
Ch$					3	3
UF	214	(501)	(287)	(1)	(24)	(25)
Foreign currency						
Total	214	(501)	(287)	(1)	(21)	(22)
Total interest earning assets						
Ch$	147,514	(24,322)	123,192	61,556	(117,466)	(55,910)
UF	100,494	(40,944)	59,550	(65,133)	(118,458)	(183,591)
Foreign currency	9,043	(31,512)	(22,469)	(10,366)	(18,032)	(28,398)
Total	Ch$ 257,051	Ch$ (96,778)	Ch$ 160,273	Ch$ (13,943)	Ch$ (253,956)	Ch$ (267,899)

	Increase (Decrease) from 2001 to 2002 due to changes in		Net change from 2001 to 2002	Increase (Decrease) from 2002 to 2003 due to changes in		Net change from 2002 to 2003
	Volume	Rate		Volume	Rate	
	(in millions of constant Ch$ as of December 31, 2003)					
Liabilities						
Interest bearing liabilities						
Interest bearing demand deposits						
Ch$	Ch$	Ch$	Ch$	Ch$	Ch$	Ch$
UF						
Foreign currency						
Total						
Savings accounts						
Ch$						
UF	3,665	(2,489)	1,176	159	(4,477)	(4,318)
Foreign currency						
Total	3,665	(2,489)	1,176	159	(4,477)	(4,318)
Time deposits						
Ch$	56,195	(24,805)	31,390	(3,351)	(31,392)	(34,743)
UF	(23,247)	(31,450)	(54,697)	(6,365)	(16,935)	(23,300)
Foreign currency	5,632	(13,146)	(7,514)	63	(3,052)	(2,989)
Total	38,580	(69,401)	(30,821)	(9,653)	(51,379)	(61,032)
Central Bank borrowings						
Ch$	1,120	(749)	371	243	(833)	(590)
UF	56	(96)	(40)	(25)	58	33
Foreign currency				18		18
Total	1,176	(845)	331	236	(775)	(539)
Repurchase agreements						
Ch$	4,189	(4,090)	99	32	(1,955)	(1,923)
UF	(190)	(290)	(480)	600	129	729
Foreign currency	2,476	(3,235)	(759)	(404)	(174)	(578)
Total	6,475	(7,615)	(1,140)	228	(2,000)	(1,772)
Mortgage finance bonds						
Ch$						
UF	42,403	897	43,300	(21,998)	(26,079)	(48,077)
Foreign currency						
Total	42,403	897	43,300	(21,998)	(26,079)	(48,077)
Other interest bearing liabilities						

Ch$	3,791	(8,719)	(4,928)	791	3,486	4,277
UF	13,409	(1,134)	12,275	(2,652)	(4,394)	(7,046)
Foreign currency	44	(7,712)	(7,668)	1,458	(4,055)	(2,597)
Total	17,244	(17,565)	(321)	(403)	(4,963)	(5,366)
Total interest bearing liabilities						
Ch$	65,295	(38,363)	26,932	(2,285)	(30,694)	(32,979)
UF	36,096	(34,562)	1,534	(30,281)	(51,698)	(81,979)
Foreign currency	8,152	(24,093)	(15,941)	1,135	(7,281)	(6,146)
Total	Ch$ 109,543	Ch$ (97,018)	Ch$ 12,525	Ch$ (31,431)	Ch$ (89,673)	Ch$ (121,104)

Investment Portfolio

The following table sets forth our investment in Chilean government and corporate securities and certain other financial investments as of December 31, 2001, 2002 and 2003. Financial investments traded on a secondary market are shown adjusted to market value, following specific instructions from the Chilean Superintendency of Banks. These instructions provide for the recognition of such adjustments against income except in the case of a permanent portfolio, where an equity account, Unrealized gains (losses) on permanent financial investments, may be directly adjusted, subject to certain restrictions.

	December 31,			Weighted Average Nominal Rate
	2001	2002	2003	at December 31, 2003
	(in millions of constant Ch$ as of December 31, 2003, except for rate data)			
Central Bank and Government Securities				
Marketable debt securities	Ch$ 547,221	Ch$ 599,067	Ch$ 968,401	3.45%
Marketable debt securities with limited secondary market	400,872	273,446		
Chilean government securities	27,217	5,532	41,848	5.01
Investments purchased under agreements to resell	30,817	32,499	29,660	3.68
Investments collateral under agreements to repurchase	79,823	196,984	324,576	3.23
Subtotal	1,085,950	1,107,528	1,364,485	3.45
Corporate Securities and Other Financial Investments				
Investments in Chilean financial institutions	6,492	45,494	131,945	3.00
Mortgage finance bonds issued by us	144,191			
Foreign government notes	256,758	51,617	33,613	1.39
Investments in foreign countries	127,776	279,890	186,559	2.72
Other financial investments	28,874	48,123	106,365	6.46
Investments collateral under agreements to repurchase	66,156	82,238	93,357	4.94
Subtotal	630,247	507,362	551,839	3.80
Total	Ch$ 1,716,197	Ch$ 1,614,890	Ch$ 1,916,324	3.55%

At December 31, 2003, financial instruments issued by the Central Bank were the only financial instruments we held whose aggregate book value exceeded 10% of our shareholders equity. These financial instruments are accounted for in the audited consolidated financial statements at market value. See note 1(f) to our audited consolidated financial statements. The value of such investments at December 31, 2003 is as follows:

Issuer	Carrying Value	Market Value
	(in millions of constant Ch$ as of December 31, 2003)	
Central Bank	Ch$ 1,292,977	Ch$ 1,292,977

The following table sets forth an analysis of our investments at December 31, 2003, by time remaining to maturity and the weighted average nominal rates of such investments:

	Within one Year(1)	Rate	After one year but within five years	Rate	After five years	Rate	Total	Rate
	(in millions of constant Ch$ as of December 31, 2003, except for rate data)							
Central Bank and Government Securities								
Marketable debt securities	Ch$ 968,401	3.45%	Ch$	%	Ch$	%	Ch$ 968,401	3.45%
Chilean government securities	41,848	5.01					41,848	5.01
Investments purchased under agreements to resell	29,660	3.68					29,660	3.68
Investments collateral under agreements to repurchase	324,576	3.23					324,576	3.23
Subtotal	1,364,485	3.45					1,364,485	3.45

Corporate Securities and Other Financial Investments								
Investments in Chilean financial institutions	131,945	3.00					131,945	3.00
Mortgage finance bonds issued by us	33,613	1.39					33,613	1.39
Foreign government notes	186,559	2.72					186,559	2.72
Other financial investments	97,409	6.40	8,956	7.11			106,365	6.46
Investments collateral under agreements to repurchase	93,357	4.94					93,357	4.94
Subtotal	542,883	3.75	8,956	7.11			551,839	3.80
Total	Ch$ 1,907,368	3.54%	Ch$ 8,956	7.11%	Ch$	%	Ch$ 1,916,324	3.55%

(1) In accordance with the regulations of the Chilean Superintendency of Banks, trading investments are classified as due within 1 year.

The following table sets forth an analysis under U.S. GAAP of investments and deposits held to maturity by type:

	As of December 31,								
	2001			2002			2003		
Instruments	Carrying Value	Unrealized Gains (Losses)	Estimated Fair Value	Carrying Value	Unrealized Gains (Losses)	Estimated Fair Value	Carrying Value	Unrealized Gains (Losses)	Estimated Fair Value
	(in millions of constant Ch$ as of December 31, 2003)								
Foreign private sector debt securities	8,188		8,188						
Foreign financial institutions debt securities	1,860	38	1,898						
U.S. government debt securities	37,396	73	37,469	39,450	5	39,455	21,017	4	21,021
Chilean government securities	Ch$ 413,006	(7,481)	Ch$ 405,525	277,505	5	277,510			
Total	Ch$ 460,450	(7,370)	Ch$ 453,080	Ch$ 316,955	Ch$ 10	Ch$ 316,965	Ch$ 21,017	Ch$ 4	Ch$ 21,021

Loan Portfolio

The following table analyzes our loans by type of loan and risk classification. All loan amounts stated below are before deduction of allowances for loan losses. Total loans reflect our loan portfolio, including past due principal amounts.

	December 31,				
	1999	2000	2001	2002	2003
	(in millions of constant Ch$ as of December 31, 2003)				
Commercial loans:					
General commercial loans	Ch$ 1,596,010	Ch$ 1,706,247	Ch$ 1,684,195	Ch$ 2,542,492	Ch$ 2,557,000
Foreign trade loans	400,035	394,691	392,323	617,788	658,280
Interbank loans	19,161	29,060	24,698	55,366	13,223
Leasing contracts	199,640	180,450	173,893	251,584	268,956
Other outstanding loans	285,439	367,714	333,069	607,899	636,649
Subtotal commercial loans	2,500,285	2,678,162	2,608,178	4,075,129	4,134,108
Mortgage loans:					
Residential	346,653	380,494	432,916	586,575	604,099
Commercial	418,892	423,036	407,587	612,569	523,931
Subtotal mortgage loans	765,545	803,530	840,503	1,199,144	1,128,030
Consumer loans	192,771	203,117	216,625	416,885	478,093
Past due loans:					
Commercial loans	32,360	45,924	39,571	130,433	90,548
Residential mortgage loans	3,514	4,700	6,556	10,347	11,180
Consumer loans	2,789	3,040	2,841	4,594	3,370

Leasing contracts	3,373	786	458	1,012	405
Subtotal past due loans	42,036	54,450	49,426	146,386	105,503
Contingent loans	280,592	269,410	299,599	385,585	409,612
Total loans	Ch$ 3,781,229	Ch$ 4,008,669	Ch$ 4,014,331	Ch$ 6,223,129	Ch$ 6,255,346

The loan categories are as follows:

Commercial loans are long-term and short-term loans made in Chilean pesos, on an adjustable or fixed rate basis, to finance working capital or investments.

Consumer loans are loans to individuals, made in Chilean pesos, generally on a fixed rate basis, to finance the purchase of consumer goods or to pay for services. They also include credit card balances subject to interest charges.

Mortgage loans are inflation-indexed, fixed rate, long-term loans with monthly payments of principal and interest secured by a real property mortgage. Mortgage loans are financed in one of two ways, as traditional mortgage loans that are financed by mortgage finance bonds; or as flexible mortgages that are financed by our own funds. At present, the amount of a mortgage loan cannot be more than 75% of the value of the mortgaged property if it is financed by mortgage finance bonds and 80% of the value of the mortgaged property in the case of flexible mortgages.

Foreign trade loans are fixed rate, short-term loans made in foreign currencies (principally U.S. dollars) to finance imports and exports.

Interbank loans are fixed rate, short-term loans to financial institutions that operate in Chile.

Leasing contracts are agreements for the financial leasing of capital equipment and other property.

Other outstanding loans include lines of credit, bills of exchange and mortgage loans, which are financed by our general borrowings.

Past due loans are loansthat are overdue as to any payment of principal or interest by 90 days or more.

Contingent loans consist of guarantees granted by us in Chilean pesos, UF and foreign currencies, principally U.S. dollars, as well as open and unused letters of credit. Unlike U.S. GAAP, Chilean GAAP requires such loans to be included on a bank s balance sheet. See note 28 to our consolidated audited financial statements.

Any collateral provided generally consists of a mortgage on real estate, a pledge of marketable securities, a letter of credit or cash. The existence and amount of collateral varies from loan to loan.

Maturity and Interest Rate Sensitivity of Loans as of December 31, 2003

The following table sets forth an analysis by type and time remaining to maturity of our loans at December 31, 2003:

	Balance as of December 31, 2003	Due within 1 month	Due after 1 month but within 6 months	Due after 6 months but within 12 months	Due after 1 year but within 3 years	Due after 3 years but within 5 years	Due after 5 years
	(in millions of constant Ch$ as of December 31, 2003)						
Commercial loans	Ch$ 2,557,000	Ch$ 498,489	Ch$ 693,165	Ch$ 304,409	Ch$ 542,825	Ch$ 210,215	Ch$ 307,897
Consumer loans	478,093	97,168	85,464	82,421	177,208	30,265	5,567
Mortgage loans	1,128,030	12,189	40,767	49,154	197,540	189,156	639,224
Foreign trade loans	658,280	67,979	479,376	104,864	5,834	152	75
Interbank loans	13,223	8,501	3,155	156	1,411		
Leasing contracts	268,956	6,928	27,768	31,098	86,107	49,670	67,385
Other outstanding loans	636,649	262,235	43,628	11,391	37,822	37,158	244,415
Past due loans	105,503	105,503					
Subtotal	5,845,734	1,058,992	1,373,323	583,493	1,048,747	516,616	1,264,563
Contingent loans	409,612	80,361	184,804	68,691	62,031	11,974	1,751
Total loans	Ch$ 6,255,346	Ch$ 1,139,353	Ch$ 1,558,127	Ch$ 652,184	Ch$ 1,110,778	Ch$ 528,590	Ch$ 1,266,314

The following table presents the interest rate sensitivity of our outstanding loans due after one year as of December 31, 2003, not including contingent loans:

	As of December 31, 2003
	(in millions of constant Ch$ as of December 31, 2003)
Variable rate	
Ch$	Ch$ 8,272
UF	491,836
Foreign currency	103,464
Total	603,572
Fixed rate	
Ch$	424,463
UF	1,778,231
Foreign currency	23,660
Total	2,226,354
Total	Ch$ 2,829,926

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Loans by Economic Activity

The following table sets forth at the dates indicated an analysis of our loan portfolio based on the borrower's principal economic activity. Loans to individuals for business purposes are allocated to their respective economic activity. The table does not reflect outstanding contingent loans.

	As of December 31,					
	2001		2002		2003	
	Loan Portfolio	% of loan Portfolio	Loan Portfolio	% of loan Portfolio	Loan Portfolio	% of loan Portfolio
	(in millions of constant Ch$ as of December 31, 2003, except for percentages)					
Agriculture, Livestock, Forestry, Agribusiness, Fishing						
Agriculture and livestock	Ch$ 165,684	4.46%	Ch$ 198,304	3.40%	Ch$ 205,756	3.52%
Fruit	142,252	3.83	166,316	2.85	159,241	2.72
Forestry and wood extraction	26,668	0.72	30,856	0.53	17,519	0.30
Fishing	91,161	2.45	96,206	1.65	91,432	1.56
Subtotal	425,765	11.46	491,682	8.43	473,948	8.10
Mining and Petroleum						
Mining and quarries	46,912	1.26	94,064	1.61	106,432	1.82
Natural gas and crude oil extraction	14,735	0.41	38,478	0.66	13,599	0.23
Subtotal	61,647	1.67	132,542	2.27	120,031	2.05
Manufacturing						
Tobacco, food and beverages	127,686	3.44	165,320	2.83	159,224	2.72
Textiles, clothing and leather goods	50,236	1.35	69,572	1.19	67,068	1.15
Wood and wood products	38,364	1.03	52,625	0.90	61,010	1.04
Paper, printing and publishing	12,413	0.33	20,169	0.35	17,347	0.30
Oil refining, carbon and rubber	58,799	1.58	61,573	1.05	68,150	1.17
Production of basic metal, non-mineral, machine and equipment	150,372	4.05	155,418	2.66	166,073	2.84
Other manufacturing industries	28,158	0.76	72,083	1.23	72,639	1.24
Subtotal	466,028	12.54	596,760	10.21	611,511	10.46
Electricity, Gas and Water						
Electricity, gas and water	54,005	1.45	77,220	1.32	72,073	1.23
Subtotal	54,005	1.45	77,220	1.32	72,073	1.23
Construction						
Residential buildings	92,094	2.48	150,933	2.59	138,553	2.37
Other constructions	201,403	5.42	251,515	4.31	336,183	5.75
Subtotal	293,497	7.90	402,448	6.90	474,736	8.12
Commerce						
Wholesale	106,343	2.86	261,833	4.49	286,270	4.90
Retail, restaurants and hotels	340,114	9.16	429,643	7.36	421,327	7.21
Subtotal	446,457	12.02	691,476	11.85	707,597	12.11
Transport, Storage and Communications						
Transport and storage	99,862	2.69	113,346	1.94	126,088	2.16
Communications	28,119	0.76	26,912	0.46	40,414	0.69
Subtotal	127,981	3.45	140,258	2.40	166,502	2.85

Financial Services						
Financial insurance and companies	338,068	9.10	615,054	10.54	527,269	9.02
Real estate and other financial services	367,047	9.88	532,291	9.12	573,442	9.81
Subtotal	705,115	18.98	1,147,345	19.66	1,100,711	18.83
Community, Social and Personal Services						
Community, social and personal services	88,736	2.38	295,899	5.06	276,431	4.73
Subtotal	88,736	2.38	295,899	5.06	276,431	4.73
Consumer Loans	363,887	9.80	815,335	13.97	827,508	14.16
Residential Mortgage Loans	681,614	18.35	1,046,579	17.93	1,014,686	17.36
Total	Ch$ 3,714,732	100.00%	Ch$ 5,837,544	100.00%	Ch$ 5,845,734	100.00%

Foreign Country Outstanding Loans

Our cross-border outstanding loans are principally trade-related. These loans include loans to foreign financial institutions and foreign corporations, some of which are guaranteed by their Chilean parent company. The table below lists the total amounts outstanding to borrowers in certain foreign countries at the end of the last three years, and thus does not include foreign trade-related loans to domestic borrowers.

	As of December 31,		
	2001	2002	2003
	(in millions of constant Ch$ as of December 31, 2003)		
Albania	Ch$ 16	Ch$ 35	Ch$
Argentina	37,868	30,080	11,353
Australia	4		
Austria	878	46	311
Belgium	161	434	382
Bolivia	865	179	6
Brazil	36,587	53,624	44,546
British West Indies	28,344	27,041	10,847
Canada	161	964	631
China		7,628	8,957
Colombia	4,117	6,403	2,587
Denmark		70	21
Ecuador	69	86	307
El Salvador	5,532	48	35
Finland	212	258	1,119
France	2,127	15,588	17,061
Germany	42	845	3,759
Holland	47	1,206	131
Hong Kong	258	223	1,496
India	178	545	4,652
Israel	16	12	
Italy		538	937
Japan	3,053	2,177	12,634
Korea	32	3,220	
Kuwait		18	
Malaysia			18
Mexico	35,282	48,599	37,201
Monaco			30
Morocco			41
Netherlands			4,297
New Zealand			126
Norway			1,103
Panama	10,531	12,573	6,086
Paraguay	55		
Peru	19,224	19,919	7,804
Portugal			108
Singapore	58	4,337	39
Slovenia			56
South Africa	18	258	42
South Korea	546	548	1,166
Spain	309	4,804	6,194
Switzerland	427	271	552
Sweden	384	1,550	1,484

Taiwan		515	105
United Arab Emirates	27	212	517
United Kingdom	948	6,815	2,626
United States	22,185	28,069	15,619
Uruguay	102	2	3,035
Venezuela	3,483		6,022
Yugoslavia		157	
Total	Ch$ 214,146	Ch$ 279,897	Ch$ 216,043

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We also maintain deposits abroad, as needed to conduct our foreign trade transactions and manage liquidity. The table below lists the largest amounts of foreign deposits by country at the end of the past three years:

	December 31,		
	2001	2002	2003
	(in millions of constant Ch$ as of December 31, 2003)		
Australia	Ch$ 19	Ch$ 40	Ch$ 44
Austria	30	41	62
Belgium	113	73	203
Canada	150	267	367
China	199		162
Denmark	53	669	504
Finland	40	13	8
France	418	71	201
Germany	1,683	2,391	4,256
Italy	386	872	1,463
Japan	326	331	846
Netherlands	111	89	236
Norway	15	42	30
Spain	426	80	178
Sweden	100	120	84
Switzerland	298	230	196
United Kingdom	340	369	434
United States	83,581	87,599	86,939
Total	Ch$ 88,288	Ch$ 93,297	Ch$ 96,213

Credit Review Process

Our credit review system requires that two or more loan officers approve any loan to our customers, and that at least one of the loan officers have sufficient authority to cover our total risk exposure with respect to that customer.

The evaluation of total customer credit risk takes into account the direct risk outstanding and the added risk involved in the proposed transaction, the indirect risks associated with guarantees or security given by the customer, and the risk associated with other entities or individuals who have a direct or indirect affiliation with the customer, including in each case outstanding principal (adjusted for inflation), interest and the balance of any unused lines of credit and other credit transactions approved but not completed.

Transactions in which the total customer credit risk is more than UF150,000 (approximately Ch$2,500 million) require the approval of a credit committee, which includes three directors and our Chief Executive Officer. Transactions in which the total customer credit risk is equal to or less than UF150,000 may be approved by other executives, depending on the amount involved, as follows:

	Limit in UF
Credit committee including members of the board of directors	up to legal limits
Chief executive officer	up to UF 150,000
Senior credit risk officer	up to UF 125,000
Executive credit risk officers	up to UF 100,000
Other credit risk officers	up to UF 60,000
Executive vice president of corporate banking	up to UF 50,000
Other department heads	up to UF 15,000
Other officers	under UF 10,000

In addition to reviewing the credit limit, the business area extending the credit must review the terms of the loan, the interest rate and any security to be obtained.

To evaluate a customer's credit risk, our commercial executives use various computerized data bases that provide information such as the customer's profile, indebtedness to us, financial statements, monthly sales information, profitability reports, indebtedness to other Chilean financial institutions and payment history with other creditors. For this purpose, the Chilean Superintendency of Banks makes information regarding a customer's indebtedness within the financial system available to banks. For individual customers, scoring and other automated systems are used to determine the customer's profile and payment capacity in terms of income, education, family obligations, other financial obligations and other factors.

Our credit process is based on credit policies approved by our board of directors and procedures established by the credit committee. The credit risk management area is responsible for evaluating for us in the aggregate the risk presented by our current or potential customers. We also rely upon the collective efforts of our professional analysts who conduct reviews at the request of any of our commercial divisions and senior management. These reports analyze the amount of a credit, its use, its term, the customer's financial situation, the customer's profile and the market in which the customer operates. These reports are prepared in four different formats: in-depth, summary, follow-up and project analysis. The risk control division reviews periodically the quality of our loans, including the related loan classifications. This division has a team of inspectors who audit on an ongoing basis the compliance with the credit review process by the commercial executives who are involved in the credit analysis process, the various categories of risk assigned to customers, the reports on past due loans and our evaluation of debtors.

Classification of Loan Portfolio

Chilean banks are required to classify their outstanding exposures on an ongoing basis for the purpose of determining the amount of allowances for loan losses. The Chilean Superintendency of Banks establishes the guidelines used by banks for such classifications, although banks are given some latitude in devising more stringent classification systems within such guidelines. The Chilean Superintendency of Banks amended its guidelines effective as of January 1, 2004. The amended guidelines do not apply to periods prior to January 1, 2004, and the amended guidelines have not been followed in preparing the information presented in Selected Statistical Information. For a description of the amended guidelines see Item 4. Information on the Company Regulation and Supervision Classification of Banks Classification of Loan Portfolio. The Chilean Superintendency of Banks regularly examines and evaluates each financial institution's credit management process, including its compliance with the loan classification guidelines.

The information presented in Selected Statistical Information has been prepared in accordance with the guidelines of the Chilean Superintendency of Banks in effect as of December 31, 2003, which we refer to as the previous guidelines. Under the previous guidelines, the Chilean Superintendency of Banks classified banks and other financial institutions into three categories. Category I was reserved for institutions that fully comply with the loan classification guidelines. Institutions were rated in Category II if their loan classification system revealed deficiencies that needed to be corrected by the bank's management. Lastly, Category III indicated significant deviations from the Chilean Superintendency of Banks guidelines that clearly reflected inadequacies in the evaluation of the risk and estimated losses associated with loans. We were classified as a Category I bank under the previous guidelines.

Under the previous guidelines, for purposes of classification, loans were divided into consumer loans, residential mortgage loans and commercial loans, which for these classification purposes included all loans other than consumer loans and residential mortgage loans. In the case of commercial loans, the classification was based on the estimated losses on all loans outstanding to the borrower, as determined by the bank. In the case of consumer and residential mortgage loans, the extent to which payments are overdue determined the classification. Commercial and consumer loans were rated under the previous guidelines A, B, B-, C or D, while residential mortgage loans were rated only A, B or B-. For a description of the new classifications in effect under the amended guidelines that are effective as of January 1, 2004, see Item 4. Information on the Company Regulation and Supervision Classification of Banks. Our total exposure to each of our customers and the classification of their loans are continuously reviewed by our commercial officers and by the risk control division. The allowances required for each category of loans under the previous guidelines were as follows:

Category	Commercial loans range of estimated losses		Consumer loans past due status (1)		Residential mortgage loans past due status (1)		Allowances as a percentage of aggregate exposure
	From	To	From	To	From	To	
			(Days)		(Days)		
A							
B	1%	5%	1	30	1	180	1%
B-	5	39	31	60	181	>81	20
C	40	79	61	120			60
D	80%	100%	>121	121			90%

(1) In addition, we maintained additional allowances for consumer and residential mortgage loans, including renegotiated loans.

The previous guidelines applicable to commercial loans required that we classify the greater of:

- the commercial loans outstanding to our 400 largest debtors; or
- the commercial loans outstanding to our largest debtors, aggregating 75% of the total amount of loans included in our commercial loan portfolio.

The previous guidelines also required that we classify 100% of our residential mortgage and consumer loans. For these purposes, the loan amount included outstanding principal, whether or not past due, and accrued and unpaid interest.

According to our internal credit policies, we classified our loans through December 31, 2003 using the previous guidelines. The criteria for determining the range of estimated losses for purposes of the classification of commercial loans was as follows:

Category A : A borrower's loans were Category A if we had no doubt as to the borrower's ability to repay the loans in a timely manner, except to the extent reflected in the loan's original terms, including all interest due, and the revenues generated from the business of the borrower are sufficient to service the debt. If the borrower's business did not generate the revenues needed for debt service, or if repayment depended on revenues generated by another entity, its loans were not included in this category, even if fully secured.

Category B : This category included loans outstanding to borrowers who had shown some degree of non-compliance with their obligations under the original conditions of their loans, but whose past financial records and market history indicated that such non-compliance should be temporary and, in any case, should not significantly affect the terms for repayment. This category also included loans to customers involved in economic activities that represented a higher risk for us. Category B was also the highest category for loans outstanding to borrowers whose source of repayment depended on revenues generated by another entity, and loans outstanding to borrowers whose business did not generate the revenues needed for debt service, but only if the loans were fully secured.

Category B- : Loans included in this category were principally loans outstanding to borrowers who were experiencing financial difficulties and whose operational revenues or liquid assets were insufficient to service the loans and where the security for the loan covered 61% to 95% of the outstanding amount. Also included in this category were loans outstanding to borrowers whose financial history was insufficient or difficult to establish. Loans bearing interest rates that, due to our cost of funds, generate a financial loss of between 5% and 39% of the outstanding amount were also included in this category. Our internal guidelines prohibited us from categorizing as better than B- any loan to a customer for which the loan was currently subject to legal collection proceedings even if the customer's loan was more than fully secured.

Category C : This category included loans outstanding to borrowers who were experiencing serious financial difficulties and whose operational revenues or liquid assets were insufficient to service the loans and where the security for the loan would cover 21% to 60% of the outstanding amount. Loans bearing interest rates that, due to our cost of funds, generate a financial loss of between 40% and 79% of the outstanding amount were also included in this category. We expected to suffer some degree of loss with respect to loans to borrowers in this category.

Category D : This category included loans outstanding to borrowers for which the estimated recovery amount on all loans is 20% or less. A charge-off of most of these outstanding loans was expected.

Analysis of Our Loan Classification

The following tables provide statistical data regarding the classification of our loans at the end of each of the last five years. As discussed above, our risk analysis system requires that loans to all customers be evaluated and classified, including past due and contingent loans:

	As of December 31, 1999				
Category	**Commercial Loans**	**Consumer Loans**	**Residential Mortgage Loans**	**Total Loans**	**Percentage of Evaluated Loans**
		(in millions of constant Ch$ as of December 31, 2003)			
A	Ch$ 1,338,050	Ch$ 169,799	Ch$ 432,114	Ch$ 1,939,963	51.79%
B	1,543,146	12,538	33,409	1,589,093	42.42
B	174,093	4,724	3,806	182,623	4.87
C	20,479	5,038		25,517	0.68
D	5,615	3,463		9,078	0.24
Total evaluated loans	Ch$ 3,081,383	Ch$ 195,562	Ch$ 469,329	Ch$ 3,746,274	100.00%
Total loans	Ch$ 3,116,338	Ch$ 195,562	Ch$ 469,329	Ch$ 3,781,229	
Percentage evaluated	98.88%	100.00%	100.00%	99.08%	

Category	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	Percentage of Evaluated Loans
	As of December 31, 2000				
	(in millions of constant Ch$ as of December 31, 2003)				
A	Ch$ 1,481,093	Ch$ 178,952	Ch$ 482,245	Ch$ 2,142,290	53.98%
B	1,542,520	15,419	37,653	1,595,592	40.21
B	182,266	5,083	6,658	194,007	4.89
C	22,815	3,958		26,773	0.67
D	7,096	2,746		9,842	0.25
Total evaluated loans	Ch$ 3,235,790	Ch$ 206,158	Ch$ 526,556	Ch$ 3,968,504	100.00%
Total loans	Ch$ 3,275,955	Ch$ 206,158	Ch$ 526,556	Ch$ 4,008,669	
Percentage evaluated	98.77%	100.00%	100.00%	99.00%	

Category	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	Percentage of Evaluated Loans
	As of December 31, 2001				
	(in millions of constant Ch$ as of December 31, 2003)				
A	Ch$ 1,351,295	Ch$ 189,985	Ch$ 526,873	Ch$ 2,068,153	52.10%
B	1,590,443	17,213	41,114	1,648,770	41.54
B	173,098	5,827	7,223	186,148	4.69
C	52,901	3,850		56,751	1.43
D	6,805	2,591		9,396	0.24
Total evaluated loans	Ch$ 3,174,542	Ch$ 219,466	Ch$ 575,210	Ch$ 3,969,218	100.00%
Total loans	Ch$ 3,219,655	Ch$ 219,466	Ch$ 575,210	Ch$ 4,014,331	
Percentage evaluated	98.60%	100.00%	100.00%	98.88%	

Category	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	Percentage of Evaluated Loans
	As of December 31, 2002				
	(in millions of constant Ch$ as of December 31, 2003)				
A	Ch$ 2,233,961	Ch$ 357,688	Ch$ 783,437	Ch$ 3,375,086	54.69%
B	2,278,171	39,133	63,572	2,380,876	38.57
B	219,415	9,505	19,733	248,653	4.03
C	121,439	8,162		129,601	2.10
D	30,902	6,990		37,892	0.61
Total evaluated loans	Ch$ 4,883,888	Ch$ 421,478	Ch$ 866,742	Ch$ 6,172,108	100.00%

Total loans	Ch$ 4,934,909	Ch$ 421,478	Ch$ 866,742	Ch$ 6,223,129	
Percentage evaluated	98.97%	100.00%	100.00%	99.18%	

	As of December 31, 2003				
Category	**Commercial Loans**	**Consumer Loans**	**Residential Mortgage Loans**	**Total Loans**	**Percentage of Evaluated Loans**
	(in millions of constant Ch$ as of December 31, 2003)				
A	Ch$ 2,227,167	Ch$ 428,789	Ch$ 822,102	Ch$ 3,478,058	55.97%
B	2,308,827	32,311	70,442	2,411,580	38.82
B	179,748	8,356	21,092	209,196	3.37
C	66,098	6,907		73,005	1.18
D	35,712	5,099		40,811	0.66
Total evaluated loans	Ch$ 4,817,552	Ch$ 481,462	Ch$ 913,636	Ch$ 6,212,650	100.00%
Total loans	Ch$ 4,860,248	Ch$ 481,462	Ch$ 913,636	Ch$ 6,255,346	
Percentage evaluated	99.12%	100.00%	100.00%	99.32%	

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Classification of Loan Portfolio Based on the Borrower's Payment Performance

Interest and indexation readjustments from overdue loans are only recognized when and to the extent effectively received. Overdue loans are classified in groups of one to 29 days overdue, 30 to 89 days overdue, and 90 or more days overdue. This last group is referred to as past due loans . Past due loans must be covered by individual allowances for loan losses equivalent to 100% of any unsecured portion thereof, but only if, and to the extent that, the aggregate of all allowances for loan losses exceeds global allowances for loan losses. See Allowances for Loan Losses Individual Allowances for Loan Losses.

The following table sets forth as of December 31 of each of the last five years the amounts that are current as to payments of principal and interest and the amounts that are overdue:

	Domestic Loans				
	As of December 31,				
	1999	2000	2001	2002	2003
	(in millions of constant Ch$ as of December 31, 2003)				
Current	Ch$ 3,485,925	Ch$ 3,691,795	Ch$ 3,727,793	Ch$ 5,750,096	Ch$ 5,899,609
Overdue 1-29 days	26,298	12,965	17,331	26,479	20,577
Overdue 30-89 days	12,291	10,196	6,566	22,458	13,614
Overdue 90 days or more (past due)	42,036	44,180	48,495	144,199	105,503
Total loans	Ch$ 3,566,550	Ch$ 3,759,136	Ch$ 3,800,185	Ch$ 5,943,232	Ch$ 6,039,303

	Foreign Loans				
	As of December 31,				
	1999	2000	2001	2002	2003
	(in millions of constant Ch$ as of December 31, 2003)				
Current	Ch$ 214,679	Ch$ 239,263	Ch$ 212,815	Ch$ 277,710	Ch$ 216,043
Overdue 1-29 days			354		
Overdue 30-89 days			46		
Overdue 90 days or more (past due)		10,270	931	2,187	
Total loans	Ch$ 214,679	Ch$ 249,533	Ch$ 214,146	Ch$ 279,897	Ch$ 216,043

	Total Loans				
	As of December 31,				
	1999	2000	2001	2002	2003
	(in millions of constant Ch$ as of December 31, 2003)				
Current	Ch$ 3,700,604	Ch$ 3,931,058	Ch$ 3,940,608	Ch$ 6,027,806	Ch$ 6,115,652
Overdue 1-29 days	26,298	12,965	17,685	26,479	20,577
Overdue 30-89 days	12,291	10,196	6,612	22,458	13,614
Overdue 90 days or more (past due)	42,036	54,450	49,426	146,386	105,503
Total loans	Ch$ 3,781,229	Ch$ 4,008,669	Ch$ 4,014,331	Ch$ 6,223,129	Ch$ 6,255,346

Overdue loans expressed as a percentage of total loans	2.13%	1.94%	1.84%	3.14%	2.23%
Past due loans as a percentage of total loans	1.11%	1.36%	1.23%	2.35%	1.69%

We suspend the accrual of interest on any loan when it is determined to be a loss or when it becomes past due. The amount of interest that would have been recorded on overdue loans if they had been accruing interest was Ch$4,202 million for the year ended December 31, 2003.

Loans included in the previous table, which have been restructured and bear no interest, are as follows:

	As of December 31,				
	1999	2000	2001	2002	2003
	(in millions of constant Ch$ as of December 31, 2003)				
Ch$	Ch$ 1,691	Ch$ 1,618	Ch$ 1,566	Ch$ 4,918	Ch$ 4,300
UF	428	258	256	219	247
Total	Ch$ 2,119	Ch$ 1,876	Ch$ 1,822	Ch$ 5,137	Ch$ 4,547

The amount of interest that we would have recorded on these loans for the year ended December 31, 2003 if these loans had been earning a market interest rate was Ch$236 million.

In addition, other loans that have been restructured, mainly through the extension of their maturities, and that bear interest are as follows:

	As of December 31,	
	2002 [(1)]	2003
	(in millions of constant Ch$ as of December 31, 2003)	
Total other restructured loans	Ch$ 133,532	Ch$ 124,702

(1) Information related to prior periods is not available.

During the year ended December 31, 2003, interest recorded in income on these loans amounted to Ch$13,468 million.

Allowances for Loan Losses

Chilean banks are required to maintain allowances for loan losses in amounts determined in accordance with regulations issued by the Chilean Superintendency of Banks. A bank may also maintain a voluntary allowances in excess of the minimum required amount so as to provide additional coverage for potential loan losses. We have historically followed the practice of maintaining voluntary allowances. Under these regulations, the minimum amount of required allowances for loan losses is the greater of (1) a bank's global allowances for loan losses and (2) the aggregate amount of its individual allowances for loan losses.

Global Allowances for Loan Losses

The amount of global allowances for loan losses required to be maintained by a bank is equal to the aggregate amount of its outstanding loans multiplied by the greater of (1) the bank's risk index, as defined below, and (2) 0.75%.

A bank's risk index is based on the classification of its loans, determined as described above. Under the previous guidelines, the index was computed as follows. First, the aggregate amount of evaluated loans in each category from A through D is multiplied by the corresponding required percentage determining allowances for loan losses. The percentages under the previous guidelines were follows:

Category	Allowance Percentage
A	0%
B	1
B-	20
C	60
D	90%

The risk index itself was then calculated by dividing (1) the aggregate amount so calculated by (2) the aggregate amount (*i.e.* , the outstanding principal, whether or not past due, and accrued and unpaid interest) of all evaluated loans. The chart below illustrates the evolution of our consolidated risk index over the last five years:

Consolidated Risk Index At December 31,	
1999	2.03%
2000	2.01
2001	2.42
2002	3.00
2003	2.36%

The chart below illustrates the evolution of our unconsolidated risk index over the last five years:

Unconsolidated Risk Index At December 31,	
1999	2.13%
2000	2.05
2001	2.48
2002	3.10
2003	2.41%

For a description of the categories and allowance percentages under the amended guidelines that are effective as of January 1, 2004, see Item 4. Information on the Company Regulation and Supervision Classification of Banks.

According to the Chilean Superintendency of Banks, the average risk index of all financial institutions in Chile, both foreign and domestic, was 1.82% as of October 31, 2003. At the same date, our average unconsolidated risk index was 2.40%. Our average unconsolidated risk index was greater than the average for all financial institutions in Chile primarily as a result of the impact of the poor economic environment on our corporate clients and the merger with Banco de A. Edwards, whose risk index was higher than ours prior to the merger.

Individual Allowances for Loan Losses

Chilean banks are also required to establish individual allowances for loan losses that are more than 90 days past due. The individual allowances for loan losses must equal 100% of each overdue loan or the portion of such loan that is not secured with collateral acceptable to the Chilean Superintendency of Banks. Individual allowances for loan losses, however, are required only if, and to the extent that, they exceed in the aggregate global allowances for loan losses.

Voluntary Allowances for Loan Losses

We follow an allowance policy that includes recording voluntary allowances for loan losses beyond what is required by the Chilean Superintendency of Banks, where changes in the portfolio concentrations or economic considerations affecting or reasonably expected to affect the credit payment capacity of borrowers are not adequately addressed through regulatorily mandated allowances. Thus, over the period from 1999 to 2003, during which the unconsolidated risk index rose from 2.13% to 2.41%, we recognized a decrease in allowances for loan losses from 3.00% to 2.87% as a percentage of total loans.

The table below sets forth our allowances for loan losses as they would be computed on the basis of our risk index based on the basis of a minimum 0.75% of the loans, our global allowances for loan losses, our potential aggregate individual allowances for loan losses, the minimum allowances for loan losses to be established by us in accordance with the regulations of the Chilean Superintendency of Banks, our voluntary allowances for loan losses, our total allowances for loan losses and such total allowances expressed as a percentage of our total loans at the end of each of the last five years:

	As of December 31,				
	1999	**2000**	**2001**	**2002**	**2003**
	(in millions of constant Ch$ as of December 31, 2003, except for percentages)				
Allowances based on risk index	Ch$ 76,759	Ch$ 80,574	Ch$ 97,147	Ch$ 186,694	Ch$ 147,626
Allowances based on 0.75%	28,359	30,065	30,107	46,673	46,915
Global allowances for loan losses	66,842	70,159	86,663	144,480	123,950
Individual allowances for loan losses	13,991	13,789	16,213	52,959	34,884
Required minimum allowances	80,833	83,948	102,876	197,439	158,834
Voluntary allowances	32,697	37,181	34,881	20,763	20,557
Total allowances for loan losses	Ch$ 113,530	Ch$ 121,129	Ch$ 137,757	Ch$ 218,202	Ch$ 179,391
Total allowances for loan losses as a percentage of total loans	3.00%	3.02%	3.43%	3.51%	2.87%

Analysis of Substandard Loans and Amounts Past Due

The following table analyzes our substandard loans (i.e., all of the loans included in categories B-, C and D) and past due loans and the allowances for loan losses existing at the dates indicated. We have no restructured loans (troubled debt restructurings as defined in Statement of Financial Accounting Standards No. 15 published by the Financial Accounting Standards Board, or FASB) that are not included in the following tables.

	As of December 31,				
	1999	2000	2001	2002	2003
	(in millions of constant Ch$ as of December 31, 2003, except for percentages)				
Total loans	Ch$ 3,781,229	Ch$ 4,008,669	Ch$ 4,014,331	Ch$ 6,223,129	Ch$ 6,255,346
Substandard loans B-, C and D	Ch$ 217,218	Ch$ 230,622	Ch$ 252,295	Ch$ 416,146	Ch$ 323,012
Substandard loans as a percentage of total loans	5.74%	5.75%	6.28%	6.69%	5.16%
Amounts past due(1)					
To the extent secured(2)	Ch$ 28,045	Ch$ 40,661	Ch$ 33,213	Ch$ 93,426	Ch$ 70,619
To the extent unsecured	13,991	13,789	16,213	52,960	34,884
Total amount past due	Ch$ 42,036	Ch$ 54,450	Ch$ 49,426	Ch$ 146,386	Ch$ 105,503
Amounts past due as a percentage of total loans	1.11%	1.36%	1.23%	2.35%	1.69%
To the extent secured(2)	0.74	1.01	0.83	1.50	1.13
To the extent unsecured	0.37	0.35	0.40	0.85	0.56
Allowances for loans losses as a percentage of:					
Total loans	3.00	3.02	3.43	3.51	2.87
Total loans excluding contingent loans	3.24	3.24	3.71	3.74	3.07
Total amounts past due	270.08	222.46	278.71	149.06	170.03
Total amounts past due-unsecured	811.45%	878.45%	849.67%	412.01%	514.25%

(1) In accordance with Chilean regulations, past due loans are loans that are 90 days or more overdue on any payments of principal or interest.
(2) Security generally consists of mortgages on real estate, pledges of marketable securities, letters of credit or cash.

Analysis of Allowances for Loan Losses

The following table analyzes our allowances for loan losses and changes in the allowances attributable to charge-offs, new allowances, allowances released and the effect of price-level restatement on allowances for loan losses:

	December 31,				
	1999	2000	2001	2002	2003
	(in millions of constant Ch$ as of December 31, 2003)				
Allowances for loan losses at beginning of period	Ch$ 96,163	Ch$ 113,530	Ch$ 121,129	Ch$ 137,757	Ch$ 218,202
Banco de A. Edwards balances as of January 1, 2002				97,368	
Charge-offs	(33,656)	(28,705)	(28,084)	(112,075)	(96,132)
Allowances established	55,238	42,281	48,918	126,378	61,524
Allowances released[1]	(2,192)	(1,206)	(1,182)	(24,728)	(1,455)
Price-level restatement[2]	(2,023)	(4,771)	(3,024)	(6,498)	(2,748)
Allowances for loan losses at end of period	Ch$ 113,530	Ch$ 121,129	Ch$ 137,757	Ch$ 218,202	Ch$ 179,391
Ratio of charge-offs to average loans	0.89%	0.76%	0.69%	1.82%	1.53%
Allowances for loan losses at end of period as a percentage of total loans	3.00%	3.02%	3.43%	3.51%	2.87%

(1) Represents the aggregate amount of allowances for loan losses released during the year as a result of charge-offs, recoveries or a determination by management that the level of risk existing in the loan portfolio has been reduced.

(2) Reflects the effect of inflation on the allowances for loan losses at the beginning of each period, adjusted to constant pesos as of December 31, 2003.

Allowances increased between 1999 and 2002 largely due to the Chilean recession in 1999, which caused deterioration in our debt portfolio and an increase in our risk index during 1999, 2000, 2001 and 2002. As a result of an improvement in economic conditions in 2003, and a more effective credit and collection policy at the bank, allowances and the risk index decreased in 2003. Based on the information we have available about our debtors, we believe that our allowances for loan losses are sufficient to cover known potential losses and losses inherent in a loan portfolio of this size and nature.

Our policy with respect to charge-offs follows the regulations established by the Chilean Superintendency of Banks. Under these regulations, a consumer loan must be written off not more than six months after the loan is overdue and other unsecured loans, or parts thereof, must be written off not more than 24 months after being classified as past due. Secured loans must be written off within 36 months after being classified as past due.

The following table presents detailed information on write-offs and shows the charge-offs breakdown by loan category:

	Year ended December 31,				
	1999	2000	2001	2002	2003
	(in millions of constant Ch$ as of December 31, 2003)				
Consumer loans	Ch$ 14,744	Ch$ 11,809	Ch$ 9,148	Ch$ 23,296	Ch$ 19,154
Residential mortgage loans	1,695	1,495	3,170	6,370	15,035
Commercial loans	12,703	9,313	11,721	78,469	59,534
Leasing contracts	4,278	6,082	3,744	3,940	2,409
Foreign loans	236	6	301		
Total	Ch$ 33,656	Ch$ 28,705	Ch$ 28,084	Ch$ 112,075	Ch$ 96,132

Loan recoveries by type of loan are shown in the table below:

	Year ended December 31,				
	1999	2000	2001	2002	2003
	(in millions of constant Ch$ as of December 31, 2003)				
Consumer loans	Ch$ 3,992	Ch$ 4,379	Ch$ 4,749	Ch$ 3,221	Ch$ 6,435
Residential mortgage loans	200	59	112	422	3,212
Commercial loans	3,578	2,620	3,051	6,705	13,130
Leasing contracts	406	456	1,095	960	1,035
Investments					800
Subtotal	Ch$ 8,176	Ch$ 7,514	Ch$ 9,007	Ch$ 11,308	Ch$ 24,612
Recoveries and sales of loans acquired from the Central Bank	1,353	1,935	1,028	725	779
Total	Ch$ 9,529	Ch$ 9,449	Ch$10,035	Ch$12,033	Ch$25,391

Allocation of Allowances for Loan Losses

The following tables set forth, as of December 31 of each of the last five years, the proportions of our required minimum allowances for loan losses attributable to our commercial, consumer and residential mortgage loans, and the amount of voluntary allowances (which are not allocated to any particular category) at each such date.

	1999				2000			
	Allowance amount (1)	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as percentage of total loans (2)	Allowance amount (1)	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as percentage of total loans (2)
Commercial loans	Ch$ 58,768	1.89%	1.56	82.42%	Ch$ 62,158	1.90%	1.56	81.72%
Consumer loans	9,603	4.91	0.25	5.17	8,939	4.34	0.22	5.14
Residential mortgage loans	1,079	0.23	0.03	12.41	1,686	0.32	0.04	13.14
Total allocated allowances	Ch$ 69,450	1.84%	1.84%	100.00%	Ch$ 72,783	1.82%	1.82%	100.00%
Leasing contracts	8,232	0.22	0.22		7,393	0.18	0.18	
Foreign loans	3,151	0.08	0.08		3,772	0.09	0.09	
Voluntary allowances	32,697	0.86	0.86		37,181	0.93	0.93	
Total allowances	Ch$ 113,530	3.00%	3.00%		Ch$ 121,129	3.02%	3.02%	

2001				2002			
Allowance amount (1)	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as percentage of total loans (2)	Allowance amount (1)	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as percentage of total loans (2)

Commercial loans	Ch$ 75,976	2.36%	1.89%	80.20%	Ch$ 148,674	3.01%	2.40%	79.30%
Consumer loans	10,780	4.91	0.27	5.47	20,114	4.77	0.32	6.77
Residential mortgage loans	1,840	0.32	0.05	14.33	5,819	0.67	0.09	13.93
Total allocated allowances	Ch$ 88,596	2.21%	2.21%	100.00%	Ch$ 174,607	2.81%	2.81%	100.00%
Leasing contracts	9,964	0.25	0.25		10,717	0.17	0.17	
Foreign loans	4,316	0.10	0.10		12,115	0.20	0.20	
Voluntary allowances	34,881	0.87	0.87		20,763	0.33	0.33	
Total allowances	Ch$ 137,757	3.43%	3.43%		Ch$ 218,202	3.51%	3.51%	

	2003			
	Allowance amount (1)	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as percentage of total loans (2)
Commercial loans	Ch$ 120,741	2.48%	1.93%	77.70%
Consumer loans	17,934	3.72	0.28	7.70
Residential mortgage loans	6,129	0.67	0.10	14.60
Total allocated allowances	Ch$ 144,804	2.31%	2.31%	100.00%
Leasing contracts	8,273	0.14	0.14	
Foreign loans	5,757	0.09	0.09	
Voluntary allowances	20,557	0.33	0.33	
Total allowances	Ch$ 179,391	2.87%	2.87%	

(1) In millions of constant pesos as of December 31, 2003.
(2) Based on our loan classification.

The following table sets forth our charge-offs for 2001, 2002 and 2003 by major economic sector and provides further detail of charge-offs that have already been described in the previous discussion of allowances for loan losses:

	Year ended December 31,		
	2001	2002	2003
	(in millions of constant Ch$ as of December 31, 2003)		
Commercial:			
Agriculture	Ch$ 665	Ch$ 3,582	Ch$ 2,810
Mining	21	16,001	706
Manufacturing	2,109	9,868	7,406
Construction	63	15,546	1,076
Commerce	4,967	14,081	8,958
Transport	601	1,382	1,542
Financial services	1,697	14,994	29,855
Community	1,598	3,015	7,181
Subtotal:	Ch$ 11,721	Ch$ 78,469	Ch$ 59,534
Consumer loans	9,148	23,296	19,154
Residential mortgage loans	3,170	6,370	15,035
Leasing contracts	3,744	3,940	2,409
Foreign Loans	301		
Total	Ch$ 28,084	Ch$ 112,075	Ch$ 96,132

Composition of Deposits and Other Commitments

The following table sets forth the composition of our deposits and similar commitments at December 31, 2001, 2002 and 2003. See Item 4. Information on the Company Selected Statistical Information Average Balance Sheets, Interest Earned on Interest Earning Assets and Interest Paid on Interest Bearing Liabilities for the average rate paid on each of the following deposit categories.

	December 31,		
	2001	2002	2003
	(in millions of constant Ch$ as of December 31, 2003)		
Current accounts	Ch$ 682,219	Ch$ 1,082,905	Ch$ 1,227,877
Other demand liabilities	282,667	408,605	485,638
Savings accounts	100,112	175,489	159,766
Time deposits	2,650,851	3,356,937	3,262,769
Other commitments(1)	125,010	165,713	177,813
Total	Ch$ 3,840,859	Ch$ 5,189,649	Ch$ 5,313,863

(1) Includes preliminary leasing accounts payable relating to purchase of equipment.

Maturity of Deposits

The following table sets forth information regarding the currency and maturity of our deposits at December 31, 2003, expressed in percentages. UF-denominated deposits are similar to Chilean peso-denominated deposits in all respects, except that the principal is readjusted periodically based on variations in the Chilean Consumer Price Index.

	Ch$	UF	Foreign Currency	Total
Demand deposits	43.69%	2.83%	36.75%	35.59%
Savings accounts		18.58		3.01
Time deposits:				
Maturing within three months	50.47	42.52	60.04	51.23
Maturing after three but within six months	3.78	14.79	2.29	5.24
Maturing after six but within 12 months	1.86	16.69	0.87	4.05
Maturing after 12 months	0.20	4.59	0.05	0.88
Total time deposits	56.31	78.59	63.25	61.40
Total deposits	100.00%	100.00%	100.00%	100.00%

The following table sets forth information regarding the currency and maturity of deposits in excess of U.S.$100,000 at December 31, 2003:

	Ch$	UF	Foreign Currency	Total
	(in millions of constant Ch$ as of December 31, 2003)			
Time deposits:				
Maturing within three months	Ch$ 1,388,222	Ch$ 282,864	Ch$ 404,698	Ch$ 2,075,784
Maturing after three but within six months	118,486	8,109	136,042	262,637
Maturing after six but within 12 months	61,625	319	145,543	207,487
Maturing after 12 months	6,764		33,028	39,792
Total time deposits	Ch$ 1,575,097	Ch$ 291,292	Ch$ 719,311	Ch$ 2,585,700

Minimum Capital Requirements

The following table sets forth our minimum capital requirements set by the Chilean Superintendency of Banks as of the dates indicated:

	As of December 31,		
	2001	2002	2003
	(in millions of constant Ch$ as of December 31, 2003)		
Banco de Chile s regulatory capital	Ch$ 323,846	Ch$ 571,251	Ch$ 565,123
Minimum regulatory capital required	(163,835)	(261,621)	(278,784)
Excess over minimum regulatory capital required	Ch$ 160,011	Ch$ 309,630	Ch$ 286,339

Short-term Borrowings

Our short-term borrowings (other than deposits) totaled Ch$252,821 million as of December 31, 2001, Ch$541,886 million as of December 31, 2002 and Ch$818,289 million as of December 31, 2003.

The principal categories of our short-term borrowings are amounts borrowed under foreign trade lines of credit, domestic interbank loans and repurchase agreements. The table below presents the amounts outstanding at the end of each period indicated and the weighted average nominal interest rate for each period by type of short-term borrowing:

	For the year ended December 31,					
	2001		2002		2003	
	Year-End Balance	Weighted Average Nominal Interest Rate	Year-End Balance	Weighted Average Nominal Interest Rate	Year-End Balance	Weighted Average Nominal Interest Rate
	(in millions of constant Ch$ as of December 31, 2003, except for rate data)					
Investments under agreements to repurchase	Ch$ 164,755	4.72%	Ch$ 279,442	2.26%	Ch$ 426,741	2.50%
Central Bank borrowings	34,046	6.36			24,906	2.28
Borrowings from domestic financial institutions	25,952	7.12	50,866	2.96	49,779	2.54
Foreign borrowings	10,885	2.21	180,360	1.68	267,109	1.29
Other obligations	17,183		31,218		49,754	
Total short-term borrowings	Ch$ 252,821	4.76%	Ch$ 541,886	2.00%	Ch$ 818,289	1.95%

The following table shows the average balance and the weighted average nominal rate for each short-term borrowing category during the periods indicated:

	For the year ended December 31,					
	2001		2002		2003	
	Average Balance	Weighted Average Nominal Interest Rate	Average Balance	Weighted Average Nominal Interest Rate	Average Balance	Weighted Average Nominal Interest Rate
	(in millions of constant Ch$ as of December 31, 2003, except for rate data)					
Investments under agreements to repurchase	Ch$ 177,652	6.26%	Ch$ 375,422	2.80%	Ch$ 350,949	2.58%
Central Bank borrowings	31,614	5.51	9,864	3.61	8,336	2.59
Borrowings from domestic financial institutions	7,407	8.26	81,196	3.07	98,068	2.47
Sub-total	Ch$ 216,673	6.22	Ch$ 466,482	2.86	Ch$ 457,353	2.56
Foreign borrowings	19,384	3.25	113,482	1.84	260,922	1.77
Total short-term borrowings	Ch$ 236,057	5.98%	Ch$ 579,964	2.66%	Ch$ 718,275	2.27%

The following table presents the maximum month-end balances of our principal sources of short-term borrowings during the periods indicated:

	Maximum 2001 month-end balance	Maximum 2002 month-end balance	Maximum 2003 month-end balance
	(in millions of constant Ch$ as of December 31, 2003)		
Investments under agreements to repurchase	Ch$ 218,312	Ch$ 449,513	Ch$ 426,741
Central Bank borrowings	61,951	10,001	34,347
Borrowings from domestic financial institutions	45,959	137,978	119,802
Foreign borrowings	Ch$ 50,323	Ch$ 211,587	Ch$ 329,275

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Item 5. Operating and Financial Review and Prospects

OPERATING RESULTS

Introduction

The following discussion should be read together with our audited consolidated financial statements and the section entitled Item 4. Information on the Company Selected Statistical Information. Certain amounts (including percentage amounts) that appear in this annual report may not total due to rounding.

We prepare our audited consolidated financial statements in accordance with Chilean GAAP (including the rules of the Chilean Superintendency of Banks relating thereto), which differ in certain significant respects from U.S. GAAP. Note 28 to our audited consolidated financial statements provides a description of the material differences between Chilean GAAP and U.S. GAAP as they relate to us and includes a reconciliation to U.S. GAAP of net income for the years ended December 31, 2001, 2002 and 2003 and shareholders equity at December 31, 2002 and 2003.

Pursuant to Chilean GAAP, the financial data presented in this section for all full-year periods are restated in constant pesos of December 31, 2003. See Presentation of Financial Information and note 1 to our audited consolidated financial statements.

As described below, changes in interest rates and in the rates of inflation as well as economic and political factors affecting Chile have a substantial impact on our financial performance. See Item 4. Information on the Company Selected Statistical Information for a description of risk characteristics associated with each type of loan in our loan portfolio.

Overview

Completion of Integration with Banco de A. Edwards

The completion of the integration of our operations with those of Banco de A. Edwards in late 2002 had a significant impact on our operating results for 2003. For example, in 2003 our return on average equity was 20%, as compared to 9% in 2002. Similarly, net income increased 146% in 2003 as compared to 2002. We believe that, given the highly competitive nature of the Chilean banking industry, our ability to sustain our current levels of net income and return on average equity will be largely dependant on our ability to achieve new efficiency and productivity gains. We seek to achieve such efficiency and productivity gains through our Neos program and other similar initiatives. We also seek to improve our service quality, and to strengthen the competitive position of our subsidiaries, foreign branches and other distribution channels by taking advantage of our multi-brand strategy.

Impact of Economic Conditions in Chile

The Chilean economy grew rapidly every year between 1984 and 1998, expanding at a real average annual rate of approximately 7.3% from 1990 through 1998. Despite its growth, it remained smaller than the economies of other Latin American countries. In 1999, the Chilean economy contracted at a real rate of 0.8%, and the unemployment rate reached 8.9%. In 2000 and 2001, the Chilean economy recovered somewhat, and the Chilean economy grew 4.5% in 2000 and 3.4% in 2001. Nevertheless, unemployment remained high, reaching 7.9% in 2001. In 2002, the growth of the Chilean economy slowed somewhat, as the Chilean economy grew 2.2%. In 2002, unemployment declined slightly, reaching 7.8% during the fourth quarter of 2002. In 2003, the Chilean economy grew 3.3%, and unemployment decreased slightly to 7.4% during the fourth quarter of 2003. There can be no assurance that future negative developments in the Chilean economy will not impair our ability to proceed with our strategic plan or our business, financial condition or results of operations. Our financial condition and results of operations could also be adversely affected by changes in economic or other policies of the Chilean government (which has exercised and continues to exercise a substantial influence over many aspects of the private sector) or other political or economic developments in Chile, as well as regulatory changes or administrative practices of Chilean authorities, over which we have no control. See Item 3. Key Information Risk Factors Risks Relating to Chile Our growth and profitability depends on the level of economic activity in Chile and elsewhere and Item 3. Key Information Risk Factors Risks Relating to Chile Inflation could adversely affect the value of our ADSs and financial condition and results of operations.

Central Bank Subordinated Debt

As discussed in Item 4. Information on the Company History and Development of the Bank History The 1982-1983 Economic Crisis and the Central Bank Subordinated Debt, subsequent to the 1982-1983 economic crisis, most major Chilean banks, including us, sold certain of their non-performing loans to the Central Bank at face value on terms that included a repurchase obligation by such banks. This repurchase obligation was later exchanged for subordinated debt of the banks issued in favor of the Central Bank.

In November 1996, pursuant to Law No. 19,396, our shareholders approved a reorganization by which we were converted to a holding company named SM-Chile. In turn, SM-Chile organized a new wholly owned banking subsidiary named Banco de Chile to which we contributed all of our assets and liabilities other than the Central Bank subordinated debt. SM-Chile then created SAOS, a second wholly owned subsidiary that, pursuant to a prior agreement with the Central Bank, assumed a new repayment obligation in favor of the Central Bank that replaced the Central Bank subordinated debt in its entirety.

In exchange for assuming the Central Bank indebtedness, SAOS received from SM-Chile 63.6% of our shares as collateral for this indebtedness. As a result of our merger with Banco de A. Edwards, the percentage of our shares held by SAOS has decreased to 42%. Dividends received from us are the sole source of SAOS s revenue, which it must apply to repay this indebtedness. However, under SAOS s agreement with the Central Bank regarding this indebtedness, we have no obligation to distribute dividends to our shareholders. To the extent distributed dividends are not sufficient to pay the amount due on this indebtedness, SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that SAOS commits to pay with future dividends. If the cumulative deficit balance exceeds an amount equal to 20% of our capital and reserves, the Central Bank may require SAOS to sell a sufficient number of shares of our stock owned by SAOS to pay the entire deficit amount accumulated. As of April 30, 2004, SAOS maintained a deficit balance with the Central Bank of Ch$37,080 million, equivalent to 7.2% of our capital and reserves. If from time to time in the future our shareholders decide to retain and capitalize all or part of our annual net income in order to finance our future growth, and to distribute stock dividends, the Central Bank may require us to pay the portion of the net income corresponding to shares owned by SAOS in cash to SAOS. If we distribute stock dividends and the Central Bank does not require us to pay that portion in cash, the shares received by SAOS must be sold by SAOS within the following 12 months. See Item 4. Information on the Company History and Development of the Bank. Any distribution of dividends by us to SAOS would be made pro rata to SAOS and all of our other shareholders according to their percentage interest in our company.

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Inflation

Chile has experienced high levels of inflation in the past, which significantly affected our financial condition and results of operations. However, the rate of inflation in Chile has declined in recent years and was 2.6% in 2001, 2.8% in 2002 and 1.1% in 2003. Our results of operations reflect the effect of inflation in the following ways:

- a substantial portion of our assets and liabilities are denominated in UFs, a unit of account, the value of which in pesos is indexed daily to reflect inflation recorded in the previous month, with the net gain or loss resulting from such indexation reflected in income;
- our assets, liabilities and shareholders equity are restated monthly to adjust for inflation, with the net gain or loss resulting from the adjustment reflected in income; and
- the rates of interest earned and paid on peso-denominated assets and liabilities to some degree reflect inflation and expectations regarding inflation.

The financial data included in this annual report as of the end of any year or for any year in the five-year period ended December 31, 2003, including the audited consolidated financial statements and the statistical information set forth under Item 4. Information on the Company Selected Statistical Information, are stated in constant Chilean pesos as of December 31, 2003, thereby minimizing the distorting effect of inflation on period-to-period comparisons.

UF-denominated Assets and Liabilities. The UF is revalued in monthly cycles. On every day in the period beginning the tenth day of the current month through the ninth day of the succeeding month, the nominal peso value of the UF is indexed up (or down in the event of deflation) in order to reflect each day a pro rata amount of the prior calendar month s change in the Consumer Price Index. One UF was equal to Ch$16,262.66 at December 31, 2001, Ch$16,744.12 at December 31, 2002 and Ch$16,920.00 at December 31, 2003. The effect of any changes in the nominal peso value of our UF-denominated assets and liabilities is reflected in our results of operations as an increase (or decrease, in the event of deflation) in interest revenue and expense. Our net interest revenue will be positively affected by inflation (and negatively affected by deflation) to the extent that our average UF-denominated assets exceed our average UF-denominated liabilities, while net interest revenue will be negatively affected by inflation (and positively affected by deflation) when average UF-denominated liabilities exceed average UF-denominated assets. Our average UF-denominated assets exceeded our average UF-denominated liabilities by Ch$846,178 million during the year ended December 31, 2001, Ch$1,664,202 million during the year ended December 31, 2002 and Ch$1,614,417 million during the year ended December 31, 2003. See Item 4. Information on the Company Selected Statistical Information.

Peso-denominated Assets and Liabilities. Rates of interest prevailing in Chile during any period reflect in significant part the rate of inflation during the period and expectations regarding future inflation. The responsiveness to such prevailing rates of our peso-denominated interest earning assets and interest bearing liabilities varies. See Interest Rates. We maintain a substantial amount of non-interest bearing peso-denominated demand deposits. The ratio of such deposits to average interest bearing peso-denominated liabilities was 78% during 2001, 57% during 2002 and 66% during 2003. Because a large part of such deposits are not sensitive to inflation, any decline in the rate of inflation adversely affects our net interest margin on assets funded with such deposits and any increase in the rate of inflation increases the net interest margin on such assets.

Price-Level Restatements. Chilean GAAP requires that the effect of inflation on a bank s net monetary asset position (monetary assets less monetary liabilities) be reflected in its results of operations as a gain (or loss) from price-level restatement. A bank s net monetary asset position can be determined by subtracting its net nonmonetary asset position (nonmonetary assets less nonmonetary liabilities) from shareholders equity. As such, under Chilean GAAP, the gain (or loss) from price-level restatement in results of operations is determined by subtracting the price-level restatement adjustment of net nonmonetary assets from the price-level restatement adjustment of shareholders equity. The inflation rate used for purposes of such adjustments is the change in the Consumer Price Index during the 12 months ended November 30 of the reported year. The change in the Consumer Price Index used for price-level restatement purposes was 3.1% in 2001, 3.0% in 2002 and 1.0% in 2003. See note 1(b) to our audited consolidated financial statements. The actual change in the Consumer Price Index was 2.6% in the year ended December 31, 2001, 2.8% in the year ended December 31, 2002 and 1.1% in the year ended December 31, 2003.

Interest Rates

Interest rates earned and paid on our assets and liabilities to some degree reflect inflation and expectations regarding future inflation as well as shifts in short-term interest rates related to the Central Bank s monetary policies. The Central Bank manages short-term interest rates based on its objectives of achieving low inflation and stable exchange rates. Because our liabilities generally re-price faster than our assets, changes in the rate of inflation or short-term interest rates are reflected in the rates of interest we pay on our liabilities before they are reflected in the rates of interest we earn on our assets. Accordingly, our net interest margin on assets and liabilities usually is adversely affected in the short-term by increases in inflation or short-term interest rates and benefits in the short-term from decreases in inflation or short-term interest rates, although the existence of non-interest bearing peso-denominated demand deposits tends to mitigate both effects. See Inflation Peso-denominated Assets and Liabilities. In addition, because our peso-denominated liabilities have relatively short re-pricing periods, those liabilities generally are more responsive to changes in inflation or short-term interest rates than our UF-denominated liabilities.

The average annual short-term interest rate based on the rate paid by Chilean financial institutions for 90 to 360 day deposits was 3.74% in 2001, 1.94% in 2002 and 1.76% in 2003. The average long-term interest rate based on the Chilean Central Bank s eight-year duration bonds was 5.52% in 2001, 4.54% in 2002 and 3.96% in 2003.

Foreign Currency Exchange Rates

A significant portion of our assets and liabilities are denominated in foreign currencies, principally U.S. dollars, and we historically have maintained and may continue to maintain gaps between the balances of such assets and liabilities. The gap between foreign currency-denominated assets and foreign currency-denominated liabilities was Ch$71,282 million at December 31, 2001, Ch$73,557 million at December 31, 2002 and Ch$22,710 million at December 31, 2003. See note 20 to our audited consolidated financial statements. This gap includes assets and liabilities denominated in foreign currencies and assets and liabilities denominated in Chilean pesos that contain repayment terms linked to changes in foreign currency exchange rates. Because foreign currency-denominated assets and liabilities, as well as interest earned or paid on such assets and liabilities and gains (losses) realized upon the sale of such assets, are translated into pesos in preparing our audited consolidated financial statements, our reported income is affected by changes in the value of the peso with respect to foreign currencies (principally the U.S. dollar). For their part, adjustments to U.S. dollar-indexed assets are reflected as adjustments in net interest earnings and offset results in the foreign exchange position. The exchange rate variation over capital and reserves of our foreign branches is adjusted against equity and not against net income.

Mortgage Finance Bonds Issued and Held by Banco de Chile

We generally fund our residential mortgage loans through the issuance of UF-denominated notes, or mortgage finance bonds, which are recourse obligations with payment terms matched to the related mortgage loans, bearing interest at a spread below the interest rate applicable to such mortgage loans. However, if we were ever liquidated, holders of mortgage finance bonds would be secured by a pool of mortgages. See Item 4. Information on the Company Business Overview Principal Business Activities Retail Banking High- and Middle-Income Individuals Mortgage Loans. Mortgage finance bonds traditionally are placed with institutions, such as pension funds, mutual funds and insurance companies, seeking long-term fixed-income investments.

However, we also purchase, for our own account, mortgage finance bonds that we issue and hold for future sale. Unlike U.S. GAAP, under which mortgage finance bonds we issue and hold for future sale are offset against the related liability, under Chilean GAAP, for periods prior to 2002, mortgage finance bonds and the related liability appeared on our consolidated balance sheet separately as financial investments, other financial investments and other interest bearing liabilities, mortgage finance bonds, respectively. During 2002, we modified the accounting treatment of financial investments in mortgage finance bonds that we issue in accordance with new instructions of the Chilean Superintendency of Banks, mandating that the reporting requirements under Chilean GAAP be equivalent to the requirements of U.S. GAAP. For periods prior to 2002, and because the interest earned and paid on these mortgage finance bonds is the same and hence has no impact on net interest revenue, the effect of not excluding these bonds from average interest earning assets was to reduce our net interest margin (net interest revenue divided by average interest earning assets) from what it would have been under U.S. GAAP. Similarly, any other income analysis or financial ratios based on the size of our consolidated balance sheet on either the asset or liability side was different from how it would have been had the consolidated balance sheet been prepared according to U.S. GAAP. At December 31, 2003, we had issued and outstanding Ch$1,014,452 million of mortgage finance bonds. For a detailed description of the accounting matters related to investments in mortgage finance bonds that we issue see notes 2 and 28 to our audited consolidated financial statements and Changes In Accounting Principles.

According to the General Banking Law, if a bank faces insolvency and a reorganization plan is proposed, the bank must transfer its mortgage loan portfolio to the highest bidder as long as such bid is equal to or higher than the amount due to the bank s other creditors pursuant to the reorganization plan. The successful bidder pays a portion of the amount due on the mortgage finance bonds equal to the amount paid for the bonds. If the auction does not succeed, the holders of the mortgage finance bonds are subject to the provisions of the reorganization plan. In the event of mandatory liquidation of a bank, the same rules apply, provided that in order for an offer to be accepted it must be equal to or higher than 90% of the face value of the mortgage finance bonds, unless the holders of a majority of the issued and outstanding mortgage finance bonds approve the offer in a meeting especially called for this purpose by the liquidator.

Contingent Loans

Contingent loans consist of unfunded letters of credit, guarantees, performance bonds and other unfunded commitments. Chilean banks charge their customers a fee on contingent loans as well as interest for the periods of the contingent debt. Fees are considered fee income, and interest is recorded as interest revenue. Accordingly, we treat contingent loans as interest earning assets. As a result of this treatment, the comparatively low rates of interest earned on these assets have a distorting effect on the average interest rate earned on total interest earning assets. See Item 4. Information on the Company Selected Statistical Information Average Balance Sheets, Interest Earned on Interest Earning Assets and Interest Paid on Interest Bearing Liabilities.

In addition, under Chilean GAAP, rights and obligations with respect to contingent loans are treated as contingent assets and liabilities on our consolidated balance sheets. This practice differs from U.S. GAAP, under which such contingent amounts are not recognized on the consolidated balance sheets but are disclosed off-balance sheet in memorandum accounts. Accordingly, to the extent we maintain contingent loans and contingent liabilities, our consolidated balance sheets will appear different from how they would have appeared had they been prepared under U.S. GAAP. See note 28 to our audited consolidated financial statements.

At December 31, 2003, we had Ch$409,612 million of contingent loans and Ch$409,638 million of contingent liabilities outstanding.

Critical Accounting Estimates

We prepare our consolidated financial statements in conformity with Chilean GAAP and the specific accounting rules of the Chilean Superintendency of Banks. The notes to our audited consolidated financial statements contain a summary of the accounting policies that are significant to us, as well as a description of the significant differences between these policies and U.S. GAAP. The notes include additional disclosures required under U.S. GAAP, a reconciliation between shareholders equity and net income to the corresponding amounts that would be reported in accordance with U.S. GAAP and a discussion of recently issued accounting pronouncements.

Both Chilean and U.S. GAAP require management to make certain estimates and assumptions, as some of the amounts reported in the financial statements are related to matters that are inherently uncertain. We believe that the following discussion describes those areas that require the most judgment or involve a higher degree of complexity in the application of the accounting policies that currently affect our financial condition and results of operations.

Allowances for loan losses

Chilean banks are required to maintain loan loss allowances in amounts determined in accordance with the regulations issued by the Chilean Superintendency of Banks. Under these regulations, we must classify our portfolio based on payment capability. The minimum amount of required loan loss allowances are determined based on fixed percentages of estimated loan losses assigned to each category. Additionally, Chilean banks may also maintain voluntary allowances in excess of the minimum required amount in order to provide additional coverage for potential loan losses.

Under U.S. GAAP, allowances for loan losses are made to account for estimated losses in outstanding loans for which there is doubt about the borrower s capacity to repay the principal.

The classification of our loan portfolio for Chilean GAAP purposes and allowances for loan losses under U.S. GAAP is determined through a combination of specific reviews, statistical modeling and estimates. Certain aspects require judgments, such as the identification of deteriorating loans, the probability of default, the expected loss, the value of collateral and current economic conditions. Even though we consider our allowances for loan losses to be adequate, the use of different estimates and assumptions could produce different allowances for loan losses, and amendments to the allowances may be required in the future as a consequence of changes in the value of collateral, the amounts of cash to be received or other economic events.

A detailed description of this accounting policy is discussed in Item 4. Information on the Company Selected Statistical Information Allowances for Loan Losses and in note 1 and 28 to our audited consolidated financial statements.

Investment securities

Under both Chilean GAAP and U.S. GAAP financial instruments are stated at fair value, except for those classified as held-to-maturity under U.S. GAAP, which are carried at amortized cost. Fair values are based on quoted market prices or, if not available, on internally developed pricing models fed by independently obtained market information. However, market information is often limited or in some instances not available. In such circumstances management applies its professional judgment. Other factors that could also affect estimates are incorrect model assumptions, market dislocations and unexpected correlations. Notwithstanding the level of subjectivity inherent in determining fair value, we believe our estimates of fair value are adequate. The use of different models or assumptions could lead to changes in our reported results.

Price-level restatement

Chilean GAAP requires that financial statements be restated to reflect the full effects of loss in the purchasing power of the Chilean peso on the financial position and results of operations of reporting entities. The method prescribes that the historical cost of all non-monetary accounts be restated for general price-level changes between the date of origin of each item and the year-end.

Our audited consolidated financial statements have been price-level restated in order to reflect the effects of the changes in the purchasing power of the Chilean peso during each year. All non-monetary assets and liabilities and all equity accounts have been restated to reflect the changes in the Consumer Price Index from the date they were acquired or incurred to year-end. Consistent with general banking practices in Chile, no specific purchasing power adjustments of income statement amounts are made. The purchasing power gain or loss included in net income reflects the effects of Chilean inflation on the monetary assets and liabilities held by us.

For comparative purposes, the historical December 31, 2001 and 2002 audited consolidated financial statements and their accompanying notes have been presented in constant Chilean pesos as of December 31, 2003. As described in note 1(q) of our audited consolidated financial statements, certain balances of previous years financial statements have been reclassified to conform with the present year presentation.

The price-level adjusted audited consolidated financial statements do not purport to represent appraised values, replacement cost, or any other current value of assets at which transactions would take place currently and are only intended to restate all nonmonetary consolidated financial statement components in terms of local currency of a single purchasing power and to include in the net result for each year the gain or loss in purchasing power arising from the holding of monetary assets and liabilities exposed to the effects of inflation. See the discussion of price-level restatement in note 1(b) to our audited consolidated financial statements.

Goodwill

Under U.S. GAAP, we have significant intangible assets related to goodwill. We record all assets and liabilities acquired in purchase acquisitions, including goodwill and other acquired intangibles, at fair value as required by the Statement of Financial Accounting Standards No. 141, published by the FASB. These include amounts pushed down from Quiñenco. Goodwill and indefinite-lived assets are no longer amortized over their estimated useful lives using straight-line and accelerated methods, and are subject to impairment if events or circumstances indicate a possible inability to realize the carrying amount. The initial goodwill and intangibles recorded and subsequent impairment analysis requires management to make subjective judgments concerning estimates of how the acquired asset will perform in the future using a discounted cash flow analysis. Additionally, estimated cash flows may extend beyond ten years and, by their nature, are difficult to determine. Events and factors that may significantly affect the estimates include, among others, competitive forces, customer behavior and attrition, changes in revenue growth trends, cost structures and technology and changes in interest rates and specific industry or market sector conditions. Impairment is recognized earlier whenever warranted. For a further discussion of accounting practices for goodwill under U.S. GAAP, see note 28 to our audited consolidated financial statements.

Changes in Accounting Principles

Until October 31, 2002, other financial investments included mortgage finance bonds issued by us and held for future sale. Effective October 31, 2002, we modified our accounting treatment of financial investments in mortgage finance bonds issued by us in accordance with instructions from the Chilean Superintendency of Banks, eliminating from assets the amount recoded for mortgage finance bonds issued by us, including a market value adjustment, and reducing from liabilities, the respective mortgage finance bond obligations. See note 2 to our audited consolidated financial statements.

Differences between Chilean and United States Generally Accepted Accounting Principles

Chilean GAAP varies in certain important respects from U.S. GAAP, including some of the methods that are used to measure the amounts shown in the audited consolidated financial statements, additional disclosures required by U.S. GAAP and the accounting treatment of the merger. Those differences, as well as other significant differences between Chilean GAAP and U.S. GAAP, are described in greater detail in note 28 to our audited consolidated financial statements.

Results of Operations for the Years Ended December 31, 2001, 2002 and 2003

The following section discusses the results of operations for the years ended December 31, 2001, 2002 and 2003. To the extent that it is available and is useful in analyzing our results, we have included information based on the business areas that we use for internal reporting. We also present our results on a consolidated basis.

We use a business area-based profitability system to manage our business. This system allows us to extract income and expense information by client and also allows us to view information by office or branch and by business area. The profitability system uses the accounting balances and the interest rates as agreed upon with the client. In order to assess the income per transaction, the system compares the interest rate agreed upon with the client with our own cost of funds. We use internal cost of funds tables for various transactions. The tables for each type of transaction are updated daily, and an operating cost per transaction and per client is extracted. Costs are allocated to the business areas. The system has been developed in recent years, and has been subject of continued improvement. Consequently, some changes in cost allocations have taken place. In addition, there have been variances between each year particularly in connection with our merger with Banco de A. Edwards.

Our business areas are organized as follows:

- large corporations;
- middle market companies;
- international banking;
- retail banking;
- treasury and money market operations; and
- operations through subsidiaries.

The accounting policies used for the business areas are those used for our consolidated management reports. Corporate and personal customers are assigned to account executives. Each executive works exclusively within one business area. Some costs are allocated to the business areas and others are split between two or more business areas based on a single transaction. Thereafter, any unallocated costs are included as other in order to arrive at the consolidated balance sheet and income statement.

The business area information is subject to general internal and external auditing procedures to ensure the integrity of the information before it is used in the management decision making purposes. The business area information presented has also been adjusted in order to tie results to the income statement, as presented in accordance with Chilean GAAP in our audited consolidated financial statements. The most significant differences in classification are as follows:

- We measure the net interest margin of loans and deposits on an individual transaction and client basis, based on the difference between the effective customer rate and our related fund transfer price in terms of maturity, repricing and currency.
- The results associated with our gap management (mismatches) have been allocated among different business areas.
- Our management model used to measure the performance of our business areas considers results that are directly related to performance and not all overhead expenses of corporate and support departments, voluntary allowances, taxes and other non-operating income and expenses.
- In addition to direct costs (consisting mainly of labor and administrative expenses) we allocate the majority of our indirect operating costs to each business area based on the type and amount of the relevant transactions. These costs are mainly related to the use of technology and computer equipment. Other indirect costs are allocated using activity-based costing methodology.
- We allocate theoretical rental costs to each branch we own based on market rental values so that the results of these branches are comparable to rental-property branches.

Net Income Before Tax by Business Area

The following table sets forth net income before tax for each business area for each of the years ended December 31, 2001, 2002 and 2003. The line item Other includes the effect of conforming internal accounting policies to Chilean GAAP and a number of non-allocated costs, such as human resources related expenses, voluntary provisions and depreciation costs. For internal reporting purposes, we control and monitor these costs separately and do not include them in the determination of business area profitability. Also included within Other are specific portions of income such as rental income.

	Year Ended December 31,			% Increase (Decrease)	
	2001	2002(1)	2003	2001/2002	2002/2003
	(in millions of constant Ch$ as of December 31, 2003, except for percentages)				
Large corporations	Ch$ 17,923	Ch$ 10,290	Ch$ 50,583	(42.6)%	391.6%
Middle market companies	46,823	23,929	38,155	(48.9)	59.5
International banking	10,979	(6,731)	12,202	-	-
Retail banking	28,619	25,144	36,561	(12.1)	45.4
Treasury and money market operations.	11,719	23,287	19,142	98.7	(17.8)
Subsidiaries	10,093	13,633	21,266	35.1	56.0
Other	(37,089)	(37,556)	(33,454)	1.3	(10.9)
Net income before tax	Ch$ 89,067	Ch$ 51,996	Ch$ 144,455	(41.6)%	177.8%

(1) The 2002 business area information presented in this table has been adjusted in order to conform it to the business area information presented for 2003. In 2003, the management model used to measure the performance of our business areas was modified in order to allocate a higher proportion of our overhead costs to Other.

The 177.8% increase in net income before taxes in 2003 was primarily attributable to a significant decrease in provisions for loan losses, a significant increase in fees and income from services, a decrease in operating expenses and an increase in recoveries of loans that had previously been charged-off. These results were primarily attributable to the recovery of the Chilean economy and the merger.

The significant decrease in net income before taxes in 2002 as compared to 2001 was primarily attributable to higher amounts of provisions for loan losses and charge-offs on assets received in lieu of payment as a result of the slowdown in the Chilean economy and in Latin America.

Large Corporations. The almost five-fold increase in the large corporations business area s net income before taxes in 2003 was primarily attributable to a 73.6% decrease in provisions for loan losses. To a lesser extent, the increase in net income before taxes was also attributable to a decrease in charge-offs on assets received in lieu of payments and an increase in fee income from financial services. These factors more than offset a small decrease in net interest revenue, which was primarily attributable to a decrease in inflation in 2003.

The 42.6% decrease in the large corporations business area s net income before taxes in 2002 was primarily attributable to increased provisions for loan losses and charge-offs on assets received in lieu of payment; both of which were primarily attributable to the slowdown in the Chilean economy and in Latin America. The decrease in net income was also attributable to an increase in operating expenses, which was offset by a 47.7% increase in operating revenues. Both the increase in operating expenses and operating revenues were attributable to the merger.

Middle Market Companies. The 59.5% increase in the middle market companies business area s net income before taxes in 2003 was primarily attributable to a decrease in provisions for loan losses and, to a lesser extent, lower charge offs on assets received in lieu of payment.

The 48.9% decrease in the middle market companies business area s income before taxes in 2002 was primarily attributable to the slowdown in the Chilean economy, increased provisioning for loan losses and an increase in operating expenses which, together, more than offset the 28.8% increase in operating revenues attributable to the merger.

International Banking. In 2003, the international banking business area recorded net income of Ch$12,202 million, as compared to a net loss of Ch$6,731 million recorded in 2002. The change from a net loss to net income was primarily attributable to earnings obtained from the sale of Latin American investment securities. The change from a net loss to net income was also attributable to a decrease in operating expenses.

The international banking business area s net loss in 2002 was primarily attributable to Argentina s economic crisis. In 2002, our New York branch recognized a charge to net income of approximately U.S.$19 million, as a result of the impairment of Argentine corporate bonds. The decrease in the market value of these securities reflected the uncertainty and depressed economic conditions prevailing in Argentina at that time.

Retail Banking. The 45.4% increase in the retail banking business area s net income before taxes in 2003 was primarily attributable to lower provisions for loan losses and an increase in recoveries of loans that had previously been charged-off. Additionally, increased loan volumes and a decrease in operating expenses more than offset a reduction in spreads on our loans and the negative effect of the decrease in the inflation rate.

The 12.1% decrease in the retail banking business area s net income before taxes for in 2002 was primarily attributable to an increase in operating expenses and in provisions for loan losses, which more than offset an increase in loan volumes and spreads.

Treasury and Money Market Operations. The 17.8% decrease in the treasury and money market operations business area s net income before taxes in 2003 was primarily attributable to a decrease in long-term interest rates and decreased interest rate volatility, which reduced our earnings from our Chilean investment portfolio as compared to 2002.

The 98.7% increase in the treasury and money market operations business area s net income before taxes in 2002 was primarily attributable to a decrease in interest rates in Chile during the year, which led to higher mark to market and trading earnings in our investment portfolio. The treasury and money market business area s results in 2002 were also positively impacted by the 17.7% increase in the average investment portfolio as a result of the merger.

Operations through Subsidiaries. The 56.0% increase in net income before taxes from our subsidiaries in 2003 was primarily attributable to significant growth in fee income from our subsidiary operations. The increase was primarily attributable to an increase in the trading volume of stocks and U.S. dollars traded by our securities brokerage subsidiary; an increase in the average amount of funds managed by our mutual fund management subsidiary and an increase in the net income of our factoring subsidiary, which was primarily the result of increased volume and a decrease in its provisions for loan losses.

The 35.1% increase in net income before taxes from our subsidiaries in 2002 was primarily attributable to the merger and, to a lesser extent, an increase in operating revenues associated with higher business volumes mainly at our mutual and investment fund subsidiary, our financial advisory services subsidiary and, to a lesser extent, our factoring services subsidiary.

Net Income

The following table sets forth the principal components of our net income, as detailed in our audited consolidated financial statements for the years ended December 31, 2001, 2002 and 2003:

	Year Ended December 31,			% Increase (Decrease)	
	2001	2002	2003	2001/2002	2002/2003
	(in millions of constant Ch$ as of December 31, 2003, except for percentages)				
Net interest revenue	Ch$ 223,517	Ch$ 371,265	Ch$ 224,470	66.1%	(39.5)%
Provisions for loan losses	(47,736)	(101,650)	(60,069)	112.9	(40.9)
Fees and income from services, net	44,598	79,407	103,389	78.1	30.2
Other operating income (loss), net	8,677	(30,850)	96,391	-	-
Other income and expenses, net:					
Loan loss recoveries	10,035	12,033	25,391	19.9	111.0
Other income and expenses, net	132	(17,999)	(16,643)	-	(7.5)
Minority interest	(1)	(1)	(2)	-	100.0
Operating expenses	(144,145)	(250,517)	(224,436)	73.8	(10.4)
Net loss from price-level restatement	(6,010)	(9,692)	(4,036)	61.3	(58.4)
Net income before income taxes	89,067	51,996	144,455	(41.6)	177.8
Income taxes	1,406	1,165	(13,902)	(17.1)	-
Net income	Ch$ 90,473	Ch$ 53,161	Ch$ 130,553	(41.2)%	145.6%

2002 and 2003. Our net income for 2003 was Ch$130,553 million, an increase of 146% from Ch$53,161 million in 2002, which primarily reflected a 40.9% decrease in provisions for loan losses, a 30.2% increase in fee *income*; a change from other operating loss, net of Ch$30,850 million in 2002 to other operating income, net of Ch$96,391 million in 2003; a 10.4% decrease in operating expenses and an increase in the recovery of loans that had previously been charged-off. These factors were partially offset by lower net interest revenue and higher income taxes.

2001 and 2002. Our net income for 2002 was Ch$53,161 million, a decrease of 41.2% from Ch$90,473 million in 2001, primarily reflecting significant merger related expenses and higher provisions for loan losses and, to a lesser extent, to the recognition of mark to market losses on Argentine securities accounted for as available for sale. These factors were partially offset by higher net interest revenue and fee income.

Net Interest Revenue

The tables included under the headings Interest Revenue and Interest Expense set forth information regarding our consolidated interest revenue and expenses and average interest earning assets and average interest bearing liabilities for the years ended December 31, 2001, 2002 and 2003. This information is derived from the tables included elsewhere in this annual report under Item 4. Information on the Company Selected Statistical Information and is qualified in its entirety by reference to such information.

	Year Ended December 31,			% Increase (Decrease)	
	2001	2002	2003	2001/2002	2002/2003
	(in millions of constant Ch$ as of December 31, 2003, except for percentages)				
Interest revenue	Ch$ 536,330	Ch$ 696,603	Ch$ 428,704	29.9%	(38.5)%
Interest expense	(312,813)	(325,338)	(204,234)	4.0	(37.2)
Net interest revenue	Ch$ 223,517	Ch$ 371,265	Ch$ 224,470	66.1%	(39.5)%

Average Balance Sheets, Interest Earned on Interest Earning Assets and Interest Paid on Interest Bearing Liabilitie

Net interest margin[(1)]	3.87%	4.52%	2.75%	-	-

(1) Net interest margin is net interest revenue divided by average interest earning assets. Pursuant to Chilean GAAP, net interest margin included mortgage finance bonds issued and held by us as interest earning assets in 2001.

The following table sets forth the effect on our net interest revenue of changes in the average volume of interest earning assets and interest bearing liabilities and the effect of average nominal interest rates on interest earning assets and interest bearing liabilities during the periods indicated:

	Increase (Decrease)	
	2001/2002	**2002/2003**
	(in millions of constant Ch$ as of December 31, 2003)	
Due to changes in average volume of interest earning assets and interest bearing liabilities	Ch$ 147,508	Ch$ 17,488
Due to changes in average nominal interest rates of interest earning assets and interest bearing liabilities	240	(164,283)
Net change	Ch$ 147,748	Ch$ (146,795)

2002 and 2003. Net interest revenue decreased by 39.5% from Ch$371,265 million in 2002 to Ch$224,470 million in 2003 primarily as a result of a 177 basis point (a basis point is a value equaling one one-hundredth of a percent) decrease in our net interest margin and, to a lesser extent, a 0.5% decrease in the average volume of interest earning assets. Our net interest margin decreased from 4.52% in 2002 to 2.75% in 2003 primarily as a result of:

- the impact of the 15.9% appreciation of the Chilean peso against the U.S. dollar in 2003, as we maintained a higher net asset position in assets and liabilities denominated in Chilean pesos, readjusted in accordance with changes in the U.S. dollar exchange rate, thus reducing our net interest revenue. In 2003, we also maintained a net liability position in U.S. dollars which partially offset the decrease in net interest revenue and increased the foreign exchange transaction line item;

- the decrease in the inflation rate (from 2.8% in 2002 to 1.1% in 2003), which resulted in lower nominal rates on the portion of interest earning assets financed by non-interest bearing liabilities; and

- the absence of significant repricing benefits during 2003, as the Central Bank left its benchmark interest rate unchanged at 2.75% between February and December 11, 2003, which reduced our net financial margin as compared to 2002. During 2002, successive decreases in interest rates benefited the 2002 net financial margin as our interest bearing liabilities have a shorter repricing period than our interest earning assets.

The 0.5% decrease in average interest earning assets in 2003 was primarily the result of a decrease in the amount of foreign currency denominated regulatory reserves we are required to maintain, and a decrease in financial investments. We reduced the level of such regulatory reserves and financial investments in response to the Central Bank s reduction, in May 2003, of its foreign currency denominated demand and time deposits requirements.

2001 and 2002. Net interest revenue increased by 66.1% from Ch$223,517 million in 2001 to Ch$371,265 million in 2002 primarily as a result of the combined effects of a 42.1% increase in average interest earning assets as a result of the merger and a 65 basis point (a basis point is a value equaling one one-hundredth of a percent) increase in net interest margin, from 3.87% in 2001 to 4.52% in 2002. The increase in net interest margin (our net interest revenue divided by average interest earning assets) was primarily the result of:

- our efforts to improve lending spreads by increasing higher yield products such as consumer loans, lines of credit, mortgage loans financed by our general borrowing and factoring loans.

- the positive impact of a decrease in nominal interest rates in 2002, as our interest bearing liabilities have a shorter repricing period than our interest earning assets. In 2001, our net interest margin also benefited from a decrease in nominal interest rates.

- a better funding mix, reflected in the improvement of the ratio of average interest bearing liabilities to average interest earning assets from 76.4% in 2001 to 75.4% in 2002.

- the positive impact of the 8.6% depreciation of the Chilean peso against the U.S. dollar during 2002, as we kept a higher net asset position in assets and liabilities denominated in Chilean pesos, readjusted in accordance with changes in the U.S. dollar exchange rate (this position is usually hedged with a net liability position in U.S. dollars and, consequently, increased our net interest revenue but originated accounting losses shown in the foreign exchange transaction line item in 2002).

Interest Revenue

The following table sets forth information regarding our interest revenue and average interest earning assets for the years ended December 31, 2001, 2002 and 2003:

	Year Ended December 31,			% Increase (Decrease)	
	2001	**2002**	**2003**	**2001/2002**	**2002/2003**
	(in millions of constant Ch$ as of December 31, 2003, except for percentages)				
Interest revenue[1]	Ch$ 536,330	Ch$ 696,603	Ch$ 428,704	29.9%	(38.5)%
Average interest earning assets:					
Commercial loans[2]	Ch$ 2,033,405	Ch$ 3,046,135	Ch$ 3,163,016	49.8	3.8
Consumer loans	206,683	394,576	421,862	90.9	6.9
Mortgage loans[3]	806,332	1,243,318	1,157,150	54.2	(6.9)
Foreign trade loans	432,365	618,174	654,327	43.0	5.8
Interbank loans	100,864	100,420	83,719	(0.4)	(16.6)
Past due loans[4]	52,565	146,192	135,350	178.1	(7.4)
Contingent loans[5]	291,409	370,266	394,822	27.1	6.6
Leasing contracts	173,977	241,633	265,240	38.9	9.8
Total loans	Ch$ 4,097,600	Ch$ 6,160,714	Ch$ 6,275,486	50.3%	1.9%
Financial investments[6]	1,562,343	1,838,388	1,779,168	17.7	(3.2)
Interbank deposits	120,716	215,444	120,061	78.5	(44.3)
Total	Ch$ 5,780,659	Ch$ 8,214,546	Ch$ 8,174,715	42.1%	(0.5)%
Average rates earned on total interest earning assets[7]**:**					
Average nominal rates	9.28%	8.48%	5.24%	-	-
Average real rates	10.28%	7.39%	0.97%	-	-

(1) Interest revenue includes fees we charge in respect of contingent loans. See "--Overview--Contingent Loans."
(2) Excludes leasing contracts.
(3) Includes residential and general purpose mortgage loans.
(4) Includes interest accrued and unpaid on principal until the date on which payment becomes overdue.
(5) Consists of unfunded letters of credit, guarantees, performance bonds and other unfunded commitments.
(6) "Financial investments" includes primarily bonds issued by the Central Bank and foreign governments.
(7) See "Item 4. Information on the Company--Selected Statistical Information--Average Balance Sheets, Interest Earned on Interest Earning Assets and Interest Paid on Interest Bearing Liabilities."

The following table sets forth the effect on our interest revenue of changes in (1) the average volume of interest earning assets and (2) the average nominal interest rates on interest earning assets, during the periods presented in the preceding table:

	Increase (Decrease)	
	2001/2002	**2002/2003**

	(in millions of constant Ch$ as of December 31, 2003)	
Effect due to changes in average volume of interest earning assets	Ch$ 257,051	Ch$ (13,943)
Effect due to changes in average nominal interest rates of interest earning assets	(96,778)	(253,956)
Net change	Ch$ 160,273	Ch$ (267,899)

2002 and 2003. Interest revenue decreased by 38.5% from Ch$696,603 million in 2002 to Ch$428,704 million in 2003 primarily as a result of a decrease in the average nominal interest rates earned from 8.48% in 2002 to 5.24% in 2003. The decrease in average nominal interest rates earned was principally a result of a decrease in the inflation rate (from 2.8% in 2002 to 1.1% in 2003) and in the interest rates on Chilean peso-denominated interest earning assets. Average interest earning assets decreased slightly from Ch$8,214,546 million in 2002 to Ch$8,174,715 million in 2003 as a result of a reduction in Central Bank foreign currency-denominated demand and time deposits requirements.

2001 and 2002. Interest revenue increased by 29.9% from Ch$536,330 million in 2001 to Ch$696,603 million in 2002 as a result of a 42.1% increase in average interest earning assets, which was partially offset by a decrease in average nominal rates earned. Average interest earning assets increased from Ch$5,780,659 million in 2001 to Ch$8,214,546 million in 2002 primarily as a consequence of the merger, which resulted in higher balances in consumer loans, commercial loans, mortgage loans, past due loans and financial investments. Average nominal interest rates earned declined from 9.28% in 2001 to 8.48% in 2002 primarily as a result of the reduction in real interest rates caused by the continued monetary relaxation policy implemented by the Chilean government in order to expand domestic demand. The reduction in real interest rates was partially offset by an increase in the inflation rate from 2.6% in 2001 to 2.8% in 2002.

Interest Expense

The following table sets forth information regarding our interest expense and average interest bearing liabilities for the years ended December 31, 2001, 2002 and 2003:

	Year Ended December 31,			**% Increase (Decrease)**	
	2001	**2002**	**2003**	**2001/2002**	**2002/2003**
	(in millions of constant Ch$ as of December 31, 2003, except for percentages)				
Interest expense	Ch$ 312,813	Ch$ 325,338	Ch$ 204,234	4.0%	(37.2)%
Average interest bearing liabilities:					
Time deposits(1)	Ch$ 2,676,102	Ch$ 3,550,307	Ch$ 3,328,488	32.7	(6.2)
Savings accounts	95,517	171,009	174,847	79.0	2.2
Total Central Bank borrowings	33,881	61,145	68,243	80.5	11.6
Investments sold under agreements to repurchase	177,652	375,422	350,949	111.3	(6.5)
Mortgage finance bonds	842,115	1,280,975	1,025,770	52.1	(19.9)
Other interest bearing liabilities(2)	593,158	756,370	1,015,524	27.5	34.3
Total	Ch$ 4,418,425	Ch$ 6,195,228	Ch$ 5,963,821	40.2%	(3.7)%
Average rates paid on total interest bearing liabilities(3):					
Average nominal rates	7.08%	5.25%	3.42%	-	-
Average real rates	7.41%	4.19%	(1.87)%	-	-
Average (Chilean peso-denominated) non-interest bearing demand deposits	Ch$ 1,067,260	Ch$ 1,593,738	Ch$ 1,827,929	49.3%	14.7%

(1) Includes interest-earning demand deposits.
(2) Combines interest bearing demand deposits and other interest bearing liabilities.
(3) See "Item 4. Information on the Company--Selected Statistical Information--Average Balance Sheets, Interest Earned on Interest Earning Assets and Interest Paid on Interest Bearing Liabilities."

The following table sets forth the effect on our interest expense from changes in (1) average volume of interest bearing liabilities and (2) average nominal interest rates paid on interest bearing liabilities, during the periods presented:

	Increase (Decrease)	
	2001/2002	**2002/2003**
	(in millions of constant Ch$ as of December 31, 2003)	

Effect due to changes in average volume of interest bearing liabilities	Ch$ 109,543	Ch$ (31,431)
Effect due to changes in average nominal interest rates of interest bearing liabilities	(97,018)	(89,673)
Net change	Ch$ 12,525	Ch$ (121,104)

2002 and 2003. Interest expense decreased by 37.2% from Ch$325,338 million in 2002 to Ch$204,234 million in 2003. The decrease was primarily attributable to a significant decrease in average nominal interest rates paid, from 5.25% in 2002 to 3.42% in 2003, and, to a lesser extent, by the impact of a 3.7% decrease in the average volume of interest bearing liabilities, from Ch$6,195,228 million in 2002 to Ch$5,963,821 million in 2003, mainly due to a decrease in mortgage finance bonds and time deposits. The decrease in the average nominal interest rate paid was primarily attributable to lower inflation and lower real interest rates paid on Chilean peso-denominated liabilities.

2001 and 2002. Interest expense increased by 4.0% from Ch$312,813 million in 2001 to Ch$325,338 million in 2002, primarily as a result of the 40.2 % increase in average interest bearing liabilities from Ch$4,418,425 million in 2001 to Ch$6,195,228 million in 2002 (primarily in time deposits and mortgage finance bonds) as a consequence of the merger. The increase in average interest bearing liabilities was partially offset by a decrease in the average nominal interest rates paid on such liabilities, from 7.08% in 2001 to 5.25% in 2002.

Provisions for Loan Losses

Chilean banks are required to maintain allowances to cover possible credit losses that at least equal their loans to customers multiplied by the greater of (1) their risk index and (2) 0.75%. The risk index is derived from management s classification of a bank s portfolio using the conceptual guidelines and definitions of the Chilean Superintendency of Banks and management s estimate of the likelihood of default. For statistical information with respect to our substandard loans and allowances for loan losses, see Item 4. Information on the Company Selected Statistical Information and note 7 to our audited consolidated financial statements. The amount of provisions charged to income in any period consists of net provisions for possible loan losses and voluntary provisions.

The following table sets forth information with respect to our provisions and allowances for loan losses and charge-offs for each of the years ended December 31, 2001, 2002 and 2003:

	Year Ended December 31,			% Increase (Decrease)	
	2001	**2002**	**2003**	**2001/2002**	**2002/2003**
	(in millions of constant Ch$ as of December 31, 2003, except for percentages)				
Provisions:					
Total provisions for loan losses	Ch$ 47,736	Ch$ 101,650	Ch$ 60,069	112.9%	(40.9)%
Charge-offs:					
Total charge-offs	28,084	112,075	96,132	299.1	(14.2)
Loan loss recoveries:					
Total loan loss recoveries	10,035	12,033	25,391	19.9	111.0
Other asset quality data:					
Total loans	Ch$ 4,014,331	Ch$ 6,223,129	Ch$ 6,255,346	55.0	0.5
Consolidated risk index	2.42%	3.00%	2.36%	-	-
Unconsolidated risk index	2.48%	3.10%	2.41%	-	-
Minimum required global allowances (0.75% minimum)	Ch$ 30,107	Ch$ 46,673	Ch$ 46,915	55.0	0.5
Allowances for loan losses[1]	Ch$ 137,757	Ch$ 218,202	Ch$ 179,391	58.4%	(17.8)%
Allowances for loan losses as a percentage of total loans	3.43%	3.51%	2.87%	-	-

(1) "Allowances for loan losses" includes voluntary loan loss allowances greater than those required by the Chilean Superintendency of Banks. These allowances are created when we believe that changes in the portfolio concentrations or economic conditions affecting or reasonably expected to affect borrowers' credit payment capacities are not adequately addressed by the regulatorily mandated reserves. In addition, from time to time we include other global allowances within our voluntary allowances.

2002 and 2003. Our overall provisions for loan losses decreased by 40.9% from Ch$101,650 million in 2002 to Ch$60,069 million in 2003, which primarily reflected the establishment of significant provisions in 2002 that were not established in 2003 and the improvement in the Chilean economy. The decrease in our overall provisions for loan losses were also attributable to the 15.9% appreciation of the Chilean peso against the U.S. dollar, which resulted in a decrease in the amount of our Chilean peso-denominated provisioning for foreign currency-denominated loans. As a result, the ratio of provisions to average loans decreased to 0.96% in 2003 from 1.65% in 2002. Our consolidated risk index, changed from 3.00% at the end of 2002, to 2.36% as of December 31, 2003.

2001 and 2002. Our overall provisions for loan losses increased by 112.9% from Ch$47,736 million in 2001 to Ch$101,650 million in 2002, mainly as a result of the merger, as we were required to increase our provisions for loan losses in order to level Banco de A. Edward s commercial loan portfolio credit risk classifications with ours. The merger also resulted in increased provisioning for loan losses as a result of the unification of the risk criteria used to determine the amount of provisioning needed in connection with our consumer loans after the merger. The following factors also resulted in the substantial increase in our overall provisions for loan losses in 2002:

- Sluggish economic growth, unfavorable terms of trade and high level of unemployment in Chile adversely affected the financial condition of many medium size companies. In line with our credit risk policies, this required us to establish significant provisions in this business area during 2002.

- The economic crises in Argentina caused us to establish provisions in the amount of Ch$9,539 million for loans to Argentine debtors in order to adequately cover the risk associated with such loans.

- Domestic demand for second homes and resort projects decreased significantly in 2002, which resulted in the establishment of significant provisions related to the real estate and construction sector.

- The 8.6% depreciation in the Chilean peso against the U.S. dollar resulted in an increase in the provisioning for loans denominated in U.S. dollars.

The increase in provisions for loan losses in 2002 was partially offset by a release in voluntary allowances of approximately Ch$17,395 million. On a consolidated basis, our risk index increased from 2.42% in 2001 to 3.00% in 2002.

Fees and Income from Services, Net

The following table sets forth certain components of our fees and income from services (net of fees paid to third parties that provide support for those services, principally fees relating to Credichile s sales force and receipts and collection services provided to us) for the years ended December 31, 2001, 2002 and 2003:

	Year Ended December 31,			% Increase (Decrease)	
	2001	2002	2003	2001/2002	2002/2003
	(in millions of constant Ch$ as of December 31, 2003, except for percentages)				
Credit cards	Ch$ 3,603	Ch$ 6,461	Ch$ 8,421	79.3%	30.3%
Sight accounts and ATMs	5,482	9,381	10,599	71.1	13.0
Demand deposits and overdrafts	12,923	20,383	21,659	57.7	6.3
Credit lines	2,158	5,033	5,521	133.2	9.7
Mutual funds	7,432	11,950	13,269	60.8	11.0
Stock brokerage	2,605	3,625	9,300	39.2	156.6
Collection services	2,316	2,610	2,874	12.7	10.1
Receipts and payment of services	4,700	5,748	7,179	22.3	24.9
Collection of over-due loans	-	6,398	8,621	-	34.7
Income and revenue from goods received in lieu of payment	(346)	1,231	2,426	-	97.1
Letters of credit, guarantees, collaterals and other contingent loans	3,376	4,082	3,974	20.9	(2.6)
Insurance	4,942	6,140	9,362	24.2	52.5
Financial advisory services	1,010	1,929	5,350	91.0	177.3
Foreign trade and currency exchange	1,533	1,766	2,418	15.2	36.9
Prepaid loans	857	1,208	1,969	41.0	63.0
Leasing	(177)	1,201	1,123	-	(6.5)
Factoring	57	294	732	415.8	149.0
Custody and trust services	638	595	911	(6.7)	53.1
Fees from sales force	(4,371)	(8,553)	(10,864)	95.7	27.0
Teller services (Servipag)	(2,714)	(2,765)	(3,179)	1.9	15.0
Others	(1,426)	690	1,724	-	149.9
Total	Ch$ 44,598	Ch$ 79,407	Ch$ 103,389	78.1%	30.2%

2002 and 2003. Fees and income from services, net increased by 30.2% from Ch$79,407 million in 2002 to Ch$103,389 million in 2003. The increase in 2003 was primarily attributable to the improved performance by our stock brokerage subsidiary; an increase in financial advisory service fees; additional fee income from our insurance business and from Socofin, our collection services subsidiary; increased fee income associated with checking accounts and sight accounts (primarily as a result of an increase in the number of checking accounts); a new fee structure associated mainly with overdrafts and ATM transaction fees and increased credit cards fees.

2001 and 2002. Fees and income from services, net increased by 78.1% from Ch$44,598 million in 2001 to Ch$79,407 million in 2002. Although this increase resulted primarily from the merger, a portion of the increase is attributable to higher fees obtained from credit cards, lines of credit and overdrafts as a result of our strategy of optimizing the fees we charge and the broadening of our fee generating products in 2002. In addition, the increase in fees and income from services, net also reflects additional fee income from Socofin, our collection services subsidiary, which was consolidated into our results as of the third quarter of 2002, and which accounted for 8.1% of total fees in 2002.

Other Operating Income (Loss), Net

Other operating income (loss), net, consists of net gains and losses from trading activities and net gains and losses from foreign exchange transactions. Trading results include gains and losses realized on the sale of financial investments as well as gains and losses arising from marking certain financial investments to market at period-end. Net gains and losses from foreign exchange transactions include gains and losses realized upon the sale of foreign currency and foreign exchange derivatives and gains and losses arising from

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the period-end translation of foreign currency-denominated assets and liabilities into pesos. Foreign exchange results do not include net adjustments on U.S. dollar-indexed domestic currency transactions, or the exchange rate variation on foreign branches capital and reserves. Foreign exchange results do include existing interest rate differences in currency derivatives.

The following table sets forth certain components of our other operating income (loss), net, in the years ended December 31, 2001, 2002 and 2003:

	Year Ended December 31,			**% Increase (Decrease)**	
	2001	**2002**	**2003**	**2001/2002**	**2002/2003**
	(in millions of constant Ch$ as of December 31, 2003, except for percentages)				
Gains on trading activities, net	Ch$ 6,037	Ch$ 1,131	Ch$ 5,330	(81.3)%	371.3%
Foreign exchange transactions, net	2,640	(31,981)	91,061	-	-
Total	Ch$ 8,677	Ch$ (30,850)	Ch$ 96,391	-%	-%

2002 and 2003. We recorded other operating income of Ch$96,391 million in 2003, compared to an other operating loss of Ch$30,850 million in 2002, primarily as a result of a significant increase in income from foreign exchange transactions and, to a lesser extent, increased gains on trading activities. The increase in foreign exchange transactions was primarily attributable to our decision to maintain a higher net liability position in U.S. dollars at a time when the Chilean peso was appreciating against the U.S. dollar in 2003. This effect was partially offset by our net asset position in Chilean peso-denominated assets, which were readjusted in U.S. dollars.

Total gains on trading activities in 2003 totaled Ch$5,330 million, compared to Ch$1,131 million in 2002, primarily as a result of earnings obtained from the sale of Argentine securities.

2001 and 2002. Other operating income (loss), net changed to a loss of Ch$30,850 million in 2002 from income of Ch$8,677 million in 2001, primarily as a result of losses on foreign exchange transactions in 2002 and, to a lesser extent, lower gains on trading activities in the same year. The losses on foreign exchange transactions were largely attributable to our maintaining higher net liability position in U.S. dollars at a time when the Chilean peso was depreciating against the U.S. dollar (we also maintained a net asset position in Chilean peso-denominated assets, which were readjusted in U.S. dollars and which improved our results for net interest revenue).

Total gains on trading activities in 2002 totaled Ch$1,131 million compared to Ch$6,037 million in 2001. The decline in gains on trading activities was primarily the result of the U.S.$19 million impairment on certain Argentine corporate bonds, as a result of the unlikelihood of registering a significant increase in the market value of such securities. In 2002, higher mark to market and trading gains were obtained from Central Bank securities and mortgage finance bonds due to declining local interest rates.

Other Income and Expenses, Net

Other income and expenses, net consists of gains arising from the recovery of loans previously charged-off, non-operating income, non-operating expenses and income and gains arising from our affiliates accounted for by the equity method, offset by any minority interest participation in the net income of our subsidiaries. See notes 9, 17 and 19 to our audited consolidated financial statements.

The following table sets forth certain components of our "other income and expenses, net," in the years ended December 31, 2001, 2002 and 2003:

	Year Ended December 31,			% Increase (Decrease)	
	2001	**2002**	**2003**	**2001/2002**	**2002/2003**
	(in millions of constant Ch$ as of December 31, 2003, except for percentages)				
Loan loss recoveries previously charged-off	Ch$ 9,007	Ch$ 11,308	Ch$ 24,612	25.5%	117.7%
Loan loss recoveries reacquired from the Central Bank	1,028	725	779	(29.5)	7.4
Subtotal	10,035	12,033	25,391	19.9	111.0
Non-operating income	7,671	6,463	6,137	(15.7)	(5.0)
Non-operating expenses	(7,494)	(23,482)	(21,560)	213.3	(8.2)
Subtotal	177	(17,019)	(15,423)	-	(9.4)
Income from investments in other companies	(45)	(980)	(1,220)	2,077.8%	24.5%
Minority interest	(1)	(1)	(2)	-	100.0
Total	Ch$ 10,166	Ch$ (5,967)	Ch$ 8,746	-%	-%

2002 and 2003. Other income and expenses, net changed to income of Ch$8,746 million in 2003 from an expense of Ch$5,967 million in 2002, primarily as a result of an increase in the recovery of loans that had previously been charged-off, a decrease in non-operating expenses and a decrease in provisions and charge-offs on assets received in lieu of payment. The change was also attributable to the fact that certain non-recurring expenses (such as certain provisions and charge-offs on premises) were recorded in 2002 as a result of the merger. See note 17 to our audited consolidated financial statements.

2001 and 2002. Despite the increase in loan loss recoveries, other income and expenses, net, decreased to an expense of Ch$5,967 million in 2002 compared to income of Ch$10,166 million in 2001, primarily as a result of higher non-recurring operating expenses such as losses incurred in connection with assets received in lieu of payment as a consequence of an increase in charge-offs, an increase in provisions and lower earnings from the sale of such assets and an increase in provisions and charge-offs associated with the closing of branches as a result of the merger.

Our losses in income from investment in other companies in 2002 were mainly associated with Artikos Chile, our affiliate that offers e-commerce services to our corporate customers and, to a lesser extent, with Empresa de Tarjetas Inteligentes S.A., our affiliate that researches, develops and evaluates new payment card solutions based on potential smartcard business operations. The results of these two affiliates primarily resulted from lower than expected income generated during 2002 and high depreciation and amortization expenses related to technological investments needed for this technology-intensive businesses.

Operating Expenses

The following table sets forth information regarding our operating expenses in the years ended December 31, 2001, 2002 and 2003:

	Year Ended December 31,			% Increase (Decrease)	
	2001	**2002**	**2003**	**2001/2002**	**2002/2003**
	(in millions of constant Ch$ as of December 31, 2003, except for percentages)				
Personnel salaries and expenses	Ch$ 84,485	Ch$ 135,443	Ch$ 125,199	60.3%	(7.6)%
Administrative and other expenses:					
Advertising	6,763	8,584	7,783	26.9	(9.3)
Building maintenance	4,035	7,914	5,576	96.1	(29.5)
Rentals and insurance	4,574	9,303	8,967	103.4	(3.6)
Office supplies	2,754	4,666	4,253	69.4	(8.9)
Other expenses	33,130	62,453	55,701	88.5	(10.8)
Total administrative and other expenses	Ch$ 51,256	Ch$ 92,920	Ch$ 82,280	81.3%	(11.5)%
Depreciation and amortization	8,404	22,154	16,957	163.6	(23.5)
Total	Ch$ 144,145	Ch$ 250,517	Ch$ 224,436	73.8%	(10.4)%

2002 *and 2003*. Our operating expenses decreased by 10.4% from Ch$250,517 million in 2002 to Ch$224,436 million in 2003, mainly as a result of cost savings associated with the merger. Personnel salaries and expenses decreased 7.6% in 2003 as a result of an employee headcount reduction, which was partially offset by an increase in personnel salaries in 2003. The merger also resulted in a decrease in administrative costs, particularly those associated with the maintenance of fixed asset and rental expenses. Decreased depreciation expenses during 2003 were related to higher charge-offs during 2002 of discontinued software and assets in leased branches that were closed during the first half of 2002.

2001 and 2002. Our operating expenses increased by 73.8% from Ch$144,145 million in 2001 to Ch$250,517 million in 2002, primarily as a result of the merger, as both personnel and administrative expenses increased. Higher merger-related operating expenses incurred in 2002 included severance payments related to headcount reductions, improvements in information technology, outplacement and financial advisory expenses and branch refurbishment costs. In addition, a one-time bonus payment of approximately Ch$1,500 million was made in the fourth quarter of 2002 in connection with the four-year collective bargaining agreement we entered into with one of our labor unions, which contributed to increased personnel salaries in 2002. We do not expect to be involved in any new collective bargaining agreements for the next three years. In addition, the incorporation of the subsidiaries Socofin and Promarket increased our cost base by Ch$7,330 million in 2002.

The annual increase in depreciation and amortization expenses was also primarily attributable to the merger, which resulted in charge-offs of discontinued software and increased depreciation of new equipment acquired to integrate the two bank s information technology systems following the merger.

Loss from Price-Level Restatement

Chilean GAAP requires that adjustments be made to nonmonetary assets (including fixed assets), liabilities and shareholders equity at the end of each reported period to reflect the effects of inflation during such period. The net effect of this inflation adjustment is reflected in our results of operations under gain (loss) from price-level restatement. See Overview Inflation.

2002 and 2003. The loss from price-level restatement decreased from Ch$9,692 million in 2002 to Ch$4,036 million in 2003 primarily as a result of a decrease in the inflation rate used for adjustment purposes from 3.0% in 2002 to 1.0% in 2003.

2001 and 2002. The loss from price-level restatement increased from Ch$6,010 million in 2001 to Ch$9,692 million in 2002 primarily as a result of the effect of the merger, which increased the net amounts of non-monetary assets and liabilities. The increase was partially offset by a slight decrease in the inflation rate used for adjustment purposes from 3.1% in 2001 to 3.0% in 2002.

Income Tax

The statutory corporate income tax rate in Chile was 16% in 2002 and 16.5% in 2003. As an inducement for Chilean banks to refinance their indebtedness with the Central Bank, Law No. 19,396 provided that if a bank chose to refinance such indebtedness, such bank s income tax rate would not increase. As a result, we have been permitted under Law No. 19,396 to deduct dividend payments made to SAOS. In addition, any other payments made by SAOS or its shareholders to the Central Bank in connection with the Central Bank indebtedness are tax deductible. Consequently, our effective tax rate is significantly lower than the statutory corporate income tax rate because we deduct such dividend payments from our taxable income. Additionally, but to a lesser extent, differences in the tax treatment for provisions on individual loans and for charge-offs for past due loans have an impact on our effective tax rate. Moreover, all real estate taxes paid on properties that are leased to customers are deductible from our taxable income.

2002 and 2003. We recorded a tax expense of Ch$13,902 million in 2003, as compared to a tax benefit of Ch$1,165 million in 2002. The change was primarily attributable to (1) a higher income tax base in 2003, as a result of the 178% increase in net income before taxes between periods, (2) an increase in the corporate income tax rate from 16.0% in 2002 to 16.5% in 2003, (3) a lower tax benefit in 2003 relating to the amortization of the complementary accounts on accumulated deferred taxes for periods prior to 1999 and (4) non-recurring earnings in 2002 related to the recognition of deferred taxes as a consequence of the increase in the corporate income tax rate in 2002.

2001 and 2002. We recorded a Ch$1,165 million tax benefit in 2002, as compared to a tax benefit of Ch$1,406 million in 2001. This was primarily attributable to (1) the amortization of complementary accounts on accumulated deferred taxes for periods prior to 1999, which resulted in the recognition of a net tax benefit, and (2) a positive impact on deferred taxes related to the change in the corporate income tax rate from 15% in 2001 to 16% in 2002.

Chilean and U.S. GAAP Reconciliation

We prepare our audited consolidated financial statements in accordance with Chilean GAAP, which differs in certain significant respects from U.S. GAAP. See note 28 to our audited consolidated financial statements for a description of the material differences between Chilean GAAP and U.S. GAAP, as they relate to us and our consolidated subsidiaries, reconciliation to U.S. GAAP of net income and shareholders equity and a discussion of new accounting rules under U.S. GAAP. The following table sets forth net income and shareholders equity for the years ended December 31, 2002 and 2003 under Chilean GAAP and U.S. GAAP:

	Year Ended December 31,		
	2001	**2002**	**2003**
	(in millions of constant Ch$ as of December 31, 2003)		
Net income (Chilean GAAP)	Ch$ 90,473	Ch$ 53,161	Ch$ 130,553
Net income (U.S. GAAP)	50,260	17,123	130,398
Shareholders' equity (Chilean GAAP)	414,319	624,412	695,676
Shareholders' equity (U.S. GAAP)	Ch$ 1,177,298	Ch$ 1,292,760	Ch$ 1,340,649

Significant differences exist between our net income and shareholders equity under Chilean GAAP as presented in Item 5. Operating and Financial Review and Prospects, and our net income and shareholders equity under U.S. GAAP as presented in note 28 to our audited consolidated financial statements. The differences are primarily in the context of the accounting treatment used for the merger. The principal differences are as follows:

- Under Chilean GAAP, the merger was accounted for as a pooling of interests on a prospective basis. As such, the historical financial statements for periods prior to the merger are not restated under Chilean GAAP and we are considered to be the surviving entity. Under U.S. GAAP, the merger of the two banks is accounted for as a merger of entities under common control, as L.Q. Inversiones Financieras, a holding company beneficially owned by Quiñenco, controlled both banks since March 27, 2001. Consequently, U.S. GAAP requires that we restate our U.S. GAAP historical financial statements to retroactively reflect the merger as if both banks had been combined since March 27, 2001. Under U.S. GAAP, for periods prior to March 27, 2001, the information presented in our audited consolidated financial statements is that of Banco de A. Edwards, as it had been under Quiñenco s control since September 2, 1999.

- The pooling of interests method under Chilean GAAP eliminates any interbank balances and aggregates the results of both banks using their historical book values. Under U.S. GAAP, to the extent that we and Banco de A. Edwards were under common control, the assets and liabilities of Banco de A. Edwards were transferred into our accounts at their book value. However, as Quiñenco only owned 51.18% of Banco de A. Edwards, we effectively acquired from minority interest holders that portion that was not held by Quiñenco and so we applied purchase accounting. As a result, we must calculate goodwill based on the difference between the purchase price (i.e., the market value of our shares) and the fair value of the proportion of assets and liabilities acquired from minority interest holders at the date of the merger. As part of this process, under U.S. GAAP, we were also required to value previously unrecorded intangible assets, such as the Banco de A. Edwards brand name, and to include these assets in our financial records. Such assets remain unrecorded under Chilean GAAP. The different basis of the assets and liabilities caused by this treatment has an effect on changes in depreciation and amortization in subsequent periods.

- Under U.S. GAAP, when accounting for a merger of entities under common control, the book values of the merged entities that are held in the books of the common parent must be pushed down to the merged entity. This means that any goodwill in the books of Quiñenco at the time that it acquired each bank and any fair value differences created from those purchases must be included in our U.S. GAAP accounting records. In practice this means that the goodwill and fair value adjustments created from Quiñenco s purchases of Banco de A. Edwards shares in September, October and December 1999 and from Quiñenco s purchase of our shares in March 2001 are pushed down to us. As there is no analogous accounting treatment under Chilean GAAP, there is a considerable difference in the asset and liability bases under each body of accounting principles.

These differences are explained in greater detail in note 28(a) to our audited consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Liquidity risk is the risk that we will be unable to meet our payment obligations and potential payment obligations as and when they become due without incurring unacceptable losses. To manage that risk, we maintain at all times a diversified stock of highly liquid assets that can be quickly mobilized in extraordinary circumstances, including cash, financial investments, and Central Bank and government securities. Additionally, we have established lines of credit with foreign and domestic banks and have access to Central Bank borrowings to increase liquidity as necessary.

Our general policy is to maintain sufficient liquidity to ensure our ability to honor withdrawals of deposits, make repayments of other liabilities at maturity, extend loans and meet our working capital needs. As a bank, we satisfy our working capital needs through general funding. The majority of our funding is derived from deposits and other borrowings from the public. We believe that our working capital is sufficient to meet our present needs. The minimum amount of liquidity is determined by the reserve requirements set by the Central Bank. These reserves are currently 9.0% of demand deposits and 3.6% of time deposits. We are currently in compliance with all of these requirements.

In addition, we are subject to a technical requirement applicable to Chilean banks pursuant to which we must hold a certain amount of assets in cash or in highly liquid instruments. This reserve is equal to the amount by which the daily balance of:

- deposits in checking accounts;
- other demand deposits or obligations incurred in the ordinary course of business;
- other deposits unconditionally payable immediately or within a term of less than 30 days; and
- time deposits payable within ten days

in the aggregate exceeds 2.5 times the amount of our capital and reserves.

Chilean regulations also require that gaps between assets and liabilities maturing within less than 30 days not exceed a bank s basic capital and that gaps among assets and liabilities maturing within less than 90 days not exceed twice a bank s equity.

The senior members of our finance division evaluate liquidity by projecting daily cash flows over the following 100 days to verify that adequate liquidity is maintained, in compliance with limits imposed by Chilean banking regulations and those set internally by us.

Cash Flows

The tables below set forth our principal sources of cash. Our subsidiaries are not an important source of cash for us and therefore, have no impact on our ability to meet our cash obligations. No legal or economic restrictions exist on the ability of our subsidiaries to transfer funds to us in the form of loans or cash dividends as long as our subsidiaries abide by the regulations in the Chilean Corporations Law regarding loans to related parties and minimum dividend payments.

	Year Ended December 31,		
	2001	2002	2003
	(in millions of constant Ch$ as of December 31, 2003)		
Net cash provided by (used in) operating activities	Ch$ (138,573)	Ch$ 422,301	Ch$ (114,229)

2002 and 2003

We recorded cash used in operating activities of Ch$114,229 million in 2003, primarily as a result of an increase in the amount of Central Bank and government securities required to be held by us in order to comply with the guidelines of the Chilean Superintendency of Banks.

2001 and 2002

Cash provided by operating activities reached Ch$422,301 million in 2002 compared to cash used in operating activities of Ch$138,573 million in 2001, mainly due to a decrease in our financial investments. This decrease was principally related to the expiration of the Pagare 1836, a Central Bank debt security, and the lower volume of federal funds and Brazilian and Mexican securities maintained by the New York Branch.

	Year Ended December 31,		
	2001	2002	2003
	(in millions of constant Ch$ as of December 31, 2003)		
Net cash used in investing activities	Ch$ (141,767)	Ch$ (253,036)	Ch$ (166,362)

2002 and 2003

Cash flows used in investing activities decreased to Ch$166,362 million in 2003 from Ch$253,036 million in 2002, primarily as a result of a decrease in the funds used in spot foreign exchange transactions.

2001 and 2002

Cash flows used in investing activities increased to Ch$253,036 million in 2002 from Ch$141,767 million in 2001 primarily as a result of an increase in the volume of our loan portfolio, and an increase in other assets.

	Year Ended December 31,		
	2001	2002	2003
	(in millions of constant Ch$ as of December 31, 2003)		
Net cash provided by (used in) financing activities	Ch$ 329,591	Ch$ (262,894)	Ch$ 461,822

2002 and 2003

The change from cash used in financing activities of Ch$262,894 million in 2002 to cash provided by financing activities of Ch$461,822 million in 2003 was primarily attributable to an increase in savings accounts and time deposits and, to a lesser extent, an increase in short-term foreign borrowings and investments under repurchase agreements.

2001 and 2002

The change from cash provided by financing activities of Ch$329,591 million in 2001 to cash used in financing activities of Ch$262,894 million in 2002 was primarily attributable to a decrease in savings accounts and time deposits.

Other Borrowings

Our long-term and short-term borrowings are summarized below. In accordance with the guidelines established by the Superintendency of Banks, we do not present a classified balance sheet. Borrowings are described as short-term when they have original maturities of less than one year or are due on demand. All other borrowings are described as long-term, including the amounts due within one year on such borrowings.

	As of December 31, 2002			As of December 31, 2003		
	Long-term	Short-term	Total	Long-term	Short-term	Total
	(in millions of constant Ch$ as of December 31, 2003, except for percentages)					
Central Bank Credit lines for renegotiation of loans..	Ch$ 3,801	-	Ch$ 3,801	Ch$ 2,975	-	Ch$ 2,975
Other Central Bank borrowings	-	-	-	-	Ch$ 24,906	24,906
Mortgage finance bonds	1,094,881	-	1,094,881	1,014,452	-	1,014,452
Bonds	4,639	-	4,639	3,127	-	3,127
Subordinated bonds	280,431	-	280,431	271,197	-	271,197
Borrowings from domestic financial institutions	127	50,866	50,993	103	49,779	49,882
Foreign borrowings	335,087	180,360	515,447	450,860	267,109	717,969
Investments under agreements to repurchase	-	279,442	279,442	-	426,741	426,741
Other obligations	46,320	31,218	77,538	9,846	49,754	59,600
Total other interest bearing liabilities	Ch$ 1,765,286	Ch$ 541,886	Ch$ 2,307,172	Ch$ 1,752,560	Ch$ 818,289	Ch$ 2,570,849

Central Bank borrowings

Central Bank borrowings include credit lines for the renegotiation of loans and other Central Bank borrowings. Credit lines were provided by the Central Bank for the renegotiation of mortgage loans due to the need to refinance debts as a result of the economic recession and crisis of the Chilean banking system from 1982 to 1985. The credit lines for the renegotiations of mortgage loans are linked to the UF index and carry a real annual interest rate of 2.4%. The maturities of the outstanding amounts are as follows:

	As of December 31,2003
	(in millions of constant Ch$ as of December 31,2003)
Due within 1 year	Ch$ 2,975
Due after 1 year but within 2 years	--
Due after 2 years but within 3 years	--
Due after 3 years but within 4 years	--
Due after 4 years but within 5 years	--
Due after 5 years	--
Total long-term (Credit lines for renegotiation of loans)	2,975
Total short-term (Other Central Bank borrowings)	24,906
Total Central Bank borrowings	Ch$ 27,881

Mortgage finance bonds

Mortgage finance bonds are used to finance the granting of mortgage loans. The outstanding principal amounts of the bonds are amortized on a quarterly basis. The range of maturities of these bonds is between five and twenty years. The bonds are linked to the UF index and carry a weighted average annual interest rate of 6.2% as of December 31, 2003.

The maturities of outstanding mortgage bond amounts as of December 31, 2003 are as follows:

	As of December 31, 2003
	(in millions of constant Ch$ as of December 31, 2003)
Due within 1 year	Ch$ 84,397
Due after 1 year but within 2 years	87,257
Due after 2 years but within 3 years	88,085
Due after 3 years but within 4 years	86,401
Due after 4 years but within 5 years	83,345
Due after 5 years	584,967
Total mortgage finance bonds	Ch$ 1,014,452

Bonds

The maturities of outstanding bond amounts as of December 31, 2003 are as follows:

	As of December 31, 2003
	(in millions of constant Ch$ as of December 31, 2003)
Due within 1 year	Ch$ 905
Due after 1 year but within 2 years	858
Due after 2 years but within 3 years	858
Due after 3 years but within 4 years	506
Due after 4 years but within 5 years	-
Due after 5 years	-
Total bonds	Ch$ 3,127

Bonds are linked to the UF Index and carry an average real annual interest rate of 6.9% as of December 31, 2003, with interest and principal payments due semi-annually. The bonds were originally intended to finance loans that had a maturity of greater than one year.

Subordinated bonds

In 2002 we issued bonds totaling UF1,580,000 at a discount of UF98,670. The bonds are linked to the UF index with interest and principal payments due semi-annually. The discount on the issuance of the bonds is amortized over the life of the bond. As of December 31, 2003, the effective real interest rate is 7.0%, taking into consideration the discount on issuance.

The bonds are intended to finance loans having a maturity greater than one year. As of December 31, 2003 the outstanding maturities of the bonds, which are considered long-term, are as follows:

	As of December 31, 2003
	(in millions of constant Ch$ as of December 31, 2003)
Due within 1 year	Ch$ 25,571
Due after 1 year but within 2 years	19,307
Due after 2 years but within 3 years	19,307
Due after 3 years but within 4 years	19,307
Due after 4 years but within 5 years	19,307
Due after 5 years	168,398
Total subordinated bonds	Ch$ 271,197

Subordinated bonds are considered in the calculation of effective equity for the purpose of determining our minimum capital requirements.

Borrowings from domestic financial institutions

Borrowings from domestic financial institutions, which are used to fund our general activities, carry a weighted average annual real interest rate of 2.3% and have the following outstanding maturities as of December 31, 2003:

	As of December 31, 2003
	(in millions of constant Ch$ as of December 31, 2003)
Due within 1 year	Ch$ 103
Due after 1 year but within 2 years	-
Due after 2 years but within 3 years	-
Due after 3 years but within 4 years	-
Due after 4 years but within 5 years	-
Due after 5 years	-
Total long-term	103
Total short-term	49,779
Total borrowings from domestic financial institutions	Ch$ 49,882

Foreign borrowings

We have short-term and long-term borrowings from foreign banks. The outstanding maturities of these borrowings as of December 31, 2003 are as follows:

	As of December 31, 2003
	(in millions of constant Ch$ as of December 31, 2003)
Due within 1 year	Ch$ 431,098
Due after 1 year but within 2 years	13,015
Due after 2 years but within 3 years	127
Due after 3 years but within 4 years	6,620
Due after 4 years but within 5 years	-

Due after 5 years	-
Total long-term	450,860
Total short-term	267,109
Total foreign borrowings	Ch$ 717,969

All of these loans are denominated in U.S. dollars, are principally used to fund our foreign trade loans and carry an average annual nominal interest rate of 3.8% as of December 31, 2003.

Other obligations

	As of December 31,	
	2002	2003
	(in millions of constant Ch$ as of December 31, 2003)	
Other long-term obligations:		
Payable accounts	Ch$ 883	-
Obligations with Chilean government	45,437	Ch$ 9,846
Total other long-term obligations	46,320	9,846
Other short-term obligations	31,218	49,754
Total other obligations	Ch$ 77,538	Ch$ 59,600

As of December 31, 2003, other obligations had the following maturities:

	As of December 31, 2003
	(in millions of constant Ch$ as of December 31, 2003)
Due within 1 year	Ch$ 945
Due after 1 year but within 2 years	1,200
Due after 2 years but within 3 years	1,418
Due after 3 years but within 4 years	1,479
Due after 4 years but within 5 years	1,408
Due after 5 years	3,396
Total long-term	9,846
Total short-term	49,754
Total other obligations	Ch$ 59,600

Asset and Liability Management

Our asset and liability management policy is to maximize net interest revenue and return on assets and shareholders equity in light of interest rate, liquidity and foreign exchange risks and within the limits of Chilean banking regulations and our internal risk management policies. Subject to these constraints, we may from time to time take mismatched positions as to interest rates or, in certain limited circumstances, foreign currencies when justified, in our view, by market conditions and prospects, and subject to our asset and liability management policies. Our board of directors determines our asset and liability policies. See Item 11. Quantitative and Qualitative Disclosure About Market Risk.

Funding

The following table sets forth our average daily balance of liabilities for the years ended December 31, 2001, 2002 and 2003, in each case together with the related average nominal interest rates paid thereon:

Year Ended December 31,		
2001	2002	2003

	Average Balance	% of Total Liabilities	Average Nominal Rate	Average Balance	% of Total Liabilities	Average Nominal Rate	Average Balance	% of Total Liabilities	Average Nominal Rate
	(in millions of constant Ch$ as of December 31, 2003, except for percentages)								
Non-interest bearing demand deposits	Ch$ 1,067,260	18.1%	-	Ch$ 1,593,738	18.9%	-	Ch$ 1,827,929	21.8%	-
Time deposits	2,676,102	45.4	6.6%	3,550,307	42.0	4.1%	3,328,488	39.7	2.5%
Savings accounts	95,517	1.6	6.3	171,009	2.0	4.2	174,847	2.1	1.7
Mortgage finance bonds	842,115	14.3	9.6	1,280,975	15.1	9.7	1,025,770	12.3	7.4
Central Bank borrowings	33,881	0.6	5.7	61,145	0.7	3.7	68,243	0.8	2.5
Contingent liabilities	291,173	4.9	-	370,496	4.4	-	394,814	4.7	-
Other non-interest bearing liabilities	113,808	1.9	-	294,210	3.5	-	194,924	2.3	-
Other interest bearing liabilities	770,810	13.2	6.3%	1,131,792	13.4	4.2%	1,366,473	16.3	2.9%
Total liabilities	Ch$ 5,890,666	100.0%		Ch$ 8,453,672	100.0%		Ch$ 8,381,488	100.0%	

Our most important source of funding is our customer deposits, which consist primarily of peso-denominated non-interest bearing demand deposits and peso- and UF-denominated interest bearing time deposits. Non-interest bearing demand deposits represented 21.8% of our average total liabilities in 2003, and are our least expensive source of funding. Time deposits and mortgage finance bonds represented 52.0% of our average liabilities in 2003 and 57.1% in 2002.

Our current funding strategy is to continue to utilize all sources of funding in accordance with their cost and availability and with our general asset and liability management strategy. We also intend to continue to broaden our customer deposit base, to emphasize core deposit funding and to fund our mortgage loans with the matched funding available through the issuance of mortgage finance bonds in Chile s capital markets. See Item 4. Information on the Company Business Overview Principal Business Activities Retail Banking.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, we are a party to a number of off-balance sheet activities that contain credit, market and operational risk that are not reflected in our consolidated financial statements. These activities include commitments to extend credit not otherwise accounted for as contingent loans, such as overdrafts and credit card lines of credit, and long-term contractual obligations under operating leases or service contracts.

We provide customers with off-balance sheet credit support through loan commitments. Such commitments are agreements to lend to a customer at a future date, subject to compliance with the contractual terms. Since substantial portions of these commitments are expected to expire without our having to make any loans, total commitment amounts do not necessarily represent our actual future cash requirements. The amounts of these loan commitments were Ch$432,875 million and Ch$578,538 million as of December 31, 2002 and 2003, respectively. The amounts of subscribed leasing contracts were Ch$41,847 million and Ch$40,190 million as of December 31, 2002 and 2003, respectively.

Our interest rate swap agreements are treated as off-balance sheet financial instruments and the net interest effect, which is the difference between interest income and interest expense arising from such agreements, is recorded in net income in the period in which such differences originate. However, interest rate and cross-currency swaps, which are entered into in order to hedge the foreign investment portfolio, are recorded at their estimated fair market values.

The credit risk of both on- and off-balance sheet financial instruments varies based on many factors, including the value of collateral held and other security arrangements. To mitigate credit risk, we generally determine the need for specific covenant, guarantee and collateral requirements on a case-by-case basis, depending on the nature of the financial instrument and the customer s creditworthiness. We may also receive comfort letters and oral assurances. The amount and type of collateral held to reduce credit risk varies, but may include real estate, machinery, equipment, inventory and accounts receivable, as well as cash on deposit, stocks, bonds and other marketable securities that are generally held in our possession or at another appropriate custodian or depository. This collateral is valued and inspected on a regular basis to ensure both its existence and adequacy. Additional collateral is requested when appropriate.

Financial Guarantees

The following is a summary of instruments that are considered financial guarantees in accordance with FASB Interpretation No. 45:

	As of December 31, 2003
	(in millions of constant Ch$ as of December 31, 2003)
Performance bonds	Ch$ 245,888
Standby letters of credit	32,074
Foreign office guarantees	24,033
Total	Ch$ 301,995

Guarantees in the form of performance bonds, standby letters of credit and foreign office guarantees are issued in connection with agreements made by customers to counterparties. If the customer fails to comply with the agreement, the counterparty may enforce the performance bonds, standby letters of credit or foreign office guarantees as a remedy. Credit risk arises from the possibility that the customer may not be able to repay us for these guarantees.

The expiration of guarantees per period are as follows:

	Due within 1 year	Due after 1 year but within 3 years	Due after 3 years but within 5 Years	Due after 5 years	Total
	(in millions of constant Ch$ as of December 31, 2003)				
Performance bonds	Ch$ 176,856	Ch$ 56,798	Ch$ 10,180	Ch$ 2,054	Ch$ 245,888
Standby letters of credit	19,920	8,989	3,165	-	32,074
Foreign office guarantees	20,161	3,872	-	-	24,033
Total	Ch$ 216,937	Ch$ 69,659	Ch$ 13,345	Ch$ 2,054	Ch$ 301,995

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following tables set forth our contractual obligations and commercial commitments by time remaining to maturity. As of December 31, 2003, the scheduled maturities of our contractual obligations, including accrued interest, were as follows:

	Due within 1 year	Due after 1 year but within 3 years	Due after 3 years but within 5 Years	Due after 5 years	Total
Contractual Obligations	(in millions of constant Ch$ as of December 31, 2003)				
Deposit and other term liabilities(1)	Ch$ 3,215,921	Ch$ 38,320	Ch$ 8,527	-	Ch$ 3,262,768
Mortgage finance bonds	84,397	175,342	169,747	Ch$ 584,966	1,014,452
Bonds issued	26,476	40,330	39,120	168,398	274,324
Central Bank credit lines from renegotiations of loans	2,975	-	-	-	2,975
Other Central Bank borrowings	24,906	-	-	-	24,906
Borrowings from domestic financial institutions	49,882	-	-	-	49,882
Foreign borrowings	698,207	13,142	6,620	-	717,969
Other obligations	50,699	2,618	2,886	3,397	59,600
Lease contracts	5,954	7,771	4,951	21,366	40,042

Services contracts	29,834	40,085	30,049	592,274	692,242
Investments under agreements to repurchase	426,741	-	-	-	426,741
Total	Ch$ 4,615,992	Ch$ 317,608	Ch$ 261,900	Ch$ 1,370,401	Ch$ 6,565,901

(1) Excludes demand accounts and savings accounts.

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As of December 31, 2003, the scheduled maturities of other commercial commitments, including accrued interest, were as follows:

	Due within 1 year	Due after 1 year but within 3 years	Due after 3 years but within 5 Years	Due after 5 years	Total
	(in millions of constant Ch$ as of December 31, 2003)				
Commercial Commitments					
Letters of Credit	Ch$ 107,643	-	-	-	Ch$ 107,643
Guarantees	216,937	Ch$ 69,659	Ch$ 13,345	Ch$ 2,054	301,995
Total other commercial commitments	Ch$ 324,580	Ch$ 69,659	Ch$ 13,345	Ch$ 2,054	Ch$ 409,638

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Item 6. Directors, Senior Management and Employees

DIRECTORS AND SENIOR MANAGEMENT

Directors

Our administration is conducted by our board of directors which, in accordance with our *estatutos*, or bylaws, consists of eleven directors and two alternate directors. The entire board of directors is elected every three years. Our current board of directors was elected in March 2002 and their term expires in March 2005. Cumulative voting is permitted for the election of directors. Our Chairman and our Chief Executive Officer are appointed by the board of directors and holds their office at the board of directors discretion. Scheduled meetings of the board of directors are held at least once a month. Extraordinary board of directors meetings may be called by the Chairman, when requested by a majority of the directors or, in limited circumstances, when requested by one director.

Our current directors are as follows:

Directors	Position	Age
Segismundo Schulin-Zeuthen S.	Chairman	58
Andronico Luksic C.	Vice Chairman	50
Guillermo Luksic C.	Director	47
Jacob Ergas E.	Director	69
Jorge Awad M.	Director	58
Rodrigo Manubens M.	Director	44
Gonzalo Menendez D.	Director	54
Maximo Pacheco M.	Director	50
Francisco Perez M.	Director	45
Manuel Sobral F.	Director	49
Maximo Silva B.	Director	58
Edmundo Eluchans U.	Alternate Director	53
Jorge Diaz V.	Alternate Director	60

Segismundo Schulin-Zeuthen S. has been the Chairman of our board of directors since 1999. Previously he had been our Chief Executive Officer. He joined us in 1985 and served as Assistant General Manager until 1986. Prior to joining us, Mr. Schulin-Zeuthen held positions at Banco Morgan Finansa and at Nacional Financiera. Mr. Schulin-Zeuthen is also a member of the board of directors of the Santiago Stock Exchange, ICARE and the Asociacion de Bancos e Instituciones Financieras (the Chilean Association of Banks and Financial Institutions). Mr. Schulin-Zeuthen is also Chairman of the board of directors of Banchile Corredora de Bolsa, a member of the board of directors of Visa International, and Chairman of the board of directors of Visa Latin American and Caribbean Region. Mr. Schulin-Zeuthen holds a degree in commercial engineering from the Universidad de Chile.

Andronico Luksic C. was elected as a member and Vice Chairman of our board of directors in March 2002. He is a member of the NYSE, the advisory committee to the David Rockefeller Center for Latin American Studies at Harvard University, the Latin American Advisory Committee (LAAC) at Harvard Business School, the board of trustees to Babson College, the advisory board of the Panama Canal Authority and the ABAC (APEC Business Advisory Council). Mr. Luksic is Vice Chairman of Quiñenco and a member of the board of directors at Compañia Cervecerias Unidas S.A., Manufacturas de Cobre Madeco S.A., Industria Nacional de Alimentos S.A. and SOFOFA, the Sociedad de Fomento Fabril. Mr. Luksic is also a Trustee of the Chile-Pacific Foundation. He was Chairman of the board of directors of Banco O Higgins and subsequently Chairman of the board of directors of Banco Santiago until May 1999. Mr. Luksic was Director and Chairman of the board of directors of Banco de A. Edwards from September 1999 to December 2001. Mr. Luksic is a brother of Mr. Guillermo Luksic.

Guillermo Luksic C. has been a member of our board of directors since March 2001. He is the former Vice Chairman of the board. Mr. Luksic is Chairman of the board of directors of Quiñenco S.A., Compañia Cervecerias Unidas S.A., CNT Telefonica del Sur S.A. and Madeco S.A. and a Director of Industria Nacional de Alimentos S.A. He is also a member of the advisory council of Fundacion Paz Ciudadana and the Center of Public Studies, of the board of Universidad Finis Terrae and of the board of trustees of Thunderbird, The American Graduate School of International Management. Mr. Luksic is a brother of Mr. Andronico Luksic.

Jacob Ergas E. has been a member of our board of directors since January 2002. Mr. Ergas is also Director of Banchile Administradora General de Fondos. He was Chairman of the board of directors of Banedwards S.A. Administradora de Fondos Mutuos, Banedwards S.A. Fondos de Inversion and Banedwards Corredora de Seguros Limitada. He was Director of Promarket, Banedwards Compañia de Seguros de Vida S.A. and Banedwards Asesoria Financiera S.A. He was Director and Vice Chairman of Banco de A. Edwards from 1986 to December 2001 and also Director of the Chilean Association of Banks and Financial Institutions. He is Chairman of the board of directors of J. Ergas Inversiones y Rentas Limitada, Ever I BAE S.A., Ever II HNS S.A., Inmobiliaria Paidahue S.A. and INERSA S.A.

Jorge Awad M. has been a member of our board of directors since 1996. From 1989 to 1996 he was a member of the board of directors of Banco de Santiago. Mr. Awad is the Chairman of the board of directors of Lan Chile since 1994, and a member of the board of directors of several other companies including Envases del Pacifico S.A. and *Diario La Nacion*. He is also a professor of Business Entrepreneurship at the Universidad de Chile, from which he holds a degree in commercial engineering.

Rodrigo Manubens M. has been a member of our board of directors since March 2001. Mr. Manubens was a member of the board of directors of Banco de A. Edwards from 1999 until April 2001. From 1985 to May 1999 Mr. Manubens was a member of the board of Banco O Higgins and continued in that role when it merged into Banco Santiago. From 1995 to 1999 he was Chairman of Banco Tornquist in Argentina and a member of the board of Banco Sur in Peru and Banco Asuncion in Paraguay. Mr. Manubens also served for a 10-year period as a Director and chairman of Endesa Chile S.A. He is also chairman of Banchile Compañia de Seguros de Vida S.A., Banchile Corredora de Seguros Limitada, and Banchile Factoring and a member of the board of directors of Banchile Corredora de Bolsa. Mr. Manubens holds a degree in business from Universidad Adolfo Ibañez and a masters of science from the London School of Economics and Political Science.

Gonzalo Menendez D. has been a member of our board of directors since March 2001. Mr. Menendez is also a member of the board of directors of Quiñenco, Antofagasta PLC, Minera Michilla S.A., Mining Group Antofagasta Minerals S.A., Antofagasta Railway, and Aguas de Antofagasta S.A. From 1980 to 1985, Mr. Menendez was the Chief Executive Officer of Antofagasta Railway. From 1985 to 1992, he was the Chief Executive Officer of Banco O Higgins. Since 1990, he has been a Director and is now chairman of the Latin American Export Bank. From 1993 to 1999, Mr. Menendez was a member of the board of directors and of the executive committee of Banco Santiago. From 1994 to 1998 he was the Chief Executive Officer of Empresas Lucchetti S.A. From 1999 to 2001, Mr. Menendez was a member of the board of directors of Banco de A. Edwards. Mr. Menendez has been a Professor of Finance, Chilean Economic and Business Policy at Universidad de Chile and Counselor of Universidad de Antofagasta, the Center of Public Studies, the Fundacion Pascual Baburizza, Fundacion Andronico Luksic A., Fundacion Coanil and Universidad Diego Portales. Mr. Menendez is also the Chairman of Inversiones Vita S.A., Banchile Asesoria Financiera, Banchile Administradora General de Fondos and Socofin, and a member of the boards of directors of Banchile Compañia de Seguros de Vida, Compañia Nacional de Telefonos, Telefonica del Sur S.A., and Compañia de Telefonos de Coyhaique S.A. Mr. Menendez holds a degree in business administration and accounting from the Universidad de Chile.

Maximo Pacheco M. has been a member of our board of directors since March 2001. Mr. Pacheco is Senior Vice President of International Paper in Brazil, member of the board of directors of Carter Holt Harvey in New Zealand, and member of the board of directors of Corporacion Cultural de la I. Municipalidad de Santiago and Industria Nacional de Alimentos S.A. Mr. Pacheco holds a degree in commercial engineering from the Universidad de Chile.

Francisco Perez M. has been a member of our board of directors since March 2001. Since July 1998, Mr. Perez has been the Chief Executive Officer of Quiñenco. He was formerly the Chief Executive Officer of Compañia Cervecerias Unidas, of which he is still a Director. He is also a member of the board of directors of Entel. Prior to 1991, Mr. Perez was Chief Executive Officer of Citicorp-Chile and also worked for Bankers Trust. Mr. Perez holds a degree in business administration from the Pontificia Universidad Catolica de Chile and a masters degree in business administration from the University of Chicago.

Manuel Sobral F. has been a member of our board of directors since 1999. Mr. Sobral was a member of the board of directors of Banchile Corredores de Bolsa from 1999 to 2001, and has been a member of the board of directors of Banchile Factoring since 2003. He has been a member of the boards of directors of Inversiones Concepcion and Inversiones Aculeo since 1988.

Maximo Silva B. has been a member of our board of directors since 1987. Mr. Silva is chairman of the board of directors of Isapre Banmedica S.A., Clinica Santa Maria S.A. and Clinica Davila y Servicios Medicos S.A. and a member of the boards of directors of Banchile Asesoria Financiera S.A., since 2002, Socofin S.A., since 2003, and Banmedica S.A. From 1996 until April 2003, he was the Chairman of the Asociacion de Clinicas Privadas de Chile and Isapre Salud Colmena, Colombia. Mr. Silva was Chile s Minister of Labor in 1982, and he holds a law degree from the Pontificia Universidad Catolica de Chile.

Edmundo Eluchans U. was elected as an Alternate Director in March 2002. Mr. Eluchans was a Director of Banco del Trabajo, Banco O Higgins and Banco Santiago. He is also a Director of Promarket and member of the Administrative Council of Banchile Corredora de Seguros Limitada. Mr. Eluchans is also a Director of several corporations and commercial institutions in Chile, and the principal partner at the Chilean law firm of Edmundo Eluchans y Cia. He was a Director at Banco de A. Edwards from March 2001 to December 2001, after having been designated as an Alternate Director in March 2000.

Jorge Diaz V. was elected as an Alternate Director in March 2002. Mr. Diaz is the Chairman of the board of directors of Redbanc, and a Director of Servipag and FCMI Administradora de Fondos de Inversion S.A. Mr. Diaz was the Intendent at the Chilean Superintendency of Banks from 1976 to 1980, Director of Banco del Pacifico from 1980 to 1981, the administrator (appointed by the Chilean Superintendency of Banks) at Banco Unido de Fomento from 1982 to 1985, Chief Executive Officer of Banco Concepcion (now Corpbanca) from 1986 to 1992 and advisor of O Higgins Central Hispano S.A. until 1999. He was a Director at Banco de A. Edwards from March 2001 to December 2001, after having been elected as an Alternate Director in March 2000. He holds a degree in economics from the Pontificia Universidad Catolica de Chile.

Senior Management

Our current executive officers are as follows:

Executive Officers	Position	Age
Pablo Granifo L.	Chief Executive Officer	45
Nelson Rojas P.	General Legal Counsel	50
Julio Guzman H.	Manager-- Corporate and International Division	49
Luis Felipe Bravo F.	Manager-- Credit Risk Division	60
Alejandro Herrera A.	Manager-- Individual Banking and Branches	47
Marcelo Caracci L.	Manager-- Operations and Technology Division	54
Arturo Concha U.	Manager-- Financial Division	50
Jennie E. Coleman A.	Manager-- Human Resources Division	50
Arturo Tagle Q.	Manager-- Planning and Research Division	44
Alvaro Cambara L.	Manager-- Marketing Division	47
Pedro Bolados M.	Manager-- Risk Control Division	45
Cristian Wolleter V.	Manager-- Middle Market Division	51
Alicia Sandoval Q.	Manager-- Special Business Division	54
Juan Cooper A.	Manager-- Credichile Division	43

Pablo Granifo L. was appointed our Chief Executive Officer in October 2001. He was Chief Executive Officer of Banco de A. Edwards from November 2000 to October 2001, after having been a commercial manager at Banco Santiago from 1995 to 1999 and a corporate manager at Banco Santiago from 1999 to January 2000. Mr. Granifo is a member of the board of directors of Banchile Administradora General de Fondos, Banchile Asesoria Financiera and Banchile Factoring, and he is a member of the executive committee of Banchile Corredores de Seguros Ltda. He holds a degree in business from the Pontificia Universidad Catolica de Chile.

Nelson Rojas Preter has been our General Legal Counsel and Secretary of our Board since April 2004. He previously served as in-house legal counsel since 2002. Mr. Rojas joined Banco de A. Edwards in 1987 where he was the General Legal Counsel and Secretary of the board from 1997 until 2002. He is actually Vice-President of the Legal Affairs Committee of the Chilean Bank Association. Mr. Rojas holds a degree in law from the Universidad de Chile.

Julio Guzman H. has been the Manager of the Corporate and International division since January 2002, after having been the General Manager of Banco de A. Edwards. He joined Banco de A. Edwards in 1992 after working at Banco Santiago, Citibank N.A. and Banco de Chile. Mr. Guzman is a member of the board of directors of Banchile Administradora General de Fondos S.A. and Banchile Securitizadora S.A. He holds a degree in business from the Pontificia Universidad Catolica de Chile.

Luis Felipe Bravo F. has been the Manager of the Credit Risk Division since January 2002. Mr. Bravo joined us in 1986 and has been Manager of Corporate and International Credit, Manager of Corporate Banking and Manager of Credit Risk. Prior to that time, he was a Director of Carvalho Hosken and Credit Manager at Citibank N.A. Mr. Bravo holds degrees in commercial engineering and accounting.

Alejandro Herrera A. has been the Manager of the Individual Banking and Branches Division since January 2002, after having served in the same position at Banco de A. Edwards. He joined Banco de A. Edwards in 2000, after having been the Manager of Individual Banking and Branches Division at Banco Sudamericano between 1996 and 1999, and as the Chief Executive Officer of Administradora de Fondos Mutuos Santiago S.A. between 1994 and 1995. Prior to that time he worked at Banco Santiago as Branches Manager for the Santiago region. Mr. Herrera is a member of the board of directors of Banchile Administradora General de Fondos S.A., Banchile Securitizadora S.A., Promarket S.A. and he is a member of the executive committee of Banchile Corredores de Seguros Ltda. He holds a degree in business from the Pontificia Universidad Catolica de Valparaiso.

Marcelo Caracci L. has been the Manager of the Operations and Technology Division since May 2001. Prior to that time, Mr. Caracci was founder and Director of Sonda Bancos and Sonda Peru, both technology companies. He participated actively in the development and startup of Redbanc, Transbank, Servipag and Deposito Central de Valores. He holds a degree in civil engineering from the Pontificia Universidad Catolica de Chile.

Arturo Concha U. has been the Manager of the Financial Division since May 1987. Mr. Concha joined us in 1986 after serving as Chief Financial Officer at Banco Bice and Banco Colocadora Nacional de Valores. Mr. Concha serves as Chairman of the board of directors of the Sociedad Interbancaria de Depositos de Valores de S.A. Mr. Concha is a member of the board of directors of Banchile Corredores de Bolsa S.A. and Banchile Securitizadora S.A. Mr. Concha holds degrees in commercial engineering and accounting from the Pontificia Universidad Catolica de Chile and has attended executive education programs at Harvard Business School.

Jennie E. Coleman A. has been the Manager of the Human Resources Division since March 2003, when she joined us. Prior to that time, Mrs. Coleman was the Manager of the Human Resources Division at Banco Santiago from 1998 until 2002 and also Manager of Organizational Development at Banco Santiago, where she previously held the position of training chief executive. Mrs. Coleman holds a degree in public administration from the Universidad de Chile.

Arturo Tagle Q. has been the Manager of the Planning and Research Division since January 2002. Mr. Tagle joined us in 1995 after serving as General Manager of the Chilean Bankers Association and Director of Research at the Chilean Superintendency of Banks. Mr. Tagle is the Chief Executive Officer of Sociedad Matriz del Banco de Chile S.A. and SAOS. He holds a degree in commercial engineering from the Pontificia Universidad Catolica de Chile and a masters degree in business administration from the University of Chicago.

Alvaro Cambara L. has been the Manager of the Marketing Division since January 2002, after having been the Manager of the Individual Banking Division and the Marketing Manager of that division. Prior to that time, Mr. Cambara held several positions in our Corporate and Marketing divisions, after having been Marketing Manager at AFP Provida S.A. Mr. Cambara holds a degree in business from Pontificia Universidad Catolica de Chile.

Pedro Bolados M. has been the Manager of the Risk Control Division since January 2002, after having served as Comptroller of Banco de A. Edwards. He joined Banco de A. Edwards in 1992 after being Corporate Audit Vice President at Citibank N.A. in Latin America. Mr. Bolados holds an executive masters degree in business administration from the Pontificia Universidad Catolica de Chile.

Cristian Wolleter V. has been the Manager of the Middle-Market Division since May 1999. Mr. Wolleter joined us in 1981. He is also a member of the board of directors of Banchile Factoring and Banchile Asesoria Financiera S.A. Prior to joining our company, Mr. Wolleter held various positions at Financiera Tasco and Agrobanco, where he was Chief Credit Officer. Mr. Wolleter is a member of the board of directors of Banchile Factoring S.A. and Banchile Asesorias Financieras S.A. Mr. Wolleter holds a degree in commercial engineering from the Universidad de Chile.

Alicia Sandoval Q. has been the Manager of the Special Business Division since January 2002, after having served as the Manager of Specialized Credits in the Corporate Division. Prior to that time, Mrs. Sandoval was an advisor to the Chief Executive Officer of Industria Azucarera Nacional S.A. where she also served as Assistant Manager and an analyst at Corporacion de Fomento. She is also a member of the board of Banchile Asesoria Financiera S.A. Mrs. Sandoval holds degrees in commercial engineering and accounting from the Universidad de Chile.

Juan Cooper A. has been the Manager of the Credichile Division since February 2003, after having been the Chief Executive Officer of Altavida Compañia de Seguros de Vida S.A. from 2001 to 2002. Prior to that time, he worked at Banco Santiago, as the Manager of the Santiago Express Division, from 1993 to 2000 and in other positions since 1985. Mr. Cooper is also a member of the board of Promarket S.A. Mr. Cooper has a degree in business from the Universidad de Chile and a masters degree in business administration from the Pontificia Universidad Catolica de Chile.

Our directors do not have any service contracts with the company that provide for benefits upon termination of employment.

COMPENSATION

Consistent with Chilean law, we do not disclose to our shareholders, or otherwise make public, information regarding the compensation of our individual directors or officers. For the year ended December 31, 2003, the aggregate amount of compensation paid to all of our directors was Ch$1,566 million, as remuneration for their services, as established at the general shareholders meetings, and for attendance fees, and no amounts were set aside or accrued by us to provide pension, retirement or similar benefits for our directors and executive officers. This amount does not include Ch$3,147 million paid to our senior management and Ch$1,215 million paid to directors and executive officers of our subsidiaries. The Chilean Corporations Law does not require us to have a compensation committee. Pursuant to the Chilean Corporations Law, our directors committee must approve executive officers compensation.

Indebtedness of Directors and Executive Officers

The Chilean Corporations Law provides that any transaction in which a director has a personal interest or is acting on behalf of a third party must be previously approved by the board of directors. The transaction may be approved only when the board has been informed of such director s interest and the terms of such transaction are similar to those prevailing in the market. If the proposed transaction involves amounts considered material, the board must previously determine that such transaction is consistent with conditions prevailing in the market. If it is not possible for the board to reach such a judgment, the board may appoint two independent evaluators. The evaluators final conclusions must be made available to shareholders and directors for a period of 20 business days, during which shareholders representing 5% or more of the issued voting shares may request the board to summon a shareholders meeting to resolve the matter, with the agreement of two-thirds of the issued voting shares.

For purposes of this regulation, the law provides that the amount of a proposed transaction is material if (1) it exceeds 1% of the company s paid-in capital and reserves (provided that it also exceeds 2,000 UF), or (2) it exceeds 20,000 UF. All resolutions approving such transactions must be reported to the company s shareholders at the next annual shareholders meeting. Violations of this provision may result in administrative or criminal sanctions and civil liability to shareholders or third parties who suffer losses as a result of such violation.

Chilean law contains additional provisions restricting transactions with affiliates not involving directors or executive officers. The Chilean Corporations Law requires that our transactions with related parties be on market terms or on similar terms to those customarily prevailing in the market. We are required to compare the terms of any such transaction to those prevailing in the market at the date the transaction is to be entered into. Directors of companies that violate this provision are liable for losses resulting from such violation. As disclosed in note 16 to our audited consolidated financial statements, we incurred an aggregate of Ch$7,551.7 million in expenses and Ch$155.8 million in income from transactions other than loans with related parties in 2003.

As authorized by the General Banking Law, and within applicable regulatory limits, we also hold several outstanding loans owed by different affiliated corporations. All such loans

- were made in the ordinary course of business;
- were made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons; and
- did not involve more than the normal risk of collectibility or present other unfavorable features.

We held an aggregate of Ch$113,778.8 million in loans to, including Ch$25,202 million in collateral pledged by, related parties as of December 31, 2003. See note 16 to our audited consolidated financial statements for details concerning these transactions.

BOARD PRACTICES

NYSE Corporate Governance Comparison

Pursuant to Section 303A.11 of the Listed Company Manual of the NYSE, we are required to provide a summary of the significant ways in which our corporate governance practices differ from those required for U.S. companies under the NYSE listing standards. We are a Chilean bank with shares listed on the Santiago Stock Exchange, the LSE and the Latibex. Our corporate governance practices are governed by our bylaws, the General Banking Law, the Chilean Corporations Law, the *Ley de Mercado de Valores No. 18,045,* or the Securities Market Law, and the regulations issued by the Chilean Superintendency of Banks.

The table below discloses the significant differences between our corporate governance practices and the NYSE standards.

NYSE Standards	Our Corporate Governance Practice
Director Independence. *Majority of board of directors must be independent. Controlled companies, which would include our company if it were a U.S. issuer, are exempt from this requirement. §303A.01*	Pursuant to the General Banking Law; we are not required to make a determination as to the independence of our directors. Pursuant to the Chilean Corporations Law, we must determine whether the members of our Director s Committee (all of whom are members of our board of directors) are independent. The definition of independence applicable to us pursuant to the Chilean Corporations Law differs in certain respects from the definition applicable to U.S. issuers under the NYSE rules. Under the Chilean Corporations Law, a director is deemed to be an independent member of the Director s Committee if such member would have, been elected as a Director at the Shareholders Meeting after excluding the votes of any controller or party related to it.
Executive Sessions. *Non-management directors must meet regularly in executive sessions without management. Independent directors should meet alone in an executive session at least once a year. §303A.03*	There is no similar requirement under our bylaws or under applicable Chilean law.
Audit committee. *Audit committee satisfying the independence and other requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended, and the more stringent requirements under the NYSE standards is required. §§303A.06, 303A.07*	We will be required to comply with Rule 10A-3 by July 31, 2005. The members of our audit committee are not required to satisfy the NYSE independence and other audit committee standards that are not prescribed by Rule 10A-3. For a description of the duties of our audit committee under applicable Chilean law, see Governance Practices The Audit Committee.

NYSE Standards	Our Corporate Governance Practice
Nominating/corporate governance committee*. Nominating/corporate governance committee of independent directors is required. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. Controlled companies, which would include our company if it were a U.S. issuer, are exempt from these requirements. §303A.04*	We are not required to have, and do not have, a nominating/corporate governance committee.
Compensation committee*. Compensation committee of independent directors is required, which must approve executive officer compensation. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. Controlled companies, which would include our company if it were a U.S. issuer, are exempt from this requirement. §303A.05*	We are not required to have a compensation committee. Pursuant to the Chilean Corporations Law, our directors committee must approve executive officers compensation.
Equity compensation plans*. Equity compensation plans require shareholder approval, subject to limited exemptions.*	Equity compensation plans require shareholder approval, subject to limited exemptions.
Code of Ethics*. Corporate governance guidelines and a code of business conduct and ethics is required, with disclosure of any waiver for directors or executive officers. §303A.10*	We have adopted a code of ethics applicable to all of our directors and executive officers, which has been included as an exhibit to this annual report on Form 20-F. We are required by Item 16B of Form 20-F to disclose any waivers granted to our chief executive officer, chief financial officer, principal accounting officer and persons performing similar functions. Our code of ethics sets forth the principles and values that govern personnel conduct as well as other issues such as; conflicts of interests, usage of the privileged information, internal controls for fraud prevention and labor responsibility.

Governance Practices

Historically, we have had a directors committee, as required by the Chilean Corporations Law. Based on a recent resolution of the Chilean Superintendency of Banks and in response to the Sarbanes-Oxley Act of 2002, we have recently established an audit committee and a disclosure committee.

The Directors Committee

The three members of our directors committee are directors appointed by the board. The members serve on the committee for the same period as they serve as directors and can be re-elected. The majority of the members of the directors committee must be independent of the controlling shareholder according to Chilean law. Our directors committee must meet at least four times a year. The following directors were appointed as members of the directors committee by the board of directors at a meeting held on March 21, 2002:

- Jorge Awad M. (Chair);
- Gonzalo Menendez D.; and
- Manuel Sobral F.

Mr. Jorge Awad M. and Mr. Manuel Sobral satisfy the requirement that they be independent of the controlling shareholder.

The directors committee may appoint independent personnel to carry out specific duties. The main duties of the directors committee are:

- reviewing and approving all related party transactions;
- reviewing our individual and consolidated financial statements and accounting policies;
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