INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Ch$	=	Chilean pesos
MCh$	=	Millions of Chilean pesos
US$	=	United States dollars
ThUS$	=	Thousands of United States dollars
UF	=	"Unidades de Fomento", an inflation-indexed, peso denominated monetary unit. The UF rate is set daily based on changes in the Chilean Consumer Price Index.

Application of Constant Chilean Pesos

The December 31, 2001 and 2002 consolidated financial statements have been restated for general price-level changes and expressed in constant Chilean pesos of December 31, 2003 purchasing power.

ERNST & YOUNG

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Santiago, Chile

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Report of Independent Auditors

To the Board of Directors and Shareholders of
Banco de Chile and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Banco de Chile and Subsidiaries (the "Bank") as of December 31, 2002 and 2003 and the related consolidated statements of income, cash flows and changes in shareholders' equity for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Banco de Chile and subsidiaries as of December 31, 2002 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in Chile and the regulations issued by the Chilean Superintendency of Banks and Financial Institutions, which differ in certain respects from U.S. generally accepted accounting principles (see Note 28 to the consolidated financial statements).

As more fully described in Note 2 to these consolidated financial statements, during the year ended December 31, 2002 the Bank modified the accounting treatment of financial investments in mortgage finance bonds issued by the Bank, in accordance with regulations issued by the Chilean Superintendency of Banks and Financial Institutions.

ERNST & YOUNG LIMITADA

Ernst + Young

Santiago, Chile, June 8, 2004

BANCO DE CHILE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Restated for general price-level changes and expressed in millions of constant Chilean pesos as of December 31, 2003 and thousands of U.S. dollars)

ASSETS	NOTE	As of December 31, 2002 MCh$	2003 MCh$	2003 ThUS$ (Note 1 (o))
CASH AND DUE FROM BANKS	3			
Non-interest bearing		603,680	644,078	1,074,502
Interbank deposits-interest bearing		79,507	212,756	354,936
Total cash and due from banks		**683,187**	**856,834**	**1,429,438**
FINANCIAL INVESTMENTS	4			
Government securities		878,045	1,010,249	1,685,378
Investments under agreements to resell		32,499	29,660	49,481
Other financial investments		425,124	458,482	764,876
Investment collateral under agreements to repurchase		279,222	417,933	697,229
Total financial investments		**1,614,890**	**1,916,324**	**3,196,964**
LOANS, NET	5			
Commercial loans		2,542,492	2,557,000	4,265,790
Consumer loans		416,885	478,093	797,593
Mortgage loans		1,199,144	1,128,030	1,881,869
Foreign trade loans		617,788	658,280	1,098,195
Interbank loans		55,366	13,223	22,060
Leasing contracts	6	251,584	268,956	448,694
Other outstanding loans		607,899	636,649	1,062,108
Past due loans		146,386	105,503	176,008
Contingent loans		385,585	409,612	683,347
Allowance for loan losses	7	(218,202)	(179,391)	(299,274)
Total loans, net		**6,004,927**	**6,075,955**	**10,136,390**
OTHER ASSETS				
Bank premises and equipment, net	8	140,736	127,755	213,131
Investments in other companies	9	4,825	5,296	8,835
Assets received in lieu of payment, net		19,187	15,627	26,070
Other	10 (a)	212,018	252,111	420,592
Total other assets		**376,766**	**400,789**	**668,628**
TOTAL ASSETS		**8,679,770**	**9,249,902**	**15,431,420**

The accompanying notes 1 to 30 are an integral part of these consolidated financial statements

BANCO DE CHILE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Restated for general price-level changes and expressed in millions of constant Chilean pesos as of December 31, 2003 and thousands of U.S. dollars)

	NOTE	As of December 31,		
		2002 MCh$	**2003 MCh$**	**2003 ThUS$ (Note 1 (o))**
LIABILITIES AND SHAREHOLDERS' EQUITY				
DEPOSITS				
Non-interest bearing				
Current accounts		1,082,905	1,227,877	2,048,442
Bankers' drafts and other deposits		574,318	663,451	1,106,822
Total non-interest bearing		**1,657,223**	**1,891,328**	**3,155,264**
Interest bearing				
Savings accounts and time deposits		3,532,426	3,422,535	5,709,744
Total deposits		**5,189,649**	**5,313,863**	**8,865,008**
OTHER INTEREST BEARING LIABILITIES	11			
Central Bank credit lines for renegotiations of loans		3,801	2,975	4,963
Other Central Bank borrowings		—	24,906	41,550
Total Central Bank borrowings		**3,801**	**27,881**	**46,513**
Investments under agreements to repurchase		279,442	426,741	711,923
Mortgage finance bonds		1,094,881	1,014,452	1,692,389
Bonds		4,639	3,127	5,217
Subordinated bonds		280,431	271,197	452,432
Borrowings from domestic financial institutions		50,993	49,882	83,217
Foreign borrowings		515,447	717,969	1,197,773
Other obligations		77,538	59,600	99,429
Total other interest bearing liabilities		**2,307,172**	**2,570,849**	**4,288,893**
OTHER LIABILITIES				
Contingent liabilities	10 (c)	384,802	409,638	683,391
Other	10 (b)	173,732	259,871	433,538
Minority interest		3	5	8
Total other liabilities		**558,537**	**669,514**	**1,116,937**
Commitments and contingencies	22			
SHAREHOLDERS' EQUITY	15			
Capital and reserves		571,251	565,123	942,783
Net Income for the year		53,161	130,553	217,799
Total Shareholders’ equity		**624,412**	**695,676**	**1,160,582**

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**8,679,770**	**9,249,902**	**15,431,420**

The accompanying notes 1 to 30 are an integral part of these consolidated financial statements

BANCO DE CHILE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(Restated for general price-level changes and expressed in millions of constant Chilean pesos as of December 31, 2003 and thousands of U.S. dollars)

	NOTE	Years ended December 31, 2001 MCh$	2002 MCh$	2003 MCh$	2003 ThUS$ (Note 1 (o))
INTEREST REVENUE AND EXPENSE					
Interest revenue		536,330	696,603	428,704	715,198
Interest expense		(312,813)	(325,338)	(204,234)	(340,719)
Net interest revenue		**223,517**	**371,265**	**224,470**	**374,479**
PROVISION FOR LOAN LOSSES	7	**(47,736)**	**(101,650)**	**(60,069)**	**(100,212)**
FEES AND INCOME FROM SERVICES	17				
Income from fees and other services		63,136	105,129	136,250	227,303
Other services expenses		(18,538)	(25,722)	(32,861)	(54,821)
Total fees and income from services, net		**44,598**	**79,407**	**103,389**	**172,482**
OTHER OPERATING INCOME (LOSS)					
Gains from trading activities		17,601	23,484	25,062	41,810
Losses from trading activities		(11,564)	(22,353)	(19,732)	(32,918)
Foreign exchange transactions, net		2,640	(31,981)	91,061	151,915
Total other operating income (loss), net		**8,677**	**(30,850)**	**96,391**	**160,807**
OTHER INCOME AND EXPENSES					
Loan loss recoveries	19	10,035	12,033	25,391	42,359
Non-operating income	17	7,671	6,463	6,137	10,238
Non-operating expenses	17	(7,494)	(23,482)	(21,560)	(35,969)
Equity participation in net income (loss) in investments in other companies	9	(45)	(980)	(1,220)	(2,035)
Minority interest		(1)	(1)	(2)	(3)
Total other income and expenses		**10,166**	**(5,967)**	**8,746**	**14,590**
OPERATING EXPENSES					
Personnel salaries and expenses		(84,485)	(135,443)	(125,199)	(208,867)
Administrative and other expenses		(51,256)	(92,920)	(82,280)	(137,266)
Depreciation and amortization		(8,404)	(22,154)	(16,957)	(28,289)
Total operating expenses		**(144,145)**	**(250,517)**	**(224,436)**	**(374,422)**
NET LOSS FROM PRICE-LEVEL RESTATEMENT	1 (b)	**(6,010)**	**(9,692)**	**(4,036)**	**(6,733)**
INCOME BEFORE INCOME TAXES		**89,067**	**51,996**	**144,455**	**240,991**
INCOME TAXES	21	**1,406**	**1,165**	**(13,902)**	**(23,192)**
NET INCOME		**90,473**	**53,161**	**130,553**	**217,799**

The accompanying notes 1 to 30 are an integral part of these consolidated financial statements

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BANCO DE CHILE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Restated for general price-level changes and expressed in millions of constant Chilean pesos as of December 31, 2003 and thousands of U.S. dollars)

	Years ended December 31,			
	2001 MCh$	**2002 MCh$**	**2003 MCh$ (Note 1 (1))**	**2003 ThUS$ (Note 1 (o))**
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	90,473	53,161	130,553	217,799
Items that do not represent cash flows:				
Depreciation and amortization	8,404	22,154	16,957	28,289
Provisions for loan losses	47,736	101,650	60,069	100,212
Provisions for assets received in lieu of payment	181	2,265	1,468	2,449
Net change in trading investments	(297,368)	197,073	(412,334)	(687,888)
Equity participation in net (income) loss in investments in other companies	45	980	1,220	2,035
Net (gain) loss on sales of assets received in lieu of payment	(167)	(2,961)	(4,179)	(6,972)
Net gain on sales of bank premises and equipment	(93)	(354)	(440)	(734)
Net loss from price-level restatement	6,010	9,692	4,036	6,733
Minority interest	1	1	2	3
Other charges not representing cash flows	9,437	38,482	1,325	2,211
Net change in interest accruals	(3,232)	158	87,094	145,297
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	**(138,573)**	**422,301**	**(114,229)**	**(190,566)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Net (increase) decrease in loans	(89,150)	(148,432)	(119,827)	(199,905)
Net decrease (increase) in investments purchased under agreements to resell	(17,801)	17,936	2,528	4,218
Purchases of bank premises and equipment	(10,214)	(12,117)	(6,805)	(11,353)
Proceeds from sale of bank premises and equipment	466	1,305	3,466	5,782
Investments in other companies	(1,271)	(654)	(2,282)	(3,807)
Dividends received from investments in other companies	229	263	545	909
Proceeds from sale of assets received in lieu of payment	2,820	25,100	20,146	33,609
Net changes in other assets and liabilities	(26,846)	(136,437)	(64,133)	(106,991)
NET CASH USED IN INVESTING ACTIVITIES	**(141,767)**	**(253,036)**	**(166,362)**	**(277,538)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase in current accounts	54,513	162,772	155,694	259,741
Net increase (decrease) in savings accounts and time deposits	207,909	(473,393)	(70,303)	(117,285)
Net increase in bankers drafts and other deposits	11,570	63,454	94,922	158,357
Net increase (decrease) in investments sold under agreements to repurchase	25,211	29,076	150,098	250,405
Increase in mortgage finance bonds	169,749	124,059	304,829	508,540
Repayment of mortgage finance bonds	(93,868)	(191,016)	(330,290)	(551,016)
Proceeds from bond issues	73,804	10,765	—	—
Repayments of bond issues	(354)	(10,762)	(9,106)	(15,191)
Net increase (decrease) in short-tem borrowings	42,078	70,256	131,969	220,161
Proceeds from issuance of long-term borrowings	295,264	616,861	401,157	669,242
Repayment of long-term borrowings	(371,024)	(566,927)	(314,516)	(524,699)
Dividends paid	(85,261)	(98,039)	(52,632)	(87,807)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**329,591**	**(262,894)**	**461,822**	**770,448**

EFFECT OF PRICE-LEVEL RESTATEMENT ON CASH AND DUE FROM BANKS	**(15,665)**	**(26,102)**	**(7,584)**	**(12,652)**
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	**33,586**	**(119,731)**	**173,647**	**289,692**
CASH AND DUE FROM BANKS AT BEGINNING OF YEAR	**515,639**	**549,225**	**683,187**	**1,139,746**
CASH ACQUIRED IN MERGER WITH BANCO EDWARDS	**—**	**253,693**	**—**	**—**
CASH AND DUE FROM BANKS AT END OF YEAR	**549,225**	**683,187**	**856,834**	**1,429,438**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid during the year for:				
Interest paid	318,221	373,586	272,254	454,196
Income taxes paid	21,054	28,879	27,600	46,044
Non- cash investing transaction during the year for:				
Issuance of stock for net assets of Banco de A. Edwards, as follows:				
Cash acquired	—	253,693	—	—
Financial investments and loans, net	—	2,584,576	—	—
Bank premises and equipment	—	61,826	—	—
Other assets	—	103,909	—	—
Liabilities	—	(2,754,986)	—	—
Sub-Total	—	249,018	—	—
Stock issued	—	(249,018)	—	—
Total	—	—	—	—

The accompanying notes 1 to 30 are an integral part of these consolidated financial statements

BANCO DE CHILE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Restated for general price-level changes and expressed in millions of constant Chilean pesos as of December 31, 2003 and thousands of U.S. dollars)

	Number of shares	Paid in share capital	Reserves	Other Accounts	Net Income	Total
	Millions	MCh$	MCh$	MCh$	MCh$	MCh$
Balance as of January 1, 2001	44,932,7	231,822	69,234	(537)	81,958	382,477
Dividends paid	—	—	—	—	(81,958)	(81,958)
Price-level restatement	—	7,187	2,231	—	—	9,418
Net change in unrealized gains (losses) on permanent financial investments	—	—	—	(1,552)	—	(1,552)
Net adjustment for translation differences	—	—	—	2,915	—	2,915
Net Income for the year	—	—	—	—	86,968	86,968
Balance as of December 31, 2001	44,932,7	239,009	71,465	826	86,968	398,268
Balance as of December 31, 2001 restated in constant Chilean pesos as of December 31, 2003	—	248,641	74,346	859	90,473	414,319
Balance as of January 1, 2002	44,932,7	239,009	71,465	826	86,968	398,268
Capital increase due to merger (Note 15)	23,147,1	224,804	4,464	—	10,103	239,371
Transfer to retained earnings	—	—	3	—	(3)	—
Dividends paid	—	—	—	—	(97,068)	(97,068)
Price-level restatement	—	13,914	1,873	—	—	15,787
Absorption of subsidiaries companies	—	—	(108)	—	—	(108)
Net change in unrealized gains (losses) on permanent financial investments	—	—	—	7,620	—	7,620
Net adjustment for translation differences	—	—	—	1,725	—	1,725
Net Income for the year	—	—	—	—	52,635	52,635
Balance as of December 31, 2002	68,079,8	477,727	77,697	10,171	52,635	618,230
Balance as of December 31, 2002 restated in constant Chilean pesos as of December 31, 2003	—	482,504	78,474	10,273	53,161	624,412
Balance as of January 1, 2003	68,079,8	477,727	77,697	10,171	52,635	618,230
Transfer to retained earnings	—	—	3	—	(3)	—
Dividends paid	—	—	—	—	(52,632)	(52,632)
Price-level restatement	—	4,777	1,041	—	—	5,818
Net change in unrealized gains (losses) on permanent financial investments	—	—	—	(2,617)	—	(2,617)
Net adjustment for translation differences	—	—	—	(3,676)	—	(3,676)
Net Income for the year	—	—	—	—	130,553	130,553
Balance as of December 31, 2003	**68,079,8**	**482,504**	**78,741**	**3,878**	**130,553**	**695,676**

The accompanying notes 1 to 30 are an integral part of these consolidated financial statements

BANCO DE CHILE AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

1. Summary of Significant Accounting Policies

(a) Basis of presentation

Banco de Chile ("Banco de Chile") is a corporation organized under the laws of the Republic of Chile, regulated by the Chilean Superintendencia de Bancos e Instituciones Financieras (the "Superintendency of Banks") and from 2001 also regulated by the United States Securities and Exchange Commission ("SEC") as a result of the merger with Banco de A. Edwards, a Chilean Bank previously listed on the New York Stock Exchange ("NYSE"). Banco de Chile's shares are also listed on the Madrid Stock Exchange to be traded on the Latinamerican securities market ("LATIBEX") and the London Stock Exchange through its ADR program.

Banco de Chile and its subsidiaries (collectively "the Bank") operate in a single industry sector. Within this industry, the Bank offers a broad range of banking services to customers ranging from individuals to large corporations. The services are managed in the following segment areas for internal reporting purposes: large corporate banking, middle market corporate banking, retail and personal banking services, international banking services and treasury banking services. The Bank's subsidiaries provide other services including securities brokerage, mutual fund management, factoring, securitization activities, insurance brokerage and financial advisory services.

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Chile and regulations of the Superintendency of Banks. For the convenience of the reader, the consolidated financial statements have been translated into English, certain reclassifications have been made and certain subtotals and clarifying account descriptions have been added.

As a result of the merger with Banco de A. Edwards (see Note 15), as of January 1, 2002, the Bank increased its capital and recognized all the Banco de A. Edwards' assets and liabilities, after the elimination of intercompany transactions. The table below presents the subsidiaries of Banco de A. Edwards and its related participation as of December 31, 2001, that were dissolved or absorbed by Banco de Chile's subsidiaries with the same line of business:

Subsidiary	Interest Owned %
Banedwards S.A. Asesoria Financiera (*)	99.90
Banedwards Administradora de Fondos de Inversion S.A. (*)	99.51
Banedwards S.A. Corredores de Bolsa (*)	99.16
Banedwards S.A. Administradora de Fondos Mutuos	99.00
Banedwards Corredora de Seguros Ltda. (*)	99.00
Banedwards Factoring S.A. (*)	99.00

(*) Subsidiary absorbed by Banchile companies of the same line of business.

In accordance with accounting principles generally accepted in Chile, the consolidated financial statements do not give retroactive effect to the merger. Note 28 presents the most significant differences between Chilean GAAP and United States Generally Accepted Accounting Principles. As more fully explained in that note, under United States' accounting rules the consolidated financial statements give retroactive effect to accounting for the merger in a manner similar to a pooling of interests, due to the fact that at the time of the merger both entities were under common control, with all periods presented as if Banco de Chile and Banco de A. Edwards had been combined since the date that common control existed.

(Restated for general price - level changes and expressed in millions of constant
Chilean pesos as of December 31, 2003)

1. Summary of Significant Accounting Policies (continued)

(a) Basis of presentation (continued)

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In certain cases generally accepted accounting principles require that assets or liabilities be recorded or disclosed at their fair values. The fair value is the amount at which an asset could be bought or sold or in the case of a liability could be incurred or settled in a current transaction between willing parties, other than in a forced or liquidation sale. Where quoted markets are not available the Bank has estimated such values based on the best information available, including using modeling and other valuation techniques.

The consolidated financial statements include the financial position and results of operations of Banco de Chile and its majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in the consolidation. The majority-owned subsidiaries of Banco de Chile as of December 31, 2002 and 2003 are as follows:

Subsidiary	Interest Owned %	
	2002	2003
Banchile Administradora General de Fondos S.A.	99.98	99.98
Banchile Asesoria Financiera S.A.	99.52	99.94
Banchile Corredores de Seguros Ltda.	99.75	99.75
Banchile Corredores de Bolsa S.A.	99.68	99.68
Banchile Factoring S.A.	99.52	99.52
Banchile Securitizadora S.A.	99.00	99.00
Socofin S.A.	99.00	99.00
Promarket S.A.	99.00	99.00

(b) Price-level restatement

The consolidated financial statements are prepared on the basis of general price-level accounting in order to reflect the effect of changes in the purchasing power of the Chilean peso for the Bank and its Chilean subsidiaries during each year. At the end of each reporting period, the consolidated financial statements are stated in terms of the general purchasing power of the Chilean peso using changes in the Chilean consumer price index ("CPI") as determined by the Chilean National Institute of Statistics as follows:

- Non-monetary assets, liabilities, and Shareholders' equity accounts are restated in terms of year-end purchasing power using the "prior month rule", as described below.

- Consistent with general banking practices in Chile, no specific purchasing power adjustments are made to the income statement accounts.

- Monetary items are not restated, as such items are, by their nature, stated in terms of current purchasing power in the consolidated financial statements.

- The price-level restatement debit or credit in the income statement represents the monetary loss or gain in purchasing power from holding monetary assets and liabilities exposed to the effects of inflation.

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

1. Summary of Significant Accounting Policies (continued)

(b) Price-level restatement (continued)

- For comparative purposes, the consolidated financial statements for periods through December 31, 2002 have been restated in Chilean pesos of general purchasing power as of December 31, 2003 ("constant pesos"), to reflect changes in the CPI from the financial statement dates to December 31, 2003. This updating does not change the prior year's financial statements or information in any way except to update the amounts therein to constant pesos of similar purchasing power. Amounts previously presented in constant Chilean pesos as of each balance sheet date have been adjusted by the percentage changes in the Chilean CPI to December 31, 2003, as follows:

Year	Change in Index
2001	4.0%(1)
2002	1.0%(2)

(1) Equivalent to the amounts for 2001 multiplied by the change in the CPI for 2002, then by the change in the CPI for 2003.
(2) Equivalent to the amounts for 2002 multiplied by the change in the CPI for 2003.

The general price-level restatements are calculated using the CPI, and are based on the "prior month rule", in which the inflation adjustments are based on the CPI at the close of the month preceding the close of the respective period or transaction. The CPI is considered by the business community, the accounting profession, and the Chilean government to be the index that most closely complies with the technical requirement to reflect the variation in the general level of prices in the country and, consequently, is widely used for financial reporting purposes in Chile.

The values of the CPI used for price-level restatement purposes are as follows:

Year	Index (*)	Change in Index
2001	110.10	3.1%
2002	113.36	3.0%
2003	114.44	1.0%

* Index as of November 30, of each year under prior month rule described above.

The price-level adjusted 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 non-monetary 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.

The net charge to income for price-level restatement is comprised of the following restatements of non-monetary assets and liabilities. These figures are expressed in constant Chilean pesos of December 31, 2003.

	Year ended December 31,		
	2001 MCh$	2002 MCh$	2003 MCh$
Shareholders' equity	(9,798)	(15,945)	(5,818)
Bank premises and equipment	2,545	4,574	1,234
Investment in other companies	576	1,012	371

Other, net	667	667	177
Net loss from price-level restatement	**(6,010)**	**(9,692)**	**(4,036)**

1. Summary of Significant Accounting Policies (continued)

(c) Index-linked assets and liabilities

Certain of the Bank’s interest-bearing assets and liabilities are denominated in index-linked units of account.

The principal index-linked unit used in Chile is the Unidad de Fomento (“UF”), a unit of account, which changes daily to reflect changes in the CPI. The carrying amounts of such assets and liabilities change with the respective changes in the UF and serve to offset the monetary gains or losses from holding such assets and liabilities. As the Bank’s UF-denominated assets exceed its UF-denominated liabilities, any increase in the Chilean CPI results in a net gain on indexation. Values for the UF are as follows (historical Chilean pesos per UF).

December 31,	Ch$
2001	16,262.66
2002	16,744.12
2003	16,920.00

The UF daily indexation adjustments from the 10th day of the month in question to the 9th day of the subsequent month are determined based on the previous month’s changes in the Chilean CPI. The effect of changes in the UF index on interest earning assets and interest bearing liabilities is reflected in the income statement as an increase or decrease in interest income or expense.

(d) Interest revenue and expense recognition

Interest revenue and expense are recognized on an accrual basis using the effective interest method. Loans, investments and liabilities are stated at their cost, adjusted for accrued interest and the indexation adjustment applicable to such balances that are index-linked.

The Bank suspends the accrual of interest and principal indexation adjustments on loans when it is determined to be a loss or when it becomes past due. Accrued interest remains on the Bank’s books and is considered a part of the loan balance when determining the provisions for loan losses. Payments received on past due loans are recognized as income, after reducing the balance of accrued interest, if applicable.

(e) Foreign currency and derivative activities

The Bank enters into forward foreign exchange contracts and spot exchange contracts for its own account and the accounts of its customers. The Bank accounts for forward contracts between foreign currencies at fair value with realized and unrealized gains and losses on these instruments recognized in other income. Forward contracts between the U.S. dollar and the Chilean peso or the U.F. are valued at the closing spot exchange rate of each balance sheet date, with the initial discount or premium being amortized over the life of the contract. In addition to forward contracts, the Bank enters into foreign exchange futures contracts. Futures contracts are marked to market on a daily basis, with the gains and losses recognized in income.

In addition, the Bank makes loans and accepts deposits in amounts denominated in foreign currencies. Such assets and liabilities, which are principally denominated in U.S. dollars, are translated at the applicable rate of exchange at the balance sheet date.

The amount of net gains and losses on foreign exchange includes the recognition of the effects that variations in the exchange rates have on assets and liabilities denominated in foreign currencies and their gains or losses on foreign exchange spot and forward transactions undertaken by the Bank. The results of such foreign exchange transactions undertaken by the Bank and its subsidiaries are included as other non-operating income (for gross gains) and other non-operating expenses (for gross losses).

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

1. Summary of Significant Accounting Policies (continued)

(e) Foreign currency and derivative activities (continued)

The Bank's interest rate swap agreements are treated as off-balance-sheet financial instruments and the net interest effect, which corresponds to the difference between interest income and interest expense arising from such agreements, is recorded in net income in the period that such differences originate, except for interest rate and cross currency swaps designated as a hedge of the foreign investment portfolio, which are recorded at their estimated fair market values.

(f) Financial investments

Financial investments traded on a secondary market are shown adjusted to market value, following specific instructions from the Superintendency of Banks. These instructions state that such adjustments should be recognized against income, except in the case of the permanent portfolio, when an equity account, "Change in unrealized gains (losses) on permanent financial investments", may be directly charged or credited.

The application of this adjustment generated net unrealized gains in income of MCh$9,588 and MCh$15,728 and a net unrealized loss in income of MCh$10,227, in 2001, 2002 and 2003 respectively, which were included in operating income under "Gains (losses) from trading activities". The adjustment of the permanent portfolio, generated a net debit to equity of MCh$1,898, a net credit of MCh$9,174 and a net debit of MCh$3,112, in 2001, 2002 and 2003, respectively.

Other investments without a secondary market (transferable only among financial institutions), are also valued at market price.

The Bank enters into security repurchase agreements as a form of borrowing. In this regard, the Bank's investments that are sold subject to a repurchase obligation and that serve as collateral for borrowings are reclassified as "investment collateral under agreements to repurchase". The liability to repurchase the investment is classified as "investments under agreements to repurchase".

The Bank also enters into resale agreements as a form of investment. Under these agreements the Bank purchases securities, which are included as assets under the caption "investments under agreements to resell".

(g) Bank premises and equipment

Bank premises and equipment are stated at acquisition cost net of accumulated depreciation and have been restated for price-level changes. Depreciation is calculated using the straight-line method over the estimated useful lives of the underlying assets. Maintenance and repair costs are charged to income. The cost of significant renovations and improvements is capitalized.

Property, plant and equipment	**Useful Life**
Land and buildings	5 - 80
Furniture and fixtures	3 - 10
Machinery and equipment	2 - 10
Vehicles	5
Other	6 - 8

1. Summary of Significant Accounting Policies (continued)

(h) Leasing contracts

The Bank leases certain property that meets the criteria for direct financing leases. At the time of entering into a direct financing lease transaction, the Bank records the minimum lease payments receivable as unearned income. Generally, the lessee acquires the leased asset by remitting all lease payments due. There are no significant residual values assumed by the Bank. Unearned income represents the excess of the minimum lease payments receivable plus any estimated residual value over the cost of the property acquired.

Unearned income is recognized in such a manner as to produce a constant periodic rate of return on the net investment in the direct financing lease. The net investment in financing leases is classified as “leasing contracts” in the accompanying consolidated balance sheets.

(i) Investments in other companies

Shares or rights in other companies which are integral to the operations of the Bank and where the Bank holds a less than majority interest but has significant influence over the operating activities of the invested are accounted for under the equity method. Other minority investments are carried at cost restated for price-level changes.

(j) Allowance for loan losses

The Bank has set up reserves to cover possible loan losses in accordance with the instructions issued by the Superintendency of Banks, as follows:

Global loan loss allowance

A global loan loss allowance is calculated by multiplying the Bank’s outstanding loans by the greater of its “risk index” or 0.75%. The Bank’s risk index calculation is based upon a classification of a portion of its customers’ outstanding loans into five categories based upon risk of loss for commercial loans and overdue status for consumer and residential mortgage loans. The classifications for risk index calculation purposes must include the largest commercial loans and represent at least 75% of the commercial loan portfolio, and 100% of consumer and residential mortgage loans. Commercial and consumer loans are classified based on risk in categories denominated A, B, B -, C or D, while residential mortgage loans are classified only as A, B or B-. The total exposure of the bank to each of its customers and the classification of such customer’s loans are continuously reviewed by the commercial officers of the bank and by the control risk division. The provisions required for each category of loans, which are established by the Chilean Superintendency of Banks, are as follows:

Category	Provisions as a percentage of aggregate exposure
A	0%
B	1
B-	20
C	60
D	90%

The resulting weighted average allowance rate is the risk index utilized in the calculation of the global loan loss reserve.

1. Summary of Significant Accounting Policies (continued)

(j) Allowance for loan losses(continued)

Individual loan loss allowance

Once a loan becomes overdue for more than 90 days, a specific allowance is calculated for 100% of the uncollateralized portion of the loan. Individual loan loss reserves are required only to the extent that, in the aggregate, they exceed the global loan loss reserve.

Voluntary loan loss allowance

The Bank has made a provision for voluntary allowance in addition to those required by the rules of the Superintendency of Banks. Such voluntary reserves cover additional risks inherent in the portfolio.

Charge-offs

Loans are written-off when the collection efforts have been exhausted but not later than the maximum periods prescribed by the Superintendency of Banks, which are as follows:

- 24 months past due (3 months past due for consumer loans) for loans without collateral.
- 36 months past due for loans with collateral.

Loan loss recoveries

Cash recoveries on written-off loans including loans which were reacquired from the Central Bank, recorded in memorandum accounts (see Note 19), are recorded directly to income.

(k) Income taxes

Effects of deferred income taxes are recorded in conformity with Technical Bulletins No. 60 and its related amendments, issued by the Chilean Association of Accountants (see Note 21).

The income tax provision is determined based on current Chilean tax legislation.

(l) Consolidated statements of cash flows

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks. For the years ended December 31, 2001, 2002 and 2003 the consolidated statement of cash flows has been prepared in accordance with Technical Bulletin No.65 of the Chilean Association of Accountants.

(m) Staff severance indemnities

The Bank has recorded a liability for long-term severance indemnities in accordance with employment contracts it has with certain employees. The liability, which is payable to specified retiring employees with more than 30 years of service, is recorded at the present value of the accrued benefits, which are calculated by applying a real discount rate to the benefit accrued as of year-end over the estimated average remaining service period. For the years ended December 31, 2001, 2002 and 2003, the obligation has been discounted using the real interest rate of 7.0% per annum.

1. Summary of Significant Accounting Policies (continued)

(n) Fees and expenses related to loans and services

Fees and expenses related to loans and services are deferred and recognized in income over the term of the loans to which they relate, and to the period that the services are performed.

(o) Convenience translation to U.S. dollars

The Bank maintains its accounting records and prepares its consolidated financial statements in Chilean pesos. The U.S. dollar amounts disclosed in the accompanying financial statements are presented solely for the convenience of the reader at the observed exchange rate for December 31, 2003 of Ch$599.42 per US$1.00. This translation should not be construed as representing that the Chilean peso amounts actually represent or have been, or could be, converted into U.S. dollars at such a rate or, any other rate.

(p) Translation of financial statements of the Bank's foreign branches

The Bank translates the accounting records of its branch in New York, USA and its agency in Miami, USA to Chilean pesos from US dollars in accordance with guidelines established by the Superintendency of Banks which are consistent with Technical Bulletin No. 64, "Accounting for investments Abroad", issued by the Chilean Association of Accountants. All income statement and balance sheet amounts are translated into Chilean pesos as of the exchange rate in effect as of the applicable balance sheet date. Under this standard the foreign investment recorded in the parent company's books is price-level restated, the effects of which are reflected in income, while any foreign exchange gains or losses between the Chilean peso and the US Dollar, net of the effects of Chilean inflation, is recorded in shareholders' equity in the account "Net adjustment for translation differences".

(q) Reclassifications

Certain minor reclassifications have been made to balances in the 2001 and 2002 financial statements in order to conform with the 2003 presentation.

(r) Assets received in lieu of payment

Assets received in lieu of payment are recorded at restated cost less regulatory charge-offs and presented net of a global valuation allowance if the total of the fair value of those assets is lower than restated cost. The Superintendency of Banks requires regulatory charge-offs if the asset is not sold within one year from foreclosure. As instructed, charge-offs are recorded on a straight-line basis over the following 18-month period.

2. Changes in Accounting Principles

In accordance with Circular No. 3,196 issued by the Superintendency of Banks, effective October 31, 2002 the Bank modified its accounting treatment of financial investments in mortgage finance bonds issued by the Bank. This change consisted in reducing from assets the amount recorded for mortgage finance bonds issued by the Bank, and from liabilities, the respective mortgage finance bonds obligation. Likewise, the difference between the amount deducted from related assets and liabilities, was recognized under other assets, and is amortized using the straight-line method based on the term of the obligation. As of October 31, 2002 the effect of the indicated change resulted in a decrease of MCh$204,656 from “other financial investments”, a decrease of MCh$202,774 from “mortgage finance bonds”, and recognizing a net amount of MCh$1,883 under “other assets”. As of December 31, 2002 and 2003 the Bank records a net amount of MCh$1,917 and MCh$2,086, respectively, under “Other assets”.

3. Cash and Due from Banks

Included in cash and due from banks are amounts maintained by the Bank with various foreign and local banks, including the Chilean Central Bank (“Central Bank”).

In accordance with guidelines established by the Superintendency of Banks, the Bank must maintain certain non-interest bearing balances in its account with the Central Bank. The required balances are based upon specified financial criteria, including the level of the Bank’s deposits, the amounts of its foreign borrowings and its average liabilities. These restricted cash amounts totaled MCh$239,757 and MCh$163,745 as of December 31, 2002 and 2003, respectively.

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

4. Financial Investments

A summary of financial investments is as follows:

	As of December 31,		Weighted Average Nominal Rate as of December 31, 2003
	2002 MCh$	2003 MCh$	%
Central Bank and Government Securities			
Marketable debt securities	599,067	968,401	3.45%
Marketable debt securities with limited secondary market	273,446	—	—
Chilean government securities	5,532	41,848	5.01
Investments purchased under agreements to resell	32,499	29,660	3.68
Investments collateral under agreements to repurchase	196,984	324,576	3.23
Subtotal	1,107,528	1,364,485	3.45
Corporate Securities and Other Financial Investments			
Investments in Chilean financial institutions	45,494	131,945	3.00
Foreign government notes	51,617	33,613	1.39
Investments in foreign countries	279,890	186,559	2.72
Other financial investments	48,123	106,365	6.46
Investments collateral under agreements to repurchase	82,238	93,357	4.94
Subtotal	507,362	551,839	3.80
Total	**1,614,890**	**1,916,324**	**3.55%**

Financial investments are classified at the time of the purchase, based on management's intentions, as either trading or permanent. The related amounts are as follows:

	As of December 31,	
	2002 MCh$	2003 MCh$
Permanent	279,187	41,933
Trading	1,335,703	1,874,391
Total	**1,614,890**	**1,916,324**

(Restated for general price - level changes and expressed in millions of constant
Chilean pesos as of December 31, 2003)

5. Loans

The loans included in the accompanying consolidated balance sheets are segregated into subcategories as described below.

Commercial loans are long-term and short-term loans made to companies or businesses. These loans are principally granted in Chilean pesos or UF on an adjustable or fixed rate basis to finance working capital or investments.

Consumer loans are loans to individuals granted principally in Chilean pesos or UF, generally on a fixed rate basis, to finance the purchase of consumer goods or to pay for services. Credit card balances subject to interest charges are also included in this category.

Mortgage loans are inflation indexed, fixed rate, long-term loans with monthly payments of principal and interest collateralized by a real property mortgage. These loans are financed through both the issuance of mortgage finance bonds. At the time of its issuance the amount of a mortgage loan cannot be more than 75% of the value of the property if the loan is financed by mortgage finance bonds.

Foreign trade loans are fixed rate, short-term loans granted 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 financing leases of capital equipment and other property.

Other outstanding loans principally include current account overdrafts, bills of exchange and other mortgage loans, which are financed by the Bank's general borrowings.

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

Contingent loans consist of open and unused letters of credit together with guarantees granted by the Bank in Ch$, UF and foreign currencies (principally U.S. dollars).

The following table summarizes the most significant loan concentrations expressed as a percentage of total loans, excluding contingent loans and before allowance for loan losses:

	As of December 31,	
	2002 %	2003 %
Financial Services	19.66	18.83
Residential mortgage loans	17.93	17.36
Manufacturing	10.21	10.46
Commerce	11.85	12.11
Agriculture, livestock, forestry, agribusiness, fishing	8.43	8.10
Consumer loans	13.97	14.16

Substantial portions of the Bank's loans are to borrowers doing business in Chile.

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

6. Leasing Contracts

The Bank's scheduled cash flows to be received from leasing contracts have the following maturities as of December 31, 2003:

	As of December 31, 2003		
Maturity	Total Receivable	Unearned Income	Net lease Receivable
	MCh$	MCh$	MCh$
Due within one year	92,946	(17,777)	75,169
Due after 1 year but within 2 years	61,208	(12,103)	49,105
Due after 2 years but within 3 years	42,440	(9,090)	33,350
Due after 3 years but within 4 years	33,232	(7,084)	26,148
Due after 4 years but within 5 years	25,933	(5,415)	20,518
Due after 5 years	78,132	(13,466)	64,666
Total leasing contracts	**333,891**	**(64,935)**	**268,956**

Leased assets consist principally of real estate, industrial machinery, vehicle, and computer equipment. The allowance for uncollectible lease receivable was MCh$8,273 as of December 31, 2003 (MCh$10,717 as of December 31, 2002), which forms part of the allowance for loan losses.

7. Allowance for Loan Losses

The changes in the allowance for loan losses for the periods indicated are as follows:

	2001 MCh$	2002 MCh$	2003 MCh$
Balance as of January 1,	121,129	137,757	218,202
Banco de A. Edwards balances as of January 1, 2002	—	97,368	—
Price-level restatement (1)	(3,024)	(6,498)	(2,748)
Charge-offs	(28,084)	(112,075)	(96,132)
Provisions established	48,918	126,378	61,524
Provisions released	(1,182)	(24,728)	(1,455)
Balance as of December 31,	**137,757**	**218,202**	**179,391**

(1) Reflects the effect of inflation and exchange rate changes of branches abroad on the allowance for loan losses at the beginning of each period, adjusted to constant pesos of December 31, 2003.

The provisions for loan losses included in the results of operations for the periods indicated is as follows:

Years ended December 31,		
2001	2002	2003

	MCh$	MCh$	MCh$
Provisions established	(48,918)	(126,378)	(61,524)
Provisions released	1,182	24,728	1,455
Net income charge	**(47,736)**	**(101,650)**	**(60,069)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

8. Bank Premises and Equipment, net

The major categories of Bank premises and equipment net of accumulated depreciation are as follows:

	As of December 31,	
	2002 MCh$	2003 MCh$
Land and buildings	97,592	92,696
Furniture and fixtures	22,419	18,304
Machinery and equipment	17,915	13,966
Vehicles	535	626
Others	2,275	2,163
Bank premises and equipment, net	**140,736**	**127,755**

In accordance with rules of the Superintendency of Banks, Bank premises and equipment are presented net of accumulated depreciation.

9. Investments in other companies

As of December 31, 2001, 2002 and 2003, investments in other companies and the Bank's participation in such companies' results of operations for each of the periods indicated, consist of the following:

	As of and for the years ended December 31,						
	2001		2002		2003		
	Investment	Income (Loss)	Investment	Income (Loss)	Investment	Income (Loss)	Ownership Interest 2003
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	%
Redbanc S.A	448	83	881	153	1,020	291	25.42
Soc. Operadora de Tarjetas de Crédito Nexus S.A.	417	(220)	883	48	986	142	25.81
Transbank S.A	357	55	843	129	846	129	17.44
Servipag Ltda	673	27	723	51	811	88	50.00
Bolsa de Comercio de Santiago (Stock Exchange)	62	1	643	94	545	88	4.17
Sociedad Interbancaria de Depósito de Valores S.A	141	39	245	43	238	36	17.60
Artikos Chile S.A	673	(99)	(69)	(1,256)	203	(1,996)	50.00
Centro de Compensación Automatizado S.A. (CCA S.A.)	141	31	154	12	199	44	33.33

Bolsa de Valores de Chile (Stock Exchange)	323	60	123	1	124	1	5.00
Empresa de Tarjetas Inteligentes S.A	71	(22)	157	(146)	114	(43)	26.67
Total investments in other companies accounted for under the equity method	3,306	(45)	4,583	(871)	5,086	(1,220)	
Other investments carried at cost	249	—	242	(109)	210	—	
Total investments in other companies	3,555	(45)	4,825	(980)	5,296	(1,220)	

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

10. Other Assets and Other Liabilities

(a) Other assets

	As of December 31,	
	2002 MCh$	**2003 MCh$**
Deferred income tax assets	70,735	91,464
Credit card charges in process	29,029	44,300
Amounts receivable under spot foreign exchange transaction	30,249	39,148
Assets for leasing	23,766	24,499
Balances with domestic branches	13,529	9,072
Deferred asset on bonds issuances	7,112	6,103
Software investment	2,939	4,714
Accounts receivable for assets received in lieu of payment sold	3,792	4,583
VAT fiscal credit	1,784	3,219
Deferred fees	3,000	2,750
Deferred asset related to mortgage finance bonds issued by the bank	1,917	2,086
Transactions in process	5,798	1,373
Deferred expenses	1,626	1,066
Recoverable taxes	4,105	941
Materials and supplies	965	478
Other	11,672	16,315
Total other assets	**212,018**	**252,111**

(b) Other liabilities

	As of December 31,	
	2002 MCh$	**2003 MCh$**
Accounts payable	58,652	100,927
Deferred tax liabilities	30,286	48,250
Amounts payable under spot foreign exchange transaction	28,482	47,030
Allowance of income taxes	442	9,909
Derivative instruments, net	8,566	9,306
Accrued staff vacation expense	8,697	9,169
Accrued severance staff indemnities	7,724	7,533
Deferred liability on bonds issuances	7,112	6,103
Administration and credit card contract provision	2,235	4,626
Leasing deferred gains	3,167	4,173

Commissions deferred	3,147	3,839
VAT fiscal debit	2,194	3,209
Transactions in process	2,737	1,629
Legal contingencies provision	1,099	725
Other	9,192	3,443
Total other liabilities	**173,732**	**259,871**

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

10. Other Assets and Other Liabilities (continued)

(c) Contingent Liabilities

Contingent liabilities consist of open and unused letters of credit, together with guarantees granted by the Bank in Chilean pesos, UF and foreign currencies (principally U.S. dollars). The liability represents the Bank's obligations under such agreements. The Bank's rights under these agreements are recognized as assets on the Bank's balance sheets under the caption "Contingent loans". (See note 5).

11. Other Interest Bearing Liabilities

The Bank's long-term and short-term borrowings are summarized below. In accordance with the guidelines established by the Superintendency of Banks, the Bank does 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 MCh$	Short-term MCh$	Total MCh$	Long-term MCh$	Short-term MCh$	Total MCh$
Central Bank Credit lines for renegotiation of loans	3,801	—	3,801	2,975	—	2,975
Other Central Bank borrowings	—	—	—	—	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 instituitions	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	**1,765,286**	**541,886**	**2,307,172**	**1,752,560**	**818,289**	**2,570,849**

(a) 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
	MCh$
Due within 1 year	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	**27,881**

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

11. Other Interest Bearing Liabilities (continued)

(b) Mortgage finance bonds

These 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 rate of interest 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
	MCh$
Due within 1 year	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	**1,014,452**

(c) Bonds

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

	As of December 31, 2003
	MCh$
Due within 1 year	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	**3,127**

Bonds are linked to the UF Index and carried 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.

(d) Subordinated bonds

In 2002 the Bank issued Bonds totaling UF1,580,000 (known as "6.5% Bonds") at a discount of UF98,670. The 6.5% Bonds are linked to the UF index with interest and principal payments due semi-annually. The discount on the issuance of the "6.5% 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.

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

11. Other Interest Bearing Liabilities (continued)

(d) Subordinated bonds (continued)

The 6.5% Bonds are intended for the financing of loans having a maturity of greater than one year. As of December 31, 2003 the outstanding maturities of these bonds, which are considered long-term, are as follows:

	As of December 31, 2003
	MCh$
Due within 1 year	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	**271,197**

Subordinated bonds are considered in the calculation of "effective equity" for the purpose of determining the Bank's minimum capital requirements (See Note 14).

(e) Borrowings from domestic financial institutions

Borrowings from domestic financial institutions are used to fund the Bank's 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
	MCh$
Due within 1 year	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	**49,882**

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

11. Other Interest Bearing Liabilities (continued)

(f) Foreign borrowings

The Bank has 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
	MCh$
Due within 1 year	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	**717,969**

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

(g) Other obligations

	As of December 31,	
	2002 MCh$	**2003 MCh$**
Other long-term obligations:		
Payable accounts	883	—
Obligations with Chilean government	45,437	9,846
Total other long-term obligations	**46,320**	**9,846**
Other short-term obligations	31,218	49,754
Total other obligations	**77,538**	**59,600**

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

As of

	December 31, 2003
	MCh$
Due within 1 year	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	**59,600**

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

12. Obligations Arising From Lease Commitments

The Bank leases certain premises under operating leases. The following table shows the future minimum payments under the terms of the lease commitments, expressed in constant Chilean pesos as of December 31, 2003.

	As of December 31, 2003
	MCh$
Due within 1 year	5,954
Due after 1 year but within 2 years	4,501
Due after 2 years but within 3 years	3,270
Due after 3 years but within 4 years	2,690
Due after 4 years but within 5 years	2,261
Due after 5 years	21,366
Total obligations arising from lease commitments	**40,042**

The rental expense on premises was MCh$2,853, MCh$6,622 and MCh$6,314 for the years ended December 31, 2001, 2002 and 2003, respectively, and is included in the Consolidated Statements of Income under "Administrative and other expenses".

13. Derivative Financial Instruments

(a) Derivative activities

The Bank takes positions in the foreign exchange market by the use of forward exchange contracts and spot exchange contracts. These activities constitute treasury business and help the Bank to provide customers with capital markets products. Other derivative transactions include primarily interest rate swaps (paid fixed-received floating) and rate lock.

(b) Market risk and risk management activities

All derivative instruments are subject to market risk. This is defined as the risk that future changes in market conditions may make an investment more or less valuable. As most of these instruments are recognized at market value for the purposes of Chilean GAAP, these changes directly affect reported income. The Bank manages exposure to market risk in accordance with risk limits set by senior management by buying or selling instruments or entering into off-setting positions.

The Bank is exposed to credit related losses in the event of non-performance by counterparties to these financial instruments, risk that is monitored on an ongoing basis. In order to manage the level of credit risk, the Bank enters into transactions with counterparties whom it believes have a good credit standing and, when appropriate, obtains collateral.

The Central Bank requires that foreign exchange forward contracts be made only in U.S. dollars and other major foreign currencies. In the case of the Bank, most forward contracts are made in U.S. dollars against the Chilean peso or the UF. Occasionally, forward contracts are also made in other currencies, but only when the Bank acts as an intermediary. Unrealized gains, losses, premiums and discounts arising from foreign exchange forward contracts are shown on a net basis under "Other assets" and "Other liabilities". (See note 10).

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

13. Derivative Financial Instruments (continued)

(b) Market risk and risk management activities (continued)

The notional amounts of these contracts as of December 31, 2002 and 2003 are as follows:

Description of transaction	Number of operations		Contract amounts: Less than 3 months		Contract amounts: Over 3 months	
	2002	2003	2002 ThUS$	2003 ThUS$	2002 ThUS$	2003 ThUS$
Local Market:						
- Foreign currency future purchase contracts with Chilean currency	588	1,144	242,234	691,065	867,936	1,343,865
- Foreign currency future sale contracts with Chilean currency	521	1,097	265,838	505,762	822,707	1,224,347
- Foreign currency forward contracts	75	21	4,351	10,101	4,537	7,449
Foreign Markets:						
- Foreign currency future contracts with Chilean currency	—	4	—	12,000	—	40,000
- Foreign currency forward contracts	70	70	48,286	19,104	7,936	26,492
- Foreign currency futures sold	175	179	17,588	24,540	—	—
- Interest rate swaps	78	137	—	32,000	635,798	1,480,385

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

(c) Contracts on the value of authorized readjustment systems and on interest rates in Chilean currency.

Description of transaction	Number of operations		Notional contract amounts: Less than 3 months		Notional contract amounts: Over 3 months	
	2002	2003	2002 MCh$	2003 MCh$	2002 MCh$	2003 MCh$
UF/pesos forward contracts purchased	17	27	1,691	1,692	34,668	47,376
UF/pesos forward contracts sold	5	76	—	6,768	2,573	137,052
Interest rate swaps	—	10	—	—	—	60,912

(d) Fair value of traded instruments

The table below sets forth the estimated fair value of derivative financial instruments held or issued by the Bank for trading purposes as of December 31, 2002 and 2003.

	Fair value as of December 31,	
	2002 **MCh$**	**2003** **MCh$**
Contracts to purchase and sell foreign exchange	(7,437)	(13,131)
Interest rate swaps	12,331	15,336

For those instruments held by the Bank where no quoted market prices are available, fair values have been estimated using modeling and other valuation techniques.

(Restated for general price - level changes and expressed in millions of constant
Chilean pesos as of December 31, 2003)

14. Minimum Capital Requirements

In accordance with the Chilean Banking Law, Chilean Banks are required to maintain a minimum equity level of UF800,000, equivalent to MCh$13,536 as of December 31, 2003. In addition, Chilean Banks are required to maintain a minimum "capital" (capital and reserves) of at least 3% of their total assets net of provisions, and an "effective equity" of not less than 8% of their "risk-weighted assets". The "effective equity" is defined as "net capital base" plus subordinated bonds, up to 50% of the capital and reserves, plus voluntary provisions of up to 1.25% of their risk-weighted assets. The value of the subordinated bonds that can be considered in the "effective equity" should decrease by 20% per year beginning six years prior to maturity.

The Bank's actual qualifying "net capital base" and "effective equity" used to support its "risk-weighted assets"as of December 31, 2003, are set forth in the following table:

	As of December 31, 2003
	MCh$
Basic Capital	565,123
3% of total assets net of provisions	(278,784)
Excess over minimum required equity	286,339
Net capital base as a percentage of the total assets, net of provisions	6.08%
Effective equity	811,685
8% of risk-weighted assets	(491,238)
Excess over minimum required equity	320,447
Effective equity as a percentage of the risk-weighted assets (*)	13.22%

(*) This ratio has been determined on total assets adjusted by risk on a consolidated basis, as established by Circular No.3,178 dated June 7, 2002, from the Superintendency of Banks.

15. Shareholders' Equity

(a) The merger
At the Extraordinary Shareholders' Meeting of Banco de Chile, held on December 6, 2001, the merger by incorporation of Banco de A. Edwards and Banco de Chile, with the later acquiring all assets an assuming all liabilities of the former, incorporating all equity, which included net income for the year ended December 31, 2001, and shareholders of Banco de A. Edwards into Banco de Chile was approved. Later, on December 18, 2001 at Banco de A. Edwards' Extraordinary Shareholders' Meeting the merger was approved on the same terms, also obtaining the approval from the Superintendency of Banks and Financial Institutions on December 21, 2001. The merger became effective as of January 1, 2002.

For this purpose the Shareholders' meeting agreed that the merged bank issue 23,147,126,425 registered shares, without par value, to be given to Banco de A. Edwards' shareholders in a proportion of 3.135826295 Banco de Chile shares for each Banco de A. Edwards' share. Consequently, Banco de Chile's paid in capital was divided between a total of 68,079,783,605 shares.

(Restated for general price - level changes and expressed in millions of constant
Chilean pesos as of December 31, 2003)

15. Shareholders' Equity (continued)

(b) Dividends

Dividends are declared and paid during the year subsequent to that in which the related net income was earned. Dividends declared and paid in 2001, 2002 and 2003 in constant Chilean pesos of December 31, 2003 are as follows:

	Paid during the year ended December 31,		
	2001 MCh$	**2002 MCh$**	**2003 MCh$**
Dividends relating to prior year net income	85,261	98,039	52,632

16. Transactions with Related Parties

In accordance with the rules of the Superintendency of Banks, related parties are defined as individuals or companies who are directors, officers, or shareholders who own more than 1% of the Bank's shares.

Entities in which a director, officer or shareholder of the Bank holds more than a 5% interest as well as entities that have directors in common with the Bank are also considered to be related parties. In the following tables, trading and manufacturing companies are defined as operating companies, and companies whose purpose is to hold shares in other companies are defined as investment companies.

(a) Loans granted to related parties

Loans to related parties, all of which are current, are as follows:

	As of December 31,					
	2001		**2002**		**2003**	
	Loans MCh$	**Collateral Pledged MCh$**	**Loans MCh$**	**Collateral Pledged MCh$**	**Loans MCh$**	**Collateral Pledged MCh$**
Operating companies	51,028	16,441	97,389	23,249	78,219	21,379
Investment companies	4,322	56	7,013	2,230	33,280	2,246
Individuals (1)	3,575	869	1,771	1,387	2,280	1,577
Total	**58,925**	**17,366**	**106,173**	**26,866**	**113,779**	**25,202**

(1) Includes only debt obligations that are equal to or greater than UF 3,000, equivalent to approximately MCh$51 as of December 31, 2003.

The activity in the balances of loans to related parties are as follows:

	2002	2003
	MCh$	MCh$
Balance as of January 1, 2002	58,925	106,173
Banco de A. Edwards balances as of January 1, 2002	31,379	—
New loans	75,253	55,953
Repayments	(56,753)	(47,296)
Price-level restatement (1)	(2,631)	(1,051)
Balance as of December 31	106,173	113,779

(1) Reflects the effect of restatement of beginning balances to constant pesos of December 31, 2003.

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

16. Transactions with Related Parties (continued)

(b) Other transactions with related parties.

During the years ended December 31, 2001, 2002 and 2003, the Bank incurred the following expenses and income as a result of transactions with related parties equal to or greater than UF 5,000 equivalent to approximately MCh$85 as of December 31, 2003.

	Years ended December 31,					
	2001		2002		2003	
	Expense MCh$	Revenue MCh$	Expense MCh$	Revenue MCh$	Expense MCh$	Revenue MCh$
Redbanc S.A	1,526	—	2,239	—	2,433	—
Empresa Nacional de Telecomunicaciones S.A	1,148	—	2,643	—	1,852	—
Operadora de Tarjetas de Crédito Nexus S.A	1,159	—	1,608	—	1,704	—
Depósito Central de Valores, Depósitos de Valores S.A	—	—	194	—	281	—
Entel PCS Telecomunicaciones S.A	—	—	337	—	225	—
Banchile Cía de Seguros de Vida S.A	—	—	157	—	219	—
Entel Telefonía Local S.A	155	—	114	—	202	—
Hoteles Carrera S.A	—	—	152	—	138	—
Compañía Nacional de Teléfonos Telefónica del Sur S.A	—	—	101	—	135	—
Empresa de Tarjetas Inteligentes S.A	—	—	92	—	51	—
Telefónica del Sur Carrier S.A	—	—	102	—	12	—
Corporación Cultural de la Ilustre Municipalidad de Santiago	—	—	353	—	—	—
Empresa de Servicios Especializados S.A	—	—	156	—	—	—
Línea Aérea Nacional Chile S.A	—	105	—	104	—	106
Subtotal	**3,988**	**105**	**8,248**	**104**	**7,252**	**106**
Transactions between 1,000 and 5,000 UF:						
Services expenses	179	—	333	—	239	—
Advisory	—	—	—	—	61	—
Telephone expenses	103	—	33	—	—	—
Rental income	—	44	—	—	—	49
Subtotal	**282**	**44**	**366**	**—**	**300**	**49**
Total	**4,270**	**149**	**8,614**	**104**	**7,552**	**155**

These expense and revenue items are for services received and rendered by the Bank from related parties at market rates. Article 89 of the Chilean Corporations Law requires that the Bank’s transactions with related parties be carried out on a market basis or on terms similar to those prevailing in the market.

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

17. Fees and income from services and non-operating income and expenses

The Bank’s fees and income from services and non-operating income and expenses for the years ended December 31, 2001, 2002 and 2003 are summarized as follows:

	Years ended December 31,					
	2001		2002		2003	
	Income MCh$	Expenses MCh$	Income MCh$	Expenses MCh$	Income MCh$	Expenses MCh$
Fees and income from services						
Demand deposits and overdrafts	12,923	—	20,383	—	21,659	—
Sight accounts and ATMs	6,849	(1,367)	11,982	(2,601)	15,295	(4,696)
Credit cards	7,439	(3,836)	12,110	(5,649)	14,685	(6,264)
Mutual funds	7,999	(567)	13,287	(1,337)	14,663	(1,394)
Insurance	5,656	(714)	6,860	(720)	10,490	(1,128)
Stock brokerage	2,970	(365)	4,060	(435)	9,912	(612)
Collection of over-due loans	—	—	6,398	—	8,621	—
Receipts and payment of services	4,700	—	5,748	—	7,179	—
Credit lines	2,158	—	5,033	—	5,521	—
Financial advisory services	1,010	—	1,929	—	5,350	—
Income and revenue from goods received in lieu of payment	347	(693)	2,961	(1,730)	4,179	(1,753)
Letters of credit, guarantees, collaterals and other contingent loans	3,376	—	4,082	—	3,974	—
Collection services	2,316	—	2,610	—	2,874	—
Foreign trade and currency exchange	1,533	—	1,766	—	2,418	—
Prepaid loans	857	—	1,208	—	1,969	—
Leasing	724	(901)	1,685	(484)	1,637	(514)
Custody and trust services	638	—	595	—	911	—
Factoring	134	(77)	298	(4)	735	(3)
Fees from sales force	—	(4,371)	—	(8,553)	—	(10,864)
Teller services (Servipag)	—	(2,714)	—	(2,765)	—	(3,179)
Other	1,507	(2,933)	2,134	(1,444)	4,178	(2,454)
Total	**63,136**	**(18,538)**	**105,129**	**(25,722)**	**136,250**	**(32,861)**
Non-operating income and expenses						
Rental income	3,013	—	2,699	—	2,554	—
Gains on sales of assets received in lieu of payment	2,874	—	964	—	1,095	—
Income from correspondent banks	661	—	584	—	941	—
Income from sale of fixed assets	135	—	524	—	453	—
Recoveries of expenses	695	—	863	—	428	—
Securities in companies and shares	85	—	298	—	19	—

Charge-offs and provision of assets received in lieu of payment	—	(1,278)	—	(8,373)	—	(7,357)
Administration and credit card contracts	—	(2,639)	—	(3,072)	—	(5,946)
Charge-offs	—	(566)	—	(1,315)	—	(2,257)
Delivery services of bank products	—	(577)	—	(644)	—	(637)
Leasing expenses	—	(483)	—	(7)	—	(605)
Legal contingencies provision	—	(128)	—	(972)	—	(147)
Charge-offs and provision related to fixed assets due to the merger	—	—	—	(4,409)	—	(124)
Charge-offs of transaction in process related to the merger	—	—	—	(2,036)	—	—
Indemnity for termination of rental contracts	—	—	—	(588)	—	—
Other	208	(1,823)	531	(2,066)	647	(4,487)
Total	**7,671**	**(7,494)**	**6,463**	**(23,482)**	**6,137**	**(21,560)**

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

18. Board of Directors Compensation

The following fees were paid to members of the Board of Directors as remuneration for their services, as established at the general shareholders' meetings, and for attendance fees:

	Years ended December 31,		
	2001 MCh$	2002 MCh$	2003 MCh$
Remuneration and attendance fees	1,245	1,684	1,822

19. Loan Loss Recoveries

	Years ended December 31,		
	2001 MCh$	2002 MCh$	2003 MCh$
Loan portfolio previously charged-off	9,007	11,308	24,612
Loans reacquired from Central Bank	1,028	725	779
Total	**10,035**	**12,033**	**25,391**

Recovery of loans reacquired from the Central Bank includes payments received on such loans, which at the date of their repurchase from the Central Bank were deemed to have no value and were recorded in memorandum accounts.

20. Foreign Currency Position

The consolidated balance sheets include assets and liabilities denominated in foreign currencies, which have been translated to Chilean pesos at the Observed Exchange Rates as of December 31, 2002 and 2003 and assets and liabilities denominated in Chilean pesos but that contain repayment terms linked to changes in foreign currency exchange rates, detailed below:

	As of December 31, 2002			As of December 31, 2003		
	Payable in Foreign Currency	Payable in Chilean Pesos	Total	Payable in Foreign Currency	Payable in Chilean Pesos	Total
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$
ASSETS						
Cash and due from banks	162,964	—	162,964	172,581	—	172,581
Loans	872,091	53,447	925,538	746,241	29,435	775,676
Contingent loans	203,110	—	203,110	205,126	—	205,126
Interbank loans	6,369	—	6,369	4,722	—	4,722
Financial investments	378,769	429,100	807,869	412,731	425,544	838,275
Leasing contracts	—	58,931	58,931	—	33,480	33,480

Other assets	105,084	—	105,084	256,676	—	256,676
Total assets	**1,728,387**	**541,478**	**2,269,865**	**1,798,077**	**488,459**	**2,286,536**
LIABILITIES						
Deposits	1,274,470	1,200	1,275,670	1,117,417	1,067	1,118,484
Contingent liabilities	203,350	—	203,350	205,971	—	205,971
Borrowings from domestic financial institutions	8,941	—	8,941	14,789	—	14,789
Foreign borrowings	515,413	—	515,413	717,920	—	717,920
Other liabilities	187,799	5,135	192,934	206,542	120	206,662
Total liabilities	**2,189,973**	**6,335**	**2,196,308**	**2,262,639**	**1,187**	**2,263,826**
NET (LIABILITIES) ASSETS	**(461,586)**	**535,143**	**73,557**	**(464,562)**	**487,272**	**22,710**

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

21. Income Taxes

The Bank has recorded the effects of deferred taxes on its consolidated financial statements in accordance with Technical Bulletin No.60 and the related amendments there to issued by the Chilean Association of Accountants.

As described in these accounting standards, beginning January 1, 1999, the Bank recognized the consolidated tax effects generated by the temporary differences between financial and tax values of assets and liabilities. At the same date, the net deferred tax determined was completely offset against a net “complementary” account. Such complementary deferred tax balances are being amortized over the estimated reversal periods corresponding to the underlying temporary differences as of January 1, 1999. The net balance to be amortized as of December 31, 2002 was MCh$811, and as of December 31, 2003 was MCh$(467). In accordance with Technical Bulletin N° 60, deferred tax asset and liability amounts are presented on the balance sheet net of the related unamortized complementary account balances in the balance sheet. The corresponding movements and effects of which are as follows:

	Balance as of December 31, 2002 (1)	2003 Amortizations	2003 Deferred taxes	Balance as of December 31, 2003
	MCh$	MCh$	MCh$	MCh$
Deferred tax assets				
Obligations with repurchase agreements	25,393	—	16,682	42,075
Global allowances for loan losses	21,733	—	(2,088)	19,645
Leasing equipment	5,198	—	3,319	8,517
Voluntary allowances for loan losses	3,392	—	—	3,392
Charge-offs from financial investment	2,312	—	(1,981)	331
Accrued interests and readjustments from risky loan portfolio	1,674	—	262	1,936
Staff vacations	1,321	—	25	1,346
Accruals interest and readjustments from past due loans	1,060	—	(253)	807
Personnel provisions	908	—	596	1,504
Assets at market value	773	—	1,055	1,828
Staff severance indemnities	671	—	9	680
Other adjustments	8,335	—	1,594	9,929
Total	72,770	—	19,220	91,990
Complementary account balance	(2,735)	2,209	—	(526)
Net assets	70,035			91,464
Deferred tax liabilities				
Investments with repurchase agreements	24,548	—	17,016	41,564
Depreciation and price-level restatement of fixed assets	4,031	—	1,276	5,307
Transitory assets	1,346	—	(234)	1,112

Other adjustments	1,993	—	(733)	1,260
Total	31,918	—	17,325	49,243
Complementary account balance	(1,932)	939	—	(993)
Net liabilities	29,986			48,250

(1) For presentation purposes, deferred income tax balances as of December 31, 2002 are presented on a historical basis. For comparison purposes, price-level restated amounts for 2002 correspond to MCh$ 70,735 for net deferred tax assets and MCh$ 30,286 for net deferred tax liabilities.

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

21. Income Taxes (continued)

"Income taxes" as presented in the Consolidated Statements of Income for the years ended December 31, 2001, 2002 and 2003 are summarized as follows:

	Years ended December 31,		
	2001 MCh$	**2002 MCh$**	**2003 MCh$**
Current income tax provision	(3,151)	(8,372)	(16,954)
Amortization of complementary accounts	2,853	2,259	1,270
Deferred tax effect for the year	2,018	8,284	1,895
Deferred taxes from previous year	—	2,761	—
Income tax (reassessment of previous year)	(243)	(3,267)	—
Non-deductible expenses Art. 21	(71)	(432)	(677)
Tax benefit related to absorption of tax losses carry forwards	—	(68)	564
Income taxes benefit (expense)	**1,406**	**1,165**	**(13,902)**

22. Commitments and contingencies

In the ordinary course of business, the Bank acts as defendant or co-defendant in various litigation matters. Although there can be no assurances, the Bank believes, based on information currently available, that the ultimate resolution of these legal proceedings would not be likely to have a material adverse effect on its results of operations, financial condition, or liquidity.

The Bank is party to transactions with off-balance sheet risk in the normal course of its business, which exposes the Bank to credit risk in addition to amounts recognized in the consolidated financial statements. These transactions include commitments to extend credit not otherwise accounted for as contingent loans, such as overdrafts and credit card lines of credit. Such commitments are agreements to lend to a customer at a future date, subject to compliance with the contractual terms. Since a substantial portion of these commitments is expected to expire without being drawn on, the total commitment amounts do not necessarily represent actual future cash requirements of the Bank. The amounts of these loan commitments are MCh$432,875 and MCh$578,538 and the amounts of subscribed leasing contracts are MCh$41,847 and MCh$40,190 as of December 31, 2002 and 2003, respectively.

23. Fiduciary Activities

The following items are recorded in memorandum accounts by the Bank and represent fiduciary safekeeping and custody services:

	As of December 31,	
	2002 MCh$	**2003 MCh$**
Securities held in safe custody	3,754,094	2,767,948
Amounts to be collected on behalf of domestic third parties	153,697	187,969
Amounts to be collected on behalf of foreign third parties	347,327	331,254

Administration of assets	38	37
Total fiduciary activities	**4,255,156**	**3,287,208**

(Restated for general price - level changes and expressed in millions of constant
Chilean pesos as of December 31, 2003)

24. Concentrations of Credit Risk

Concentrations of credit risk (whether on or off-balance sheet) arising from financial instruments exist in relation to certain groups of customers. A group concentration arises when a number of parties have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Bank does not have a significant exposure to any customer or counterparty.

Counterparty risk

The Bank maintains a series of deposits, investments purchased under agreements to resell, forward contract agreements and other financial instruments with institutions in the Chilean banking sector. The principal counterparties within the Chilean banking sector, excluding the Central Bank, and the Bank's related exposure to credit risk, as of December 31, 2002 and 2003 are as follows:

	Credit Risk As of December 31,	
Bank	**2002 MCh$**	**2003 MCh$**
Banco del Estado de Chile	3,069	59,751
Banco Santander- Santiago	3,921	24,775
Banco de Crédito e Inversiones	826	20,909
BBVA Banco Bhif	4,423	10,557
Banco Bice	64	8,020
ABN Amro Bank (Chile)	767	1,782
JP Morgan Chase Bank	709	355
BankBoston N.A	1,154	322
Banco Security	1,180	147
Banco del Desarrollo	650	113
Scotiabank Sud Americano	60	105
Citibank N.A	175	68
Corpbanca	3,101	—
HSBC Bank USA	162	—
Others	736	66

The Bank maintains a policy of placing deposits with a number of different financial institutions and does not believe that any one of these banks represents an unacceptable credit risk. The Bank does not usually require collateral from these counterparties.

25. Sales and Purchases of Loans

From time to time, the Bank does sell and purchase loans based on specific requirements from customers. During the years ended December 31, 2001, 2002 and 2003, the Bank sold loans totaling MCh$1,316, MCh$11,658 and MCh$15,286, respectively, however, the Bank does not originate loans for future sale. The Bank did not retain servicing or any other interest in the loans sold or retains any risks in the event of non-collection by the purchaser. During the year ended December 31, 2003, the Bank purchased loans amounting to MCh$11,437. During prior years the Bank did not purchased loans. Any gains or losses on such transactions are recognized in results of operations at the time of the transactions.

The aggregate gains on sales of loans were MCh$6, MCh$86 and MCh$— for the years ended December 31, 2001, 2002 and

2003, respectively.

(Restated for general price - level changes and expressed in millions of constant
Chilean pesos as of December 31, 2003)

26. Maturity of Assets and Liabilities

The maturity dates of assets and liabilities are shown in the following table including accrued interest as of December 31, 2003.

	As of December 31, 2003					
	Due within 1 year	Due after 1 year but within 3 years	Due after 3 years but within 6 years	Due after 6 years	Total 2003	Total 2002
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$
ASSETS						
Loans (1)	2,876,111	1,048,747	694,112	1,087,070	5,706,040	5,642,221
Securities (2)	1,907,360	8,636	—	—	1,915,996	1,611,416
Total	**4,783,471**	**1,057,383**	**694,112**	**1,087,070**	**7,622,036**	**7,253,637**
LIABILITIES						
Deposit and other obligations (3)	3,215,921	38,320	8,527	—	3,262,768	3,356,937
Mortgage finance bonds	84,397	175,342	249,942	504,771	1,014,452	1,094,881
Bonds	26,476	40,330	58,427	149,091	274,324	285,070
Chilean Central Bank borrowings:						
Central Bank credit lines for renegotiations of loans	2,975	—	—	—	2,975	3,801
Other Central Bank borrowings	24,906	—	—	—	24,906	—
Borrowings from domestic financial institutions	49,882	—	—	—	49,882	50,993
Foreign borrowings	698,207	13,142	6,620	—	717,969	515,447
Other obligations	50,699	2,618	4,109	2,174	59,600	77,538
Total	**4,153,463**	**269,752**	**327,625**	**656,036**	**5,406,876**	**5,384,667**

(1) Excludes contingent loans, overdue loans (1-89 days) and past due loans (90 days or more).
(2) Excludes unrealized losses on permanent financial investments included in equity of MCh$3,474 and MCh$328 for the years ended December 31, 2002 and 2003 respectively. In accordance with Superintendency of Banks trading investments are classified as due within 1 year.
(3) Excludes demand deposit accounts, saving accounts, investments sold under agreements to repurchase and contingent liabilities.

27. Subsequent Events

On January 1, 2004, and in accordance with Circular No. 3,246 of the Superintendency of Banks and Financial Institutions, became effective the new standards on determination of Loan Loss Provisions established in Chapter 7-10 of this Superintendency's accounting rules. Based on an analysis performed by the Bank's Management, the application of this new criteria for determining provisions is not expected to have a significant effect on the financial situation, results of operations or cash flows of the Bank and its subsidiaries presented in these consolidated financial statements.

In the opinion of Bank's Management as of the date in which these consolidated financial statements were issued there are no significant subsequent events that affect or that could affect the consolidated financial statements of the Bank as of December

31, 2003.

28. Differences between Chilean and United States Generally Accepted Accounting Principles

The following is a description of the significant differences between accounting principles as prescribed by the Superintendency of Banks and accounting principles generally accepted in Chile (collectively “Chilean GAAP”), and accounting principles generally accepted in the United States of America (“U.S. GAAP”).

As explained in Notes 1 (a) and 15, effective January 1, 2002, the Bank merged with Banco de A. Edwards, an entity under the common control of Quiñenco S.A. (“Quiñenco”), a Chilean holding company. In accordance with merger accounting under Chilean GAAP at that time, the financial statements presented as of December 31, 2001 and for the year then ended are those of Banco de Chile, the acquiring bank, giving no retroactive effect to the merger. Following the accounting requirements under U.S. GAAP, information presented in this note has been restated to reflect the merger with Banco de A. Edwards as from March 27, 2001, the first date in which control of both of these banks was held by the common parent. U.S. GAAP information for the period between January 1, 2001 and March 27, 2001 reflects the financial information of Banco de A. Edwards, the bank previously controlled by Quiñenco. Paragraph (a) below provides a description of the merger with Banco de A. Edwards and provides combined financial statement information based on the respective consolidated financial statements of the individual consolidated banks prepared under Chilean GAAP.

References below to “SFAS” are to United States Statements of Financial Accounting Standards. Pursuant to Chilean GAAP, the Bank’s financial statements recognize certain effects of inflation. In addition, the Bank translates the accounting records of its branch in New York, USA and its agency in Miami, USA to Chilean pesos from US dollars in accordance with guidelines established by the Superintendency of Banks, which are consistent with Technical Bulletin Nº64, "Accounting for investments Abroad", issued by the Chilean Association of Accountants. In the opinion of the Bank, this foreign currency translation methodology forms part of the comprehensive basis of preparation of price-level adjusted financial statements required by Chilean GAAP. Inclusion of inflation and the effects of translation in the accompanying consolidated financial statements under the Chilean accounting standard in the financial statements is considered appropriate under the inflationary conditions that have historically affected the Chilean economy even though the cumulative inflation rate for the last three years does not exceed 100% and, accordingly have not been eliminated in the reconciliation to U.S. GAAP included under paragraph (t) below.

(a) Merger of entities under common control

Under Chilean GAAP, the merger between Banco de Chile and Banco de A. Edwards 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 and Banco de Chile is considered to be the continuing entity for legal and accounting purposes. Under U.S. GAAP, the merger of the two banks is accounted for as a merger of entities under common control. As LQ Inversiones Financieras, a holding company beneficially owned by Quiñenco has controlled both Banco de Chile and Banco de A. Edwards since March 27, 2001, Banco de Chile was required to restate its previously issued U.S. GAAP historical financial statements to retroactively reflect the merged bank as if Banco de Chile and Banco de A. Edwards (hereafter referred to as the “Merged Bank”) had been combined throughout the periods during which common control existed. Therefore from the period from March 27, 2001 to January 1, 2002, U.S. GAAP reflects the merger as if it had already happened, incorporating two banks, while under Chilean GAAP for the same period only the historical financial information of Banco de Chile is presented in the income statement. Furthermore, under U.S. GAAP, for periods prior to March 27, 2001, the information presented in the financial statements is that of Banco de A. Edwards, as it had been under Quiñenco’s control since September 2, 1999.

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(a) Merger of entities under common control (continued)

As discussed above, information presented under Chilean GAAP for the year ended December 31, 2001 includes only Banco de Chile, while under U.S. GAAP the Bank is required to present the historical financial statement information of Banco de A. Edwards for the period between January 1, 2001 and March 26, 2001. Furthermore for the period between March 27, 2001 and December 31, 2001 under U.S. GAAP the banks are presented on a combined basis. The effect of combining the banks using the respective consolidated financial statements prepared in accordance with Chilean GAAP, in order to present comparable initial shareholders' equity balances and results from operations of the applicable entities prior to the inclusion of any adjustments to U.S. GAAP of the combined bank, is included in paragraph (t) below.

(b) Push Down Accounting

As described above, under Chilean GAAP, the merger of Banco de Chile and Banco de A. Edwards is accounted for as a pooling of interests beginning January 1, 2002 with no retroactive restatement of historical financial statements or carrying values prior to the merger.

Under U.S. GAAP, when accounting for a merger of entities under common control, the book values of the merging entities that are held in the books of the common parent must be pushed down to the merged entity. This means that goodwill previously created in the books of Quiñenco, the transferring entity, at the time that it acquired each bank and also any fair value differences created from those purchases must be included in the U.S. GAAP accounting records of the Merged Bank. In practice this means that the goodwill and fair value adjustments created from Quiñenco's purchases of Banco de A. Edwards during September and October, 1999 and from Quiñenco's purchases of Banco de Chile made during 1999, 2000 and March 2001 are pushed down to the merged entity. As this treatment does not apply in Chilean GAAP, there is a significant difference in the asset and liability bases under each body of accounting principles.

Quiñenco acquired Banco de A. Edwards, through step acquisitions between September 2, 1999 and October 26, 1999. There were no additional share transactions between 1999 and the date of the merger. Similarly, Quiñenco acquired Banco de Chile through step acquisitions between October 1999 and March 27, 2001.

Under U.S. GAAP, acquisitions that are accounted for using the purchase method of accounting result in the identifiable assets and liabilities of the acquired bank being adjusted to their fair values in the consolidated financial statements of the acquirer. Adjustments to assets acquired and liabilities assumed to fair value and recording the fair values of unrecognized intangible assets are generically referred to as purchase accounting adjustments. As a result of its acquisitions of Banco de Chile and Banco de A. Edwards, the Quiñenco recorded purchase accounting adjustments to reflect differences related to:

- the fair value of intangible assets, including brand names and long-term customer-relationship intangible (core deposit intangibles);
- the fair values of loans, excluding any adjustments in the acquiree's historical allowance for loan losses or other contingent liabilities;
- the accounting for staff severance liabilities;
- the fair value of bank premises and equipment and other

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(b) Push Down Accounting (continued)

Such purchase accounting adjustments and goodwill and any equity method investments or equity participation in the results of operations of the acquired banks recorded by the common parent, must be recorded in the U.S. GAAP accounting records of the Merged Bank. The effects of accounting for the push down of these purchase accounting adjustments, goodwill and any equity participation in the results of operations of the acquired banks into the accounting records of the Merged Bank and their subsequent effects on net income is included in paragraphs (t) and (u), below.

(c) Acquisition of Banco de A. Edwards

The pooling of interests method under Chilean GAAP is based on summing the two banks together using their historical book values and eliminating any inter-bank balances. Under U.S. GAAP, to the extent that the banks were under common control, the assets and liabilities of Banco de A. Edwards were transferred into Banco de Chile using the U.S. GAAP carrying values of such assets and liabilities included in the records of the common parent. However, as Quiñenco only owned 51.18% of Banco de A. Edwards, to the extent that the minority interest of Banco de A. Edwards was acquired, through the issuance of Banco de Chile shares, Banco de Chile is considered to be the acquirer.

Therefore, Banco de Chile calculated goodwill based on the difference between the purchase price (i.e. the market value of the shares issued by Banco de Chile) and the fair value of the proportion of assets and liabilities acquired at the date of the merger. As part of this process, under U.S. GAAP, Banco de Chile was also required to value the interest acquired of previously unrecorded intangible assets, such as the Banco de Edwards brand name and core deposit intangibles, and to include these assets in the financial records of the Merged Bank. Such assets are not recorded under Chilean GAAP.

As a consequence of the merger between Banco de Chile and Banco de A. Edwards, Banco de Chile issued 23,147,126,425 shares in exchange for all the outstanding common shares of Banco de A. Edwards using an exchange ratio of 3.135826295 Banco de Chile shares for each Banco de A. Edwards share. Under U.S. GAAP Banco de Chile is considered to have acquired 48.82% of the outstanding shares in Banco de A. Edwards, which correspond to those shares that Quiñenco did not own as of that date. The acquisition of these shares has been accounted for using purchase accounting as described in the preceding paragraph. The consideration paid has been determined using an average of the market value of the publicly traded Banco de Chile shares, which at January 1, 2002 was Ch$ 25.11017 (historical Chilean pesos) per share, and certain merger expenses as described in paragraph (s) below.

In connection with the determination and accounting for such assets and liabilities under U.S. GAAP, Banco de Chile is required to record the fair value of the proportion of assets and liabilities acquired at the date of the merger. As part of this process, under U.S. GAAP, Banco de Chile was also required to value the interest acquired of previously unrecorded intangible assets, such as the Banco de Edwards brand name, and to include these assets in the financial records of the merged bank. Such assets were not recorded under Chilean GAAP.

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(c) Acquisition of Banco de A. Edwards (continued)

Under U.S. GAAP, purchase allocation of the 48.82% participation acquired from shareholders other than Quiñenco and its subsidiaries as of January 1, 2002 was as follows:

	MCh$
Net book value of Banco de A. Edwards	121,571
Incremental fair value of identified intangible assets (1)(2)	31,458
Fair value decrement of identified net assets acquired	(45,363)
Fair value of Banco de A. Edwards	107,666
Purchase price	
Market value of Banco de Chile shares issued	(295,192)
Direct costs of acquisition	(1,187)
Goodwill	(188,713)

(1) Core deposit intangibles resulting from the acquisition amounted to MCh$28,014 and are being amortized over the estimated run-off period by product of the acquired customer base at the date of purchase.
(2) Brand name intangibles resulting from the acquisition amounted to MCh$3,444 and are being amortized over 10 years.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

	As of January 1,2002
	MCh$
Cash and due from banks	123,882
Financial investments	183,036
Loans, net	1,061,509
Intangibles	31,458
Other	85,024
Total assets acquired	**1,484,909**
Deposits	841,942
Other interest bearing liabilities	461,920
Other liabilities	73,381
Total liabilities assumed	**1,377,243**
Net assets acquired	**107,666**

Of the MCh$31,458 of acquired intangible assets, MCh$28,014 was assigned to core deposits that is subject to amortization (using an estimated rate that the bank's customers are expected to leave the bank in future years, based on a historical analyses performed by the Bank), and MCh$3,444 has been assigned to a registered trademark that is being amortized on a straight-line basis over an estimated 10 year useful life.

The Bank does not amortize goodwill related to the acquisition of Banco de A. Edwards, following the provisions of SFAS No. 142, as described in paragraph (d) below.

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(d) Amortization of Goodwill and Intangible Assets

The Bank adopted Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets", ("SFAS 142") as of January 1, 2002. SFAS 142 applies to all goodwill and identified intangible assets acquired in a business combination. Under the new standard, beginning January 1, 2002, all goodwill, including that acquired before initial application of the standard, and indefinite-lived intangible assets are not amortized, but must be tested for impairment at least annually. Under the transitional provisions of SFAS 142 goodwill generated in purchase transactions subsequent to June 30, 2001 were not amortized during the year ended December 31, 2001.

The Bank has performed the impairment test of goodwill required by the standard, which did not result in any impairment. Under Chilean GAAP, the Bank does not present any goodwill as of December 31, 2003. Under U.S. GAAP, the carrying value of goodwill, net of accumulated amortization, related to the 1999 acquisitions of Leasing Andino, Banco de A. Edwards and the push-down of goodwill from Quiñenco, described in paragraphs (q), (c) and (b) to this note, respectively, were MCh$1,872 MCh$188,712 and MCh$361,504, respectively.

The table below presents the allocation of the total carrying value of goodwill by segments of the Bank:

Business Segments	**MCh$**
Large Corporate	207,098
Middle Market	117,970
Retail Banking	154,421
International Banking	39,011
Treasury	10,625
Subsidiaries	22,963
Total goodwill	**552,088**

The table below presents the reported net income and adjusted earnings per share amounts that would have been for the year ended December 31, 2001 if amortization expense recognized in that period related to goodwill had been excluded:

	2001 MCh$ (Unaudited)
Reported net (loss) income	50,260
Add back: Goodwill amortization	12,456
Adjusted net (loss) income	**62,716**
Earnings per share, adjusted	1.09

(e) Loan Origination Commissions and Fees

Under Chilean GAAP, as from January 1, 2000, Banco de A. Edwards began recognizing loan origination and service fees and costs over the term of loans to which they relate, and the period that the services are performed. Banco de Chile began applying this accounting treatment during 2001 for loan origination and service fees and certain costs, and from January 1, 2002 for those related costs previously not considered. Prior to this accounting change, loan origination and service fees were recognized when collected and related direct costs when incurred.

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(e) Loan Origination Commissions and Fees (continued)

Under Statement of Financial Accounting Standard No. 91, “Accounting for Nonrefundable Fees and Costs Associated with Origination of Acquiring Loans and Initial Direct Costs of Leases”, loan origination fees and certain direct loan origination costs should be recognized over the term of the related loan as an adjustment to yield. As of December 31, 2002, the accounting treatment applied under Chilean GAAP is considered similar to U.S. GAAP.

The effect of accounting for net loan origination fees in accordance with U.S. GAAP is included in the reconciliation of consolidated net income and shareholders’ equity in paragraph (t) below.

(f) Deferred Income taxes

Under Chilean GAAP, prior to 1999, the Merged Bank did not record the effects of deferred income taxes. Effective January 1, 1999, and in accordance with the new accounting standard under Chilean GAAP, the Merged Bank was required to record the effects of deferred tax assets and liabilities based on the liability method, with deferred tax assets and liabilities established for temporary differences between the financial reporting basis and the tax basis of the Merged Bank’s assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized. As a transitional provision to reduce the impact of adoption of this standard, the banks were permitted to record a contra ("complementary") asset or liability as of the date of implementation of the new accounting standard, January 1, 1999, related to the effects of deferred income taxes from prior years.

These complementary assets and liabilities are to be amortized over the estimated period of reversal of the temporary differences that generate the future income tax asset or liability.

Under Statement of Financial Accounting Standard No. 109, “Accounting for Income Taxes”, income taxes are recognized using the liability method in a manner similar to Chilean GAAP. The effects of recording deferred income taxes and the elimination of the complementary assets and liabilities and their respective amortization are included in the reconciliation of consolidated net income and shareholders’ equity in paragraph (t) below.

Additional disclosures required under SFAS No. 109 are further described in paragraph (w) below.

(g) Investments in other companies

As shown in Note 9, certain long-term investments of less than 20% of the outstanding shares in other companies have been recorded using the equity method of accounting. Under U.S. GAAP these investments would generally be accounted for at cost less any non-temporary impairment in value. The effect of recording these assets in accordance with U.S. GAAP is included in the reconciliation of consolidated net income and shareholders' equity in paragraph (t) below. For 2001, in those cases where each individual bank held less than 20% of an investment but on a combined basis the Merged Bank held more than 20%, such investments have been restated and retroactively accounted for under the equity method.

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(h) Repurchase agreements

The Bank enters into repurchase agreements as a source of finance. In this regard, under Chilean GAAP the Bank's investments that have been sold subject to repurchase agreements are reclassified from their investment category to investment collateral under agreements to repurchase. Under U.S. GAAP, no such reclassification is made since, in substance, the investment securities serve only as collateral on the borrowing. For purposes of the Article 9 consolidated balance sheets included in paragraph (v) below, investments that collateralize such borrowings are shown as trading investments.

(i) Interest income recognition on non-accrual loans

The Bank suspends the accrual of interest on loans when it is determined to be a loss or when it becomes past due. Previously accrued but uncollected interest is not reversed at the time the loan ceases to accrue interest.

Under U.S. GAAP, recognition of interest on loans is generally discontinued when, in the opinion of management, there is an assessment that the borrower will likely be unable to meet all contractual payments as they become due. As a general practice, this occurs when loans are 90 days or more overdue. Any accrued but uncollected interest is reversed against interest income at that time.

In addition, under Chilean GAAP, any payment received on past due loans is treated as income to the extent that accrued interest is due, but has not been recorded because the status of the loan, after reducing any recorded accrued interest receivable. Any remaining amount is then applied to reduce the outstanding principal balance. Under U.S. GAAP, any payment received on loans when the collectibility of the principal is in doubt is treated as a reduction of the outstanding principal balance of the loan until such doubt is removed. The effect of the difference in interest recognition on non-accrual loans is not material to the Bank’s financial position and results of its operations.

(j) Contingent assets and liabilities

Under Chilean GAAP the Bank recognizes rights and obligations with respect to contingent loans as contingent assets and liabilities. These transactions consist of open and unused letters of credit, together with guarantees granted by the Bank. Under U.S. GAAP, most of these contingent amounts are not recognized on the balance sheet. If U.S. GAAP had been followed, the total assets and liabilities of the Bank would have been lower by MCh$385,585 and MCh$409,638 as of December 31, 2002 and 2003, respectively. This reclassification is included in the Article 9 consolidated balance sheets in paragraph (v) below.

For guarantees, in accordance to FASB Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others” (“FIN No. 45”), a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The most significant instruments impacted for the Bank are performance bonds, stand by letters of credit and foreign office guarantees. The required FIN No. 45 disclosures have been incorporated into paragraph (ad), below. The impact of adoption was not material to the Bank’s results of operations, financial position or cash flows.

(k) Allowance for loan losses

The determination of the allowance for loan losses and disclosure requirements under U.S. GAAP differs from that under Chilean GAAP in the following respects:

1) Allowance for loan losses

Under Chilean GAAP, the allowance for loan losses is calculated according to specific guidelines set out by the rules of the Superintendency of Banks, as described in Note 1 (j).

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(k) Allowance for loan losses (continued)

Under U.S. GAAP allowances for loan losses should be in amounts adequate to cover inherent losses in the loan portfolio at the respective balance sheet dates. The Bank has estimated its required reserve under U.S. GAAP in the following manner:

- Allowances for commercial loans and leasing operations classified in loan risk category A or B, which were not considered impaired under Statement of Financial Accounting Standard No. 114, “Accounting by Creditors for Impairment of a Loan” ("SFAS No. 114"), were analyzed and adjusted, if necessary, to reflect the estimated losses not identified based on individual credit analysis. The estimations were performed using historical loan data, in order to estimate the inherent losses in the Bank’s loan portfolio, using patterns and trends based upon historical changes in loan classifications (“migration analysis”).

- In addition, specific allowances were determined for loans on the following basis:

  i) Commercial loans and leasing operations greater than MCh$85, which were considered impaired in accordance with the criteria established by SFAS No. 114, were valued at the present value of the expected future cash flows discounted at the loan's effective contractual interest rate, or at market rates in the case of those loans that were considered to be collateral dependent.

  ii) Allowances for commercial loans and leasing operations which were under MCh$85 (i.e. those loans, which were considered impaired but were not considered in the above SFAS No. 114 analysis), were calculated using the weighted average loan provision, by loan classification, as determined in paragraph (k) i).

  iii) Allowance for loan losses for mortgage and consumer loans were determined based on historical loan charge-offs, after considering the recoverability of the underlying collateral.

Based on the preceding estimation process the Bank computed its allowance for loan losses under U.S. GAAP, and compared this estimate with the reported allowance for the combined banks determined in accordance with the guidelines established by the Superintendency of Banks. The voluntary loan loss allowance for the combined banks, permitted under Chilean GAAP, was then deducted from the reserve requirements determined in accordance with U.S. GAAP to arrive at a cumulative U.S. GAAP adjustment to Shareholders’equity, as follows:

	As of December 31,	
	2002 MCh$ (1)	**2003 MCh$**
U.S. GAAP loan loss reserve	196,539	150,419
Less: Chilean GAAP loan loss allowance as required by the Superintendency of Banks	(197,439)	(158,834)
Chilean GAAP voluntary loan loss allowance	(20,763)	(20,557)
U.S. GAAP adjustment	**(21,663)**	**(28,972)**

(1) A reclassification of MCh$(49) was made to the 2002 Chilean GAAP amounts in order to conform with the 2003 presentation.

The effects of applying SFAS No. 114 are included in the reconciliation included in paragraph (t) below.

(Restated for general price - level changes and expressed in millions of constant
Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(k) Allowance for loan losses (continued)

2) Recognition of income

As of December 31, 2001, 2002 and 2003 the recorded investment in loans for which impairment had been recognized in accordance with SFAS No.114 totaled MCh$403,023, MCh$416,147 and MCh$323,012, respectively, with a corresponding valuation allowance of MCh$138,057 MCh$161,595 and MCh$172,372, respectively. For the years ended December 31, 2001, 2002 and 2003 the average recorded investment in impaired loans was MCh$360,225, MCh$397,780 and MCh$341,974 respectively. For the years ended December 31, 2002 and 2003, the Bank recognized interest on impaired loans of MCh$60,401 and MCh$122,936 respectively. Comparative information for the year ended December 31, 2001 is not available. The Bank recognizes interest on impaired loans on an accrual basis, except for past due loans for which the Bank recognizes interest on a cash basis, as described in paragraph (i) above. As of December 31, 2002 and 2003, the Bank had made provisions against all loans which it considered to be impaired.

3) Loan loss recoveries

Under U.S. GAAP recoveries of loans previously charged-off are added to the allowance when received; under Chilean GAAP such recoveries are recognized as other income.

The following presents an analysis under U.S. GAAP of the changes in the allowance for loan losses during the periods presented. As described above, under U.S. GAAP all information presented as described in paragraph (a) above, as of and for the periods prior to March 27, 2001 has been recast to that of Banco de A. Edwards as a result of the merger of entities under common control.

	2001 **MCh$**	**2002** **MCh$**	**2003** **MCh$**
Allowance for loan losses in accordance with U.S. GAAP, as of January 1,	85,581	195,371	196,539
Price-level restatement (1)	(5,188)	(6,498)	(2,748)
Incorporation of Banco de Chile, as of March 27, 2001	100,217	—	—
Charge-offs	(52,871)	(112,075)	(96,132)
Loan loss recoveries	13,737	12,033	25,391
Provisions for loan losses established	62,292	132,436	28,824
Provisions for loan losses released	(8,397)	(24,728)	(1,455)
Balances as of December 31,	**195,371**	**196,539**	**150,419**

(1) Reflects the effect of inflation and exchange rate changes of branches abroad on the allowance for loan losses under Chilean GAAP at the beginning of each period, adjusted to constant pesos of December 31, 2003.

4) Charge-offs

As discussed in Note 1 (j) of these financial statements, under Chilean GAAP the Bank charges-off loans when collection efforts have been exhausted. Under the rules and regulations established by the Superintendency of Banks, charge-offs must be made within the following maximum prescribed limits:

- 24 months after a loan is past due (3 months after past due for consumer loans) for loans without collateral;

- 36 months after a loan is past due for loans with collateral.

Under U.S. GAAP, loans should be written-off in the period that they are deemed uncollectible. The Bank believes that the charge-off policies it applies in accordance with Chilean GAAP are substantially the same as those required under U.S. GAAP, and therefore that differences are not significant to the presentation of its financial statements.

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(l) Mortgage Finance Bonds Issued by the Bank

Until October 31, 2002, other financial investments include mortgage finance bonds issued by the Bank and held for future sale. Effective October 31, 2002 the Bank modified its accounting treatment of financial investments in mortgage finance bonds issued by the Bank in accordance with the instructions of the Superintendency of Banks, reducing from assets the amount recorded for mortgage finance bonds issued by the Bank, including a market value adjustment, and from liabilities, the respective mortgage finance bond obligation.

Under U.S. GAAP, this accounting treatment would have been always applied, therefore, other financial investments and the liability for mortgage finance bonds as of December 31, 2001 would have been lower by MCh$158,730. For the applicable periods this reclassification was included in the Article 9 consolidated primary financial statements.

In addition, as under U.S. GAAP mortgage finance bonds are offset against the corresponding liability for periods before 2002, the market value adjustment applied under Chilean GAAP before the accounting change would not have been made under U.S. GAAP. The effects of this difference between Chilean and U.S. GAAP have been included in the reconciliation to U.S. GAAP in paragraph (t) below.

(m) Investment securities

Under Chilean GAAP the Bank classifies certain investments as permanent. These investments are stated at fair market value with unrealized gains and losses included in a separate component of shareholders’ equity and with realized gains and losses included in other operating results.

Under U.S. GAAP, Statement of Financial Accounting Standard No. 115, “Accounting for Certain Investments in Debt and Equity Securities” (“SFAS No. 115”), requires that debt and equity securities be classified in accordance with the Bank’s intent and ability to hold the security, as follows:

- Debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and are reported at amortized cost.
- Debt and equity securities that are bought and held by the Bank, principally for the purpose of selling them in the near term, are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings.
- Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of shareholders' equity.

Based upon these criteria, the Bank has determined that under U.S. GAAP, its investments should be classified as “trading”, “available-for-sale” and “held-to-maturity”. Consequently, investments classified as permanent are considered to be “available-for-sale” and all other investments are considered to be “trading”, with the exception of certain Central Bank securities and other investments, maintained by the Bank’s branches in the United States of America, included in both categories, which are classified as “held-to-maturity”.

Securities maintained by the Bank's branches abroad and Central Bank securities classified as “held-to-maturity” are stated at fair market value. Under U.S. GAAP, held-to-maturity investments are stated at amortized cost. The effect of eliminating the market value adjustment for these investments is included in the reconciliation of consolidated net income and shareholders’ equity in paragraph (t) below.

Investment securities maintained by the Bank's subsidiaries are carried at the lower of price-level restated cost or market value and are classified as "trading" for U.S. GAAP purposes. The effect of the difference in the valuation criteria for these investments is included in the reconciliation of consolidated net income and shareholder’s equity in paragraph (t) below.

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(m) Investment securities (continued)

(1) Under Chilean GAAP, the unrealized holdings gains (losses) related to investments classified as permanent have been included in Shareholders' equity, which does not differ from the treatment of "available-for-sale" investments under U.S. GAAP, except for the elimination of mortgage finance bonds issued by the Bank for 2001 and 2002, as discussed in paragraph (l) above.

The following are required disclosures for investments classified as available-for-sale in accordance with SFAS Nº115 and the presentation requirements of Article 9 (See note 28(v)), and have been prepared using amounts determined in accordance with U.S. GAAP:

Realized gains and losses are determined using the proceeds from sales less the cost of the identified investment sold. Gross gains and losses realized on the sale of available-for-sale securities for the year ended December 31, 2001, 2002 and 2003 are as follows:

	Years ended December 31,		
	2001 MCh$	2002 MCh$	2003 MCh$
Proceeds on sale of investments resulting in gains	34,010	69,554	11,075
Realized gains	1,528	1,504	5,442
Proceeds on sale of investments resulting in losses	12,054	56,689	3,380
Realized losses	204	2,020	146

The carrying value and market value of securities available-for-sale as of December 31, 2002 and 2003 are as follows:

	Years ended December 31,							
	2002				2003			
Available-for-sale Instruments:	Carrying Value (1)	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Carrying Value (1)	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	MCh$	**MCh$**	**MCh$**	**MCh$**	**MCh$**	**MCh$**	**MCh$**	**MCh$**
Foreign private sector debt securities	40,112	3,288	(634)	42,766	—	—	—	—
Foreign financial institutions debt securities	1,299	816	—	2,115	—	—	—	—
Government securities	—	—	—	—	11,952	4	—	11,956
Credit linked investments	69,618	—	—	69,618	—	—	—	—
Chilean private sector debt securities	—	—	—	—	8,636	320	—	8,956
Total	**111,029**	**4,104**	**(634)**	**114,499**	**20,588**	**324**	**—**	**20,912**

(1) For the purpose of this table, carrying values are based upon the historical cost of each investment including applicable adjustments for price-level restatement.

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(m) Investment securities (continued)

The contractual maturities of securities, classified by the Bank as available-for-sale, are as follows:

	As of December 31, 2003			
Available-for-sale Instruments:	**Within one year**	**After one year but within five years**	**After five years but within ten years**	**Total**
	MCh$	**MCh$**	**MCh$**	**MCh$**
U.S. Government debt securities private	11,956	—	—	11,956
Chilean private sector debt securities	—	8,956	—	8,956
Estimated fair value	**11,956**	**8,956**	**—**	**20,912**

(2) The following disclosures, in addition to those required under Chilean GAAP, are required disclosures for investments classified as held-to-maturity in accordance with SFAS No. 115:

	Years ended December 31,							
	2002				2003			
Held-to-maturity Instruments:	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Estimated Fair Value**	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Estimated Fair Value**
	MCh$	**MCh$**	**MCh$**	**MCh$**	**MCh$**	**MCh$**	**MCh$**	**MCh$**
U.S. Government debt securities	39,450	5	—	39,455	21,017	4	—	21,021
Chilean Central Bank securities	277,207	5	—	277,212	—	—	—	—
Government securities	298	—	—	298	—	—	—	—
Total	**316,955**	**10**	**—**	**316,965**	**21,017**	**4**	**—**	**21,021**

The contractual maturities of securities classified by the Bank as held-to-maturity are as follows:

	As of December 31, 2003			
Held-to-maturity Instruments:	**Within one year**	**After one year but within five years**	**After five years**	**Total**
	MCh$	**MCh$**	**MCh$**	**MCh$**

U.S. Government debt securities	21,021	-	-	21,021
Estimated fair value	**21,021**	**-**	**-**	**21,021**

(3) Under U.S. GAAP, the Bank is required to disclose the amounts of unrealized holding gains and losses included in income on securities classified as trading. For the years ended December 31, 2001, 2002 and 2003, the Bank recognized in income unrealized holding gains (losses) of MCh$3,090 MCh$10,852 and MCh$(10,227) respectively, on these securities.

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(m) Investment securities (continued)

During the third quarter of 2002, the Bank determined that its Argentine available-for-sale securities had declines in value that were considered other than temporary, recording a charge to net income of MCh$13,778 to record these securities at their market values at that date. Since that date, the market prices of some securities have improved; however, the resulting unrealized gains have been recorded in other comprehensive income consistent with the accounting treatment for available-for-sale securities.

(n) Derivatives

The Bank enters into derivative transactions for its own account and to meet customers' risk management needs. These transactions are mainly foreign exchange forward contracts, which are made in the most cases in US dollars against the Chilean peso or the UF and, from time to time, in other currencies but only when the Bank acts as an intermediary, in accordance with the requirements of the Central Bank that requires that foreign exchange forward contracts be made only in US dollars and other major foreign currencies. Other derivative transactions include primarily interest rate swaps (paid fixed-received floating) and rate lock. These are used for hedging purposes in order to manage, among other risks, U.S. interest rate risk related to the Yankee bonds of Chilean companies bought by the Bank.

In order to manage any credit risk associated with its derivative products, the Bank grants lines of credit to transaction counterparties, in accordance with its credit policies, for each derivative transaction. The counterparty risk exposure is a function of the type of derivative, the term to maturity of the transaction and the volatility of the risk factors that affect the derivative's market value, which are managed by the Bank on an on-going basis as market conditions warrant.

As explained in Note 1 (e), under Chilean GAAP the Bank accounts for forward contracts between foreign currencies and U.S. dollars at fair value with realized and unrealized gains and losses on these instruments recognized in other income. Forward contracts between the U.S. dollar and the Chilean peso or the U.F. are valued at the closing spot exchange rate of each balance sheet date, with the initial discount or premium being amortized over the life of the contract in accordance with Chilean hedge accounting criteria. The losses recognized in income under Chilean GAAP associated with these contracts for the years ended December 31, 2001, 2002 and 2003 were MCh$41,250, MCh$24,572 and MCh$35,385, respectively. The Bank's interest rate swap agreements are treated as off-balance-sheet financial instruments and the net interest effect, which corresponds to the difference between interest income and interest expense arising from such agreements, is recorded in net income in the period that such differences originate, except for interest rate and cross currency swaps designated as a hedge of the foreign investment portfolio, which are recorded at their estimated fair market values.

Beginning January 1, 2001, the Bank adopted Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by Statement of Financial Accounting Standard No.138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an amendment of FASB Statement No. 133" (collectively "SFAS 133"), which established comprehensive accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. The Standard required that all derivative instruments be recorded in the balance sheet at fair value. However, the accounting for changes in fair value of the derivative instrument depends on whether the derivative instrument qualifies as a hedge. The standards also require formal documentation procedures for hedging relationships and effectiveness testing when hedge accounting is to be applied. If the derivative instrument does not qualify as a hedge, changes in fair value are reported in earnings when they occur. If the derivative instrument qualifies as a hedge, the accounting treatment varies based on the type of risk being hedged.

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(n) Derivatives (continued)

Under U.S. GAAP, the Bank records its entire portfolio of swap agreements at their estimated fair value and forward contracts between the U.S. dollar and the Chilean peso or UF at the fair value based on the forward exchange rate. Under the previous accounting standard, forward contracts were also recorded at fair value as they were considered operational in nature, and did not qualify for hedge accounting treatment.

While the Bank enters into derivatives for the purpose of mitigating its global interest and foreign currency risks, these operations do not meet the strict documentation requirements to qualify for hedge accounting under U.S. GAAP. Therefore changes in the respective fair values of all derivative instruments are reported in earnings when they occur.

Current Chilean accounting rules do not consider the existence of derivative instruments embedded in other contracts and therefore they are not reflected in the financial statements. For U.S. GAAP purposes, certain implicit or explicit terms included in host contracts that affect some or all of the cash flows or the value of other exchanges required by the contract in a manner similar to a derivative instrument, must be separated from the host contract and accounted for at fair value. The Bank separately measures embedded derivatives as freestanding derivative instruments at their estimated fair values recognizing changes in earnings when they occur. Currently the only host contracts and instruments that the Bank has, which have implicit or explicit terms that must be separately accounted for at fair value, are service type contracts related to computer services agreements and credit linked instruments. The effect of accounting for embedded derivatives is not material to the Bank’s financial position and results of its operations.

The effect of adopting the provisions of SFAS 133 as of January 1, 2001, resulted in a cumulative effect on net income of MCh$2, which is presented net of deferred taxes of MCh$0.3 under the caption “Cumulative effect of change in accounting principles”. The effects of the differences in accounting for derivative instruments between Chilean and U.S. GAAP on the consolidated net income and shareholders’ equity of the Bank are included in paragraph (t) below.

(o) Minimum dividend

As required by the Chilean General Banking Law, unless otherwise decided by a two-thirds vote of its issued and subscribed shares, the Bank must distribute a cash dividend in an amount equal to at least 30% of its net income for each year as determined in accordance with Chilean GAAP, unless and except to the extent the Bank has unabsorbed prior year losses.

Since the payment of these dividends is a legal requirement in Chile, an accrual for U.S. GAAP purposes is made to recognize the corresponding decrease in equity at each balance sheet date. The Bank’s liabilities would have been greater by MCh$15,949 and MCh$39,166 as of December 31, 2002 and 2003, respectively, under U.S. GAAP. The effects of these adjustments on the shareholders’equity of the Bank are included in paragraph (t) below.

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(p) Assets received in lieu of payment

Under Chilean GAAP, assets received in lieu of payment are carried at cost and have been restated for price-level changes, less a global valuation allowance if the total of the market value of those assets is lower than the carrying amount. Market value is determined based on appraiser valuations, as required by the Superintendency of Banks. Beginning January 1, 2001, if the asset is not sold within one year, then recorded asset amounts must be written-off on at least a straight-line basis over the following 18-month period.

Under U.S. GAAP, assets received in lieu of payment are initially recorded at fair value less any estimated costs to sell at the date of foreclosure, on an individual asset basis. The effect of recording these assets in accordance with U.S. GAAP is included in the reconciliation of consolidated net income and shareholders' equity in paragraph (t) below.

(q) Acquisition of Leasing Andino

On April 23, 1999, the Bank and its subsidiary Banchile Asesorías Financieras S.A. acquired the remaining 35% of shares of Leasing Andino that it did not already own from Orix Corporation for MCh$13,914. Under Chilean GAAP, the Bank recorded goodwill in the amount of MCh$1,223 based on the differences between the investment purchase price and the amount of the underlying equity in the carrying value of the investee’s net assets. As permitted by Chilean GAAP, goodwill can be amortized on an accelerated basis to the extent of the Bank’s net income. Accordingly the Bank completely amortized the remaining goodwill recorded as a result of this transaction during the year ended December 31, 2003.

Under U.S. GAAP, the difference between the cost of an investment and the amount of underlying equity in net assets is allocated to the underlying assets and liabilities based on their respective fair values at the time of the acquisition. Any excess of the cost of the investment over such fair value is treated as goodwill. Under U.S. GAAP, prior to 2003, the Bank amortized the resulting goodwill over an estimated useful life of 10 years on a straight-line basis. Beginning January 1, 2002, the Bank ceases to amortize goodwill related to the acquisition of Leasing Andino, following the provisions of SFAS No. 142, as described in paragraph (d) above.

The effect of the differences in purchase accounting and the amortization of goodwill is included in the reconciliation of consolidated net income and shareholders' equity in paragraph (t) below.

(r) Staff severance indemnities

The provision for staff severance indemnities, included in the account “Other Liabilities” (see Note 10), relates to a benefit payable to a defined number of employees, upon their retirement from the Bank, conditional upon having completed 30 years of continuous service. The Bank makes indemnity payments upon termination of the applicable employees, and has not set aside assets to fund its benefit obligation. Under Chilean GAAP, the corresponding liability is calculated by discounting the benefit accrued using real interest rates, as described in Note 1 (m), considering current salary levels of all employees eligible under the plan and the estimated average remaining service period. Under U.S. GAAP the corresponding liability is recorded using the shutdown method, consistent with the accounting criteria applied by its parent company, Quiñenco.

The effects of accounting for termination indemnity benefits under U.S. GAAP have been presented in paragraph (t), below.

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(s) Merger expenses

During 2001, under Chilean GAAP, the Bank recorded certain expenses related to the merger with Banco de A. Edwards representing primarily severance costs and professional expenses. Under U.S. GAAP, such expenses would be deferred until the effective date of the merger. The effect of this difference has been presented in paragraph (t), below.

(t) Summary of Income Statement and Shareholders' Equity differences

The following is a reconciliation of consolidated net income under Chilean GAAP to the corresponding U.S. GAAP amounts:

	Years ended December 31,			
	2001 MCh$	2002 MCh$	2003 MCh$	2003 ThUS$
Net income in accordance with Chilean GAAP	**90,473**	**53,161**	**130,553**	**217,799**
U.S. GAAP adjustments:				
Merger of entities under common control (Note 28 (a))	(14,087)	—	—	—
Push Down accounting (Note 28(b))				
Goodwill amortization (Note 28 (d))	(12,264)	—	—	—
Fair value of intangibles	(13,600)	(14,782)	(12,926)	(21,564)
Fair value of loans	892	(1,312)	(1,242)	(2,072)
Fair value of staff severance indemnities	430	4,302	—	—
Fair value of premises	(168)	(223)	(223)	(372)
Fair value of other	(196)	(58)	18	30
Equity participation in Banco de Chile	1,424	—	—	—
Acquisition of Banco Edwards (Note 28(c))				
Fair value of intangibles	—	(6,014)	(4,621)	(7,709)
Fair value of loans	—	11,441	1,103	1,840
Fair value of other interest bearing liabilities	—	12,506	4,359	7,272
Fair value of deposits	—	(27,837)	(237)	(395)
Fair value of premises	—	(9)	(9)	(15)
Fair value of other	—	238	83	138
Loan origination commissions and fees (Note 28 (e))	(663)	(1,026)	(467)	(779)
Deferred income taxes (Note 28 (f))	(2,502)	(2,352)	(1,279)	(2,133)
Investments in other companies (Note 28 (g))	27	(321)	98	163
Allowance for loan losses (Note 28 (k))	13,053	(18,040)	7,309	12,193
Mortgage finance bonds (Note 28 (l))	43	(1,789)	1,917	3,198
Held-to-Maturity investments (Note 28 (m))	(5,188)	(7,375)	10	17
Derivatives (Note 28 (n))	(9,893)	8,650	3,430	5,722
Assets received in lieu of payment (Note 28 (p))	515	(1,739)	381	636
Goodwill – Leasing Andino Acquisition (Note 28 (q))	(192)	—	—	—
Staff severance indemnities (Note 28 (r))	839	4,496	122	204
Merger expenses (Note 28 (s))	2,432	(1,245)	—	—
Deferred tax effect of the above U.S. GAAP adjustments (Note 28 (f))	(1,117)	6,451	2,019	3,368

Net income in accordance with U.S. GAAP before cumulative effect of change in accounting principles	**50,258**	**17,123**	**130,398**	**217,541**
Cumulative effect of change in accounting principles, net of taxes	2	—	—	—
Net income in accordance with U.S. GAAP	**50,260**	**17,123**	**130,398**	**217,541**
Other comprehensive income, net of tax (Note 28(x)):	**28**	**9,434**	**(6,296)**	**(10,504)**
Unrealized holding gains (losses) on available-for-sale securities, net of tax	(1,712)	7,692	(2,620)	(4,371)
Adjustment for translation differences	1,740	1,742	(3,676)	(6,133)
Comprehensive income in accordance with U.S. GAAP	**50,288**	**26,557**	**124,102**	**207,037**

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(t) Summary of Income Statement and Shareholders' Equity differences (continued)

The following is a reconciliation of consolidated shareholders' equity differences under Chilean GAAP to the corresponding amounts under U.S. GAAP:

	Years ended December 31,		
	2002 MCh$	**2003 MCh$**	**2003 ThUS$**
Shareholders' Equity in accordance with Chilean GAAP	**624,412**	**695,676**	**1,160,582**
U.S. GAAP adjustments:			
Push Down accounting (Note 28(b))			
Goodwill	380,278	380,278	634,410
Goodwill accumulated amortization (Note 28(d))	(18,774)	(18,774)	(31,320)
Fair value of intangibles	173,193	173,193	288,934
Amortization of fair value of intangibles	(28,382)	(41,308)	(68,913)
Fair value of loans	4,209	2,967	4,950
Fair value of premises	11,075	11,075	18,476
Amortization of fair value of premises	(391)	(614)	(1,024)
Fair value of other	177	195	325
Acquisition of Banco Edwards (Note 28 (c))			
Goodwill	188,712	188,712	314,824
Fair value of intangibles	31,459	31,459	52,482
Amortization of fair value of intangibles	(6,014)	(10,635)	(17,742)
Fair value of loans	(6,239)	(5,136)	(8,568)
Fair value of other interest bearing liabilities	(42,319)	(37,960)	(63,328)
Fair value of deposits	261	24	40
Fair value of premises	86	86	143
Amortization of fair value of premises	(9)	(18)	(30)
Fair value of other	(806)	(723)	(1,206)
Loan origination commissions and fees (Note 28 (e))	467	—	—
Deferred income taxes (Note 28 (f))	811	(468)	(780)
Investments in other companies (Note 28 (g))	405	503	839
Allowance for loan losses (Note 28 (k))	21,663	28,972	48,333
Mortgage finance bonds (Note 28 (l))	(1,917)	—	—
Held-to-Maturity investments (Note 28 (m))	(10)	(4)	(7)
Derivatives (Note 28 (n))	3,671	7,101	11,846
Minimum Dividend (Note 28 (o))	(15,949)	(39,166)	(65,340)
Assets received in lieu of payment (Note 28 (p))	614	995	1,660
Goodwill – Leasing Andino Acquisition (Note 28 (q))	1,872	1,872	3,123
Staff severance indemnities (Note 28 (r))	(3,885)	(3,763)	(6,278)
Merger expenses (Note 28(s))	—	—	—
Deferred tax effect of the above U.S. GAAP adjustments (Note 28 (f))	(25,910)	(23,890)	(39,855)
Shareholders' Equity in accordance with U.S. GAAP	**1,292,760**	**1,340,649**	**2,236,576**

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(t) Summary of Income Statement and Shareholders' Equity differences (continued)

The following summarizes the changes in shareholders' equity under U.S. GAAP during the years ended December 31, 2002 and 2003:

	Years ended December 31,		
	2002 MCh$	**2003 MCh$**	**2003 ThUS$**
Balance as of January 1	1,177,299	1,292,760	2,156,685
Capital increase due to merger with Banco de A. Edwards	176,082	—	—
Dividends paid	(101,415)	(52,996)	(88,414)
Minimum dividend, previous date	30,295	15,949	26,607
Minimum dividend, closing date	(15,949)	(39,166)	(65,340)
Unrealized gains (losses) on Available-for-sale investments, net of taxes	7,692	(2,620)	(4,371)
Absorption of subsidiaries	(109)	—	—
Cumulative translation adjustment	1,742	(3,676)	(6,132)
Net income in accordance with U.S. GAAP	17,123	130,398	217,541
Balance as of December 31	**1,292,760**	**1,340,649**	**2,236,576**

(u) Net income per share

The following disclosure of net income per share information is not generally required for presentation in the financial statements under Chilean GAAP but is required under U.S. GAAP. Earnings per share is determined by dividing combined net income by the weighted average number of total shares outstanding.

	Years Ended December 31,		
	2001	**2002**	**2003**
Chilean GAAP(1)	**Ch$**	**Ch$**	**Ch$**
Earnings per share	2.01	0.78	1.92
Weighted average number of total shares outstanding (in millions)	44,932.7	68,079.8	68,079.8
U.S. GAAP(1)			
Earnings per share before Cumulative effect of accounting change	0.87	0.25	1.92
Cumulative effect of accounting change per share	—	—	—
Earnings per share	0.87	0.25	1.92
Weighted average number of total shares outstanding (in millions) (2)	57,587.3	68,079.8	68,079.8

(1) Basic and diluted earnings per share have been calculated by dividing net income by the weighted average number of common shares outstanding during the year. There are no potentially dilutive effects on the earnings of Banco de Chile as it had not issued convertible debt or equity securities.

(2) Common shares outstanding are presented giving effect to the weighted average shares outstanding during the year for the Merged Bank, based on the exchange ratio of 3.135826295 shares of Banco de Chile for each outstanding share of Banco de A. Edwards, which had 7,381.41 million shares outstanding immediately prior to the merger.

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(v) Article 9 Presentation of Income Statements and Balance Sheets

The presentation of the consolidated financial statements differs significantly from the format required by the Securities and Exchange Commission under Rules 210.9 to 210.9-07 of Regulation S-X ("Article 9"). The following financial statements are presented in constant Chilean pesos of December 31, 2003 and are presented in a format that complies with the requirements of Article 9 of Regulation S-X. The Income Statements presented for the years ended December 31, 2001, 2002 and 2003 disclose the Bank's U.S. GAAP income statements in a format that complies with the requirements of Article 9 of regulation S-X.

The principal reclassifications and adjustments, which were made to the basic Chilean GAAP consolidated financial statements in order to present them in the Article 9 format, are as follows:

1. Elimination of contingent assets and liabilities from the balance sheet.

2. Presentation of recoveries of loans previously charged-off as a reduction of the provision for loan losses instead of as other income.

3. Reclassification of fees relating to contingent loans from interest income under Chilean GAAP to other income under Article 9.

4. Elimination of the cash clearing account from cash and due from banks.(1)

5. Presentation of forward contracts classified based on legal right to offset.

6. Reclassification of assets under lease from Other assets under Chilean GAAP to Bank premises and equipment under Article 9.

7. Inclusion of adjustments to U.S. GAAP described in Note 28(t).

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(1) In accordance with regulations issued by the Superintendency of Banks, Chilean banks include under the caption "Cash and due from banks" amounts related to checks from other banks that have been deposited in their clients' checking accounts that are pending settlement. As no cash is involved in the transaction, these amounts should not be recorded under U.S. GAAP until the cash is received, which normally occurs the following business day.

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(v) Article 9 Presentation of Income Statements and Balance Sheets (continued)

The following income statements presented for the years ended December 31, 2001, 2002 and 2003 have been prepared in accordance with U.S. GAAP to disclose the Bank's consolidated income statement in accordance with the requirements of Article 9:

Income Statements

	Years ended December 31,		
	2001 MCh$	**2002 MCh$**	**2003 MCh$**
INTEREST INCOME:			
Interest and fees on loans	593,886	583,664	469,612
Interest on investments	102,901	130,768	(19,285)
Interest on deposits with banks	5,000	3,967	1,820
Interest under agreements to resell	9,475	241	99
Total interest income	**711,262**	**718,640**	**452,246**
INTEREST EXPENSE:			
Interest on deposits	(235,829)	(152,259)	(86,909)
Interest on investments sold under agreements to purchase	(15,682)	(10,468)	(8,696)
Interest on short-term debt	(18,560)	(44,228)	(9,363)
Interest on long-term debt	(134,514)	(129,840)	(95,144)
Price-level restatement, net (1)	(10,176)	(9,692)	(4,036)
Total interest expense	**(414,761)**	**(346,487)**	**(204,148)**
Net interest income	**296,501**	**372,153**	**248,098**
PROVISION FOR LOAN LOSSES	(53,895)	(107,657)	(27,369)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**242,606**	**264,496**	**220,729**
OTHER INCOME:			
Fees and commissions	49,861	62,599	79,241
Brokerage and securities income net gain (losses) on trading activities	(8,470)	854	10,770
Net gains (losses) on foreign exchange	5,775	(31,981)	91,061
Other revenue	11,568	6,463	6,137
Total other income	**58,734**	**37,935**	**187,209**

OTHER EXPENSES:			
Salaries	(117,943)	(135,443)	(125,199)
Net premises and equipment expenses	(22,435)	(29,008)	(23,502)
Goodwill amortization	(12,456)	—	—
Administration expenses	(73,070)	(77,500)	(75,845)
Other expenses	(22,731)	(48,621)	(39,830)
Minority interest	(1)	(1)	(2)
Total other expenses	**(248,636)**	**(290,573)**	**(264,378)**
INCOME BEFORE INCOME TAXES	**52,704**	**11,858**	**143,560**
INCOME TAXES	**(2,446)**	**5,265**	**(13,162)**
NET INCOME	**50,258**	**17,123**	**130,398**
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES, NET OF TAXES	**2**	**—**	**—**
NET INCOME	**50,260**	**17,123**	**130,398**

In connection with the preparation of the Article 9 income statement:

(1) The price-level restatement includes the effect of inflation primarily resulting from the loss in purchasing power on interest earning assets and interest bearing liabilities due to inflation. As the Bank does not maintain the price-level adjustment for separate categories of assets and liabilities, such adjustment is presented as a component of interest expense.

(Restated for general price - level changes and expressed in millions of constant
Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(v) Article 9 Presentation of Income Statements and Balance Sheets (continued)

The following balance sheets presented as of December 31, 2002 and 2003 have been prepared in accordance with U.S. GAAP to disclose the Bank's consolidated balance sheets in accordance with the requirements of Article 9:

Balance Sheets

	As of December 31,	
	2002 MCh$	**2003 MCh$**
ASSETS		
Cash and due from banks	276,177	403,611
Term Federal Funds	115,140	71,934
Interest bearing deposits in other banks	33,602	183,707
Investments under agreements to resell	32,499	29,660
Trading investments	1,017,006	1,589,090
Available-for-sale investments	114,499	20,912
Held-to-maturity investments	316,955	21,017
Subtotal	**1,905,878**	**2,319,931**
Loans	5,933,752	5,952,775
Unearned income	(70,494)	(64,935)
Reserve for loan losses	(196,539)	(150,419)
Loans, net	**5,666,719**	**5,737,421**
Premises and equipment, net	175,464	163,615
Goodwill	552,088	552,088
Other assets	383,521	434,360
TOTAL ASSETS	**8,683,670**	**9,207,415**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	1,265,035	1,438,106
Interest bearing	3,532,163	3,422,511
Total deposits	**4,797,198**	**4,860,617**
Short-term borrowings	262,444	391,548
Investments sold under agreements to repurchase	279,442	426,741
Other liabilities	244,218	397,335
Long-term debt	1,807,605	1,790,520

TOTAL LIABILITIES	**7,390,907**	**7,866,761**
Minority interest	3	5
Shareholders' equity:		
Common stock	482,504	482,504
Other Shareholders' equity	810,256	858,145
TOTAL SHAREHOLDERS' EQUITY	**1,292,760**	**1,340,649**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**8,683,670**	**9,207,415**

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(v) Article 9 Presentation of Income Statements and Balance Sheets (continued)

The following is a reconciliation of total assets presented in accordance with guidelines established by the Superintendency of Banks and the presentation prescribed by Article 9:

	As of December 31,	
	2002 MCh$	**2003 MCh$**
Total assets of Bank under Chilean GAAP	8,679,770	9,249,902
Elimination of assets offset by liabilities:		
Cash clearing account	(392,188)	(453,222)
Contingent loans	(385,585)	(409,638)
Repurchased mortgage finance bonds issued by the Bank	21,428	68,081
U.S. GAAP adjustments, net	760,245	752,292
Total assets as per Article 9 presentation	**8,683,670**	**9,207,415**

(w) Income taxes

The reconciliation of the provision for income taxes charged to income under Chilean GAAP to the corresponding amounts under U.S. GAAP is as follows:

	Years ended December 31,		
	2001 MCh$	**2002 MCh$**	**2003 MCh$**
Benefit (charge) for the period under Chilean GAAP	1,173	1,165	(13,902)
U.S. GAAP Adjustments:			
Deferred tax effect of applying SFAS No. 109	(2,502)	(2,352)	(1,279)
Deferred tax effect of U.S. GAAP adjustments	(1,117)	6,452	2,019
Benefit (Charge) for the period under U.S. GAAP	**(2,446)**	**5,265**	**(13,162)**

(Restated for general price - level changes and expressed in millions of constant
Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(w) Income taxes (continued)

Deferred tax assets (liabilities) are summarized as follows:

	As of December 31,	
	2002 MCh$	**2003 MCh$**
Deferred Tax Assets:		
Leasing equipment	5,250	8,517
Obligations with repurchase agreement	25,647	42,075
Global allowance for loan losses	18,267	14,719
Voluntary loan loss allowance	3,426	3,392
Charge-offs from financial investment	2,335	331
Accrued interests and readjustments from high risk loan portfolio	1,611	1,936
Staff vacations	1,334	1,346
Accruals interest and readjustments from past due loans	1,071	807
Personnel provisions	917	1,504
Assets at market value	1,109	1,829
Staff severance indemnities	1,337	1,320
Other adjustments	8,488	9,351
Deferred income taxes related to purchase accounting of Banco de A. Edwards	4,045	5,710
Total Deferred Tax Assets	**74,837**	**92,837**
Deferred Tax Liabilities:		
Investments with repurchase agreement	24,794	41,564
Depreciation and price-level restatement of bank premises and equipment	4,071	5,307
Transitory assets	1,359	1,112
Deferred income taxes related to push down accounting adjustments	27,250	24,737
Other adjustments	2,013	1,258
Total Deferred Tax Liabilities	**59,487**	**73,978**
NET DEFERRED TAX ASSETS (LIABILITIES)	**15,350**	**18,859**

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(w) Income taxes (continued)

The provision for income taxes under U.S. GAAP differs from the amount of income tax determined by applying the applicable Chilean statutory income tax rate to pre-tax income as a result of the following differences:

	Years ended December 31,		
	2001 MCh$	**2002 MCh$**	**2003 MCh$**
Chilean taxes due at the applicable statutory rate (1)	8,082	2,084	23,687
Increase (decrease) in rates resulting from:			
Non-deductible expenses	3,126	2,088	3,321
Non-taxable income	(6,071)	(3,560)	(12,316)
Effect on tax and financial equity restatement (2)	(940)	(1,205)	(400)
Effect of income tax rate change on net deferred tax assets.	—	(2,091)	(552)
Income tax recovery	(1,075)	—	—
Other	(676)	(2,581)	(578)
At effective tax rate	**2,446**	**(5,265)**	**13,162**

(1) The Chilean statutory first category (corporate) income tax rate was 15% for 2001, 16% for 2002 and 16.5% for 2003. Enacted income tax rate is schedule to be 17% for the taxation year 2004.

(2) This item corresponds to the difference in the basis used for the price-level restatement calculation of shareholder's equity for financial and tax purposes.

(x) Comprehensive Income

The Bank presents comprehensive income and its components with the objective to report a measure of all changes in shareholders'equity that result from transactions and other economic events of the period other than transactions with owners ("comprehensive income"). Comprehensive income is the total net income and other non-owner equity transactions that result in changes in net equity.

The following represents accumulated other comprehensive income balance, net of tax, for the years ended December 31, 2001, 2002 and 2003:

	Year ended December 31, 2003		
	Before-tax amount	**Tax (expense) or benefit**	**Net-of-tax amount**
	MCh$	**MCh$**	**MCh$**
Beginning balance	9,093	(1,448)	7,645
Price-level restatement (1)	(92)	16	(76)
Unrealized losses on securities available-for-sale:			
Unrealized losses arising during the period	(8,453)	1,437	(7,016)
Less: reclassification adjustment for gains included in income	5,296	(900)	4,396

Net unrealized losses	(3,157)	537	(2,620)
Adjustment for translation differences	(3,676)	—	(3,676)
Ending balance	**2,168**	**(895)**	**1,273**

(Restated for general price - level changes and expressed in millions of constant
Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(x) Comprehensive Income (continued)

	Year ended December 31, 2002		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
	MCh$	MCh$	MCh$
Beginning balance	(2,201)	359	(1,842)
Price-level restatement (1)	63	(10)	53
Unrealized gains on securities available for sale:			
Unrealized gains arising during the period	9,673	(1,548)	8,125
Less: reclassification adjustment for losses included in net income	(516)	83	(433)
Net unrealized gains	9,157	(1,465)	7,692
Adjustment for translation differences	2,074	(332)	1,742
Ending balance	**9,093**	**(1,448)**	**7,645**

	Year ended December 31, 2001		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
	MCh$	MCh$	MCh$
Beginning balance	195	(30)	165
Incorporation of Banco de Chile as of March 2001	(2,456)	369	(2,087)
Price-level restatement (1)	62	(10)	52
Unrealized losses on securities available for sale:			
Unrealized losses arising during the period	(3,377)	540	(2,837)
Less: reclassification adjustment for losses included in net income	1,324	(199)	1,125
Net unrealized losses	(2,053)	341	(1,712)
Adjustment for translation differences	2,051	(311)	1,740
Ending balance	**(2,201)**	**359**	**(1,842)**

(1) Reflects the effect of inflation on the comprehensive income at the beginning of each period, adjusted to constant pesos of December 31, 2003.

(y) Segment information

The Bank presents information in accordance with Statement of Financial Accounting Standard No.131 “Disclosure about

Segments of an Enterprise and Related Information", which establishes standards for reporting information about operating segments and related disclosures about products and services and geographic areas. Operating segments are defined as components of an enterprise about which separate financial information is available that is regularly used by the Chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Bank has strategically aligned its operations into six major segments of business based on its market segmentation and the needs of its clients and trading partners. The Bank manages and measures the performance of its operations through these business segments using an internal profitability reporting system. The internally reported segments are as follows:

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(y) Segment information (continued)

Large Corporate Banking
The Large Corporate Banking segment provides services to 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 economic groups. Services provided include deposit taking and lending in both Chilean pesos and foreign currency, trade and project financing, working capital financing, foreign trade financing, lines of credit, commercial mortgage loans and various non-credit services, such as collection, supplier payments, payroll management and a wide range of treasury and risk management products.

Middle Market Corporate Banking
The middle market corporate banking segment provides services to companies with annual sales less than Ch$12,000 million. Services provided include working capital financing, mortgage loans and debt rescheduling as well as alternative financing arrangements such as leasing operations and factoring.

Retail Banking,
The Retail-banking segment primarily provides 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.

International Banking,
The International Banking segment includes services offered principally through the Bank's New York branch and its agency in Miami, representative offices in Buenos Aires, São Paulo and Mexico City and a worldwide network of correspondent banks.

Treasury
The Treasury segment is responsible for the management of the Bank's assets and liabilities and also offers financial services to other segments and external customers such as currency intermediation, instruments developed for currency and interest rate risk hedging, transactions under repurchase agreements and investment products based on bonds, mortgage notes and deposits. The Treasury segment is also responsible for monitoring compliance with regulatory deposit limits, technical reserves and maturity and rate matches.

Subsidiaries
The Subsidiaries segment includes non-banking financial services offered through separate legal entities including securities brokerage, mutual fund and investment fund management, financial advisory services, factoring, insurance brokerage, securitization, collection and sales services.

The financial information used to measures the performance of the Bank's business segments is not necessarily comparable with similar information from other financial institutions and is based on internal reporting policies. The accounting policies are the same as those applied under Chilean GAAP, described in Note 1, except as noted below:

- The net interest margin of loans and deposits is measured on an individual transaction and client basis, based on the difference between the effective customer rate and the related Bank's fund transfer price in terms of maturity, re-pricing and currency;
- The matching of interest rates and the insurance of adequate hedging activities are performed within Treasury Operations. The results associated to the gap management has been allocated among different segments in accordance to the amount of interest earning assets in each segment;
- The internal performance profitability system considers capital allocation in each segment in accordance to Basle guidelines.
- Provisions for loan losses in each segment are measured on a client basis.

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(y) Segment information (continued)

- In terms of costs, the Bank's management model used considers the allocation of costs that are directly related and not the overhead expenses of corporate and support departments, voluntary allowances, taxes and certain other non-operating income and expenses;
- Certain operating costs are allocated to each segment based on the type and amount of transactions. In addition, the Bank allocates theoretical rental costs to each property-owned branch based on market rental values so that the results of these branches are comparable to rental-property branches.

The following tables show the results of the Bank by operating segments for the three years ended December 31, 2003:

Year ended December 31, 2003 (1)

	Large Corporate	Middle Market	Retail Banking	International Banking	Treasury	Subsidiaries	Other (2)	Total
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$
Operating Revenues	88,286	106,078	145,572	16,377	22,768	52,900	(7,731)	424,250
Provisions	(12,610)	(17,172)	(31,648)	1,275	(1,373)	(511)	1,970	(60,069)
Operating Expenses	(24,609)	(52,086)	(81,767)	(6,200)	(2,188)	(30,413)	(27,173)	(224,436)
Other income and expenses	(484)	1,335	4,404	750	(65)	(710)	(520)	4,710
Net income before taxes	50,583	38,155	36,561	12,202	19,142	21,266	(33,454)	144,455

Year ended December 31, 2002 (1) (3) (4)

	Large Corporate	Middle Market	Retail Banking	International Banking	Treasury	Subsidiaries	Other (2)	Total
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$
Operating Revenues	91,578	111,021	147,112	2,615	25,389	41,787	320	419,822
Provisions	(47,677)	(30,715)	(37,847)	(321)	(229)	(1,629)	16,768	(101,650)
Operating Expenses	(24,142)	(53,084)	(83,238)	(8,822)	(1,508)	(23,600)	(56,123)	(250,517)
Other income and expenses	(9,469)	(3,293)	(883)	(203)	(365)	(2,925)	1,479	(15,659)
Net income before taxes	10,290	23,929	25,144	(6,731)	23,287	13,633	(37,556)	51,996

Year ended December 31, 2001 (1) (4)

	Large Corporate	Middle Market	Retail Banking	International Banking	Treasury	Subsidiaries	Other (2)	Total
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$
Operating Revenues	61,991	86,222	86,801	18,567	17,251	20,848	(14,888)	276,792
Provisions	(29,419)	(4,874)	(16,322)	385	(1,103)	(58)	3,655	(47,736)
Operating Expenses	(13,072)	(33,151)	(44,839)	(8,079)	(4,127)	(10,415)	(30,462)	(144,145)
Other income and expenses	(1,577)	(1,374)	2,979	106	(302)	(282)	4,606	4,156
Net income before taxes	17,923	46,823	28,619	10,979	11,719	10,093	(37,089)	89,067

(1) Segment information disclosed above is based on internal reporting policies and does not conform to Chilean or U.S. GAAP.

(2) “Other” includes the effect of conforming management accounting policies to accounting principles generally accepted in Chile and a number of non-allocated costs, such as corporate overhead expenses, voluntary provisions and depreciation costs. Also included within other are amounts of miscellaneous income or expenses that are not earned or incurred by one specific segment, including all external rental income.

(3) The 2002 business information has been adjusted in order to conform with the present year information, as during 2003 the management model used to measure the performance of these areas was improved in order to allocate a higher proportion of the overhead costs (defined as “Other”).

(4) Certain minor reclassifications have been made to 2001 and 2002 balances information in order to conform with the 2003 presentation.

(Restated for general price - level changes and expressed in millions of constant
Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(y) Segment information (continued)

Information about geographic areas.

The financial information presented below has been classified considering the country in which the related transactions were originated. Those transactions which originated in the United States of America, through Banco de Chile's operations in New York and Miami, U.S.A., are primarily completed with Chilean and Argentine citizens and enterprises, and are principally denominated in U.S. dollars.

A summary of activities by geographic area is as follows:

	As of December 31,		
	2001 MCh$	**2002 MCh$**	**2003 MCh$**
Total Interest Revenues			
Republic of Chile	494,898	674,980	415,523
U.S.A	41,432	21,623	13,181
Total Net Income			
Republic of Chile	80,521	58,756	119,499
U.S.A	9,952	(5,595)	11,054
Mortgage Loans			
Republic of Chile	840,503	1,199,144	1,128,030
U.S.A	—	—	—
Commercial Loans			
Republic of Chile	1,564,074	2,426,008	2,466,415
U.S.A	120,121	116,484	90,585
Income Taxes			
Republic of Chile	1,214	986	(14,410)
U.S.A	192	179	508
Bank Premises and equipment			
Republic of Chile	86,919	139,161	126,895
U.S.A	1,617	1,575	860
Total Assets			
Republic of Chile	5,671,713	8,069,772	8,681,832
U.S.A	659,600	609,998	568,070

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(z) Estimated Fair Value of Financial Instruments and Derivative Financial Instruments

The accompanying tables provide disclosure of the estimated fair value of financial instruments owned by the Bank. Various limitations are inherent in the presentation, including the following.

- The data excludes non-financial assets and liabilities, such as bank premises and equipment and excludes values attributable to deposit and credit card relationships.

- While the data represents management’s best estimates, the data is subjective, involving significant estimates regarding current economic and market conditions and risk characteristics.

The methodologies and assumptions used depend upon the terms and risk characteristics of the various instruments and include the following:

- Cash and due from banks represents cash and short-term deposits, which approximate fair value because of the short-term maturity of these instruments.

- Most of the Bank’s securities are considered as trading and therefore are generally carried at quoted market prices. Interest earning assets and liabilities with an original maturity of less than one year are considered to have a fair value, which is not materially different from their book value.

- For interest earning assets and interest bearing liabilities, which are contracted at variable interest rates, their book value is considered to be equivalent to their fair value.

- For performing loans with fixed-rates and an original maturity of greater than one year, the fair values were calculated by discounting contractual cash flows, using the Bank’s current origination rates for loans with similar terms and similar risk characteristics.

- For loans where the Bank’s management believes that the amounts outstanding will not be paid in accordance with contractual terms, the estimated cash flows arising from the liquidation of collateralized assets and other expected flows have been discounted at an estimated discount rate commensurate with the risk in the collection of these amounts.

- For interest-bearing liabilities with fixed rates and an original contractual maturity of greater than one year, the fair values are calculated by discounting contractual cash flows at current market origination rates with similar terms.

- The estimated fair value of foreign exchange forward contracts was determined using quoted market prices of financial instruments with similar characteristics.

- The fair value of interest rate swaps represents the estimated amount the Bank would expect to receive or pay to terminate the contracts or agreements, taking into account current interest rates. As no quoted market prices are available for the interest rate swap and forward rate instruments held by the Bank, such estimates have been estimated using modeling and other valuation techniques.

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(z) Estimated Fair Value of Financial Instruments and Derivative Financial Instruments (continued)

The estimated fair values of financial instruments and derivatives financial instruments are as follows:

	As of December 31,			
	2002		2003	
	Carrying Amount (2) MCh$	Estimated fair value MCh$	Carrying Amount (2) MCh$	Estimated fair value MCh$
ASSETS				
Cash and due from banks	276,177	276,177	403,611	403,611
Interest bearing deposits in other banks	33,602	33,602	183,707	183,707
Term federal funds	115,140	115,140	71,934	71,934
Accounts receivable under spot foreign exchange transactions (1)	30,249	30,249	39,148	39,148
Financial investments	1,480,959	1,480,969	2,028,093	2,028,097
Loans, net (3)	5,666,719	5,793,123	5,737,421	5,932,077
Derivative instruments	25,099	25,099	75,182	75,182
LIABILITIES				
Deposits	4,797,198	4,798,865	4,860,617	4,924,526
Accounts payable under spot foreign exchange transactions (1)	28,482	28,482	47,030	47,030
Investments under agreements to repurchase	279,442	279,442	426,741	426,741
Short term and long term borrowings	2,070,048	2,145,254	2,182,068	2,242,819
Derivative instruments	29,994	29,994	77,387	77,387

(1) Included under the captions Other assets and Other liabilities.
(2) The carrying amounts are based on amounts determined under U.S. GAAP.
(3) The carrying amounts of loans in the above table excludes contingent loans since they represent amounts that have not been disbursed under undrawn letters of credit and other credit guarantees granted by the Bank.

(aa) Price-level restatement

The net charge to income for price-level restatement is comprised of the following restatements of non-monetary assets and liabilities. These figures are expressed in constant Chilean pesos of December 31, 2003.

	Year ended December 31,		
	2001 MCh$	2002 MCh$	2003 MCh$
Shareholders' equity	(16,528)	(15,945)	(5,818)
Bank premises and equipment	4,519	4,574	1,234
Investment in other companies	587	1,012	371
Other, net	1,246	667	177

Net loss from price-level restatement	**(10,176)**	**(9,692)**	**(4,036)**

(Restated for general price - level changes and expressed in millions of constant
Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(ab) Investments in other companies

As of December 31, 2001, 2002 and 2003, investments in other companies and the Bank's participation in such companies' results of operations for each of the periods indicated, consist of the following:

	As of and for the years ended December 31,						
	2001		2002		2003		
	Investment	Income (Loss)	Investment	Income (Loss)	Investment	Income (Loss)	Ownership Interest 2003
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	%
Artikos Chile S.A.	673	(99)	(69)	(1,256)	203	(1,996)	50.00
Servipag Ltda.	673	84	723	51	811	88	50.00
Redbanc S.A.	928	164	881	152	1,020	291	25.42
Soc. Operadora de Tarjetas de Crédito Nexus S.A.	840	(418)	883	48	986	142	25.81
Centro de Compensación Automatizado S.A. (CCA S.A.)	141	34	153	12	199	44	33.33
Empresa de Tarjetas Inteligentes S.A.	147	(44)	157	(145)	114	(43)	26.67
Equity participation in Banco de Chile	—	1,423	—	—	—	—	
Total investments in other companies accounted for under the equity method	3,402	1,144	2,728	(1,138)	3,333	(1,474)	
Other investments carried at cost	2,739	281	2,502	(163)	2,466	254	
Total investments in other companies	**6,141**	**1,425**	**5,230**	**(1,301)**	**5,799**	**(1,220)**	

(ac) Bank premises and equipment, net

The major categories of Bank premises and equipment net of accumulated depreciation are as follows:

	As of December 31,	
	2002	2003
	MCh$	MCh$
Land and buildings	111,248	103,989
Furniture and fixtures	19,649	18,304
Machinery and equipment	17,915	13,966

Vehicles	535	626
Assets under lease	23,766	24,499
Others	2,351	2,231
Bank premises and equipment, net	**175,464**	**163,615**

In accordance with rules of the Superintendency of Banks, bank premises and equipment are presented net of accumulated depreciation. As a result no information is available for either accumulated depreciation or total bank premises and equipment.

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(ad) Other assets and other liabilities

(1) Other assets

	As of December 31,	
	2002 **MCh$**	**2003** **MCh$**
Intangibles	170,255	152,709
Deferred income tax assets	74,837	92,837
Derivative instruments	25,099	75,182
Amounts receivable under spot foreign exchange transaction	30,249	39,148
Assets received in lieu of payment	19,801	16,622
Transactions in process	19,327	10,445
Deferred asset on bonds issuances	7,112	6,103
Investments in other companies	5,230	5,799
Deferred software cost	2,939	4,714
Accounts receivable for assets received in lieu of payment sold	3,792	4,583
VAT fiscal credit	1,784	3,219
Deferred loan origination and service costs	3,467	2,750
Other deferred expenses	1,626	1,066
Recoverable taxes	4,105	941
Materials and supplies	966	478
Dividends receivable	6,539	—
Brokerage operations	1,267	—
Prepaid advertising expenses	872	—
Other	4,254	17,764
Total other assets	**383,521**	**434,360**

(2) Other liabilities

	As of December 31,	
	2002 **MCh$**	**2003** **MCh$**
Accounts payable	35,889	100,927
Derivative instruments	29,994	77,387
Deferred income tax liabilities.	59,487	73,978
Amounts payable under spot foreign exchange transaction.	28,482	47,030
Provision for minimum dividend	15,949	39,166
Accrued severance staff indemnities	11,609	11,296
Allowance of income taxes	442	9,909
Accrued staff vacation expense	8,697	9,169

Deferred liability on bond issuances	7,112	6,103
Administration and credit card contract provision	2,235	4,626
Leasing deferred gains	3,167	4,173
Deferred loan origination and service fees	6,445	3,839
VAT fiscal debit	2,193	3,209
Transactions in process	2,737	1,629
Legal contingencies provision	1,099	725
Documents in transit	22,762	—
Other	5,919	4,169
Total other liabilities	**244,218**	**397,335**

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(ad) Other assets and other liabilities, (continued)

(3) Contingent Liabilities

The Bank's contingent liabilities consist of open and unused letters of credit, together with guarantees granted in Chilean pesos, UF and foreign currencies (principally U.S. dollars). Under U.S. GAAP these transactions represent off-balance sheet activities. The following is a summary of instruments that are considered financial guarantees in accordance with FIN No. 45:

	Year ended December 31, 2003	As of December 31, 2003
	Fees MCh$	**Contract amount MCh$**
Standby letters of credits	190	32,074
Foreign office guarantees	289	24,033
Performance bonds	2,775	245,888
Total	3,254	301,995

Guarantees in the form of performance bonds, stand by 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 bond, stand by 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 the Bank for these guarantees. To mitigate credit risk, the Bank generally determines 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.

Guarantees expiration 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
	MCh$	**MCh$**	**MCh$**	**MCh$**	**MCh$**
Standby letters of credits	19,920	8,989	3,165	—	32,074
Foreign office guarantees	20,161	3,872	—	—	24,033
Performance bonds	176,856	56,798	10,180	2,054	245,888
Total	216,937	69,659	13,345	2,054	301,995

Under U.S. GAAP, the fair value of the liability is not material to the consolidated financial statements.

(ae) Other Interest Bearing Liabilities

The Bank's long-term and short-term borrowings are summarized below. In accordance with the guidelines established by the Superintendency of Banks, the Bank does 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 MCh$	**Short-term MCh$**	**Total MCh$**	**Long-term MCh$**	**Short-term MCh$**	**Total MCh$**
Central Bank Credit lines for renegotiation of loans	3,801	—	3,801	2,975	—	2,975
Other Central Bank borrowings	—	—	—	—	24,906	24,906
Mortgage finance bonds	1,137,200	—	1,137,200	1,052,412	—	1,052,412
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	**1,807,605**	**541,886**	**2,349,491**	**1,790,520**	**818,289**	**2,608,809**

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(ae) Other Interest Bearing Liabilities (continued)

(1) 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
	MCh$
Due within 1 year	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	**27,881**

(2) Mortgage finance bonds

These 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 rate of interest 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
	MCh$
Due within 1 year	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	622,927
Total mortgage finance bonds	**1,052,412**

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(ae) Other Interest Bearing Liabilities (continued)

(3) Bonds

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

	As of December 31, 2003
	MCh$
Due within 1 year	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	**3,127**

Bonds are linked to the UF Index and carried 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.

(4) Subordinated bonds

In 2002 the Bank issued Bonds totaling UF 1,580,000 (“known as 6.5% Bonds”) at a discount of UF 98,670. The 6.5% Bonds are linked to the UF index with interest and principal payments due semi-annually. The discount on the issuance of the “6.5% 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 6.5% Bonds are intended for the financing of loans having a maturity of greater than one year. As of December 31, 2003 the outstanding maturities of these bonds, which are considered long-term, are as follows:

	As of December 31, 2003
	MCh$
Due within 1 year	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	**271,197**

The value of the subordinated bonds that can be considered in the “effective equity” should decrease by 20% per year beginning six years prior to maturity.

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(ae) Other Interest Bearing Liabilities (continued)

(5) Borrowings from domestic financial institutions

Borrowings from domestic financial institutions are used to fund the Bank's 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
	MCh$
Due within 1 year	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	**49,882**

(6) Foreign borrowings

The Bank has 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
	MCh$
Due within 1 year	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	**717,969**

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

(7) Other obligations

	As of December 31,	
	2002 MCh$	**2003 MCh$**
Other long-term obligations:		
Payable accounts	883	—
Obligations with Chilean government	45,437	9,846
Total other long-term obligations	**46,320**	**9,846**
Other short-term obligations	31,218	49,754
Total other obligations	**77,538**	**59,600**

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(ae) Other Interest Bearing Liabilities (continued)

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

	As of December 31, 2003
	MCh$
Due within 1 year	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	**59,600**

(af) Shareholders' Equity

The Bank's paid-in capital consists of 68,079,783,605 authorized shares of no fixed nominal value, issued and outstanding as of December 31, 2003. Dividends related to the year ended December 31, 2002 were paid-out based on the legal entities in existence as of the year end.

Dividends are declared and paid during the year subsequent to that in which the related net income was earned.
Dividends were declared and paid to the respective shareholders of each of the merging banks based on prior year net income determined under Chilean GAAP for the years ended December 31, 2001, 2002 and 2003 (presented in constant Chilean pesos as of December 31, 2003) are as follows:

	Paid during the year ended December 31,		
	2001	**2002**	**2003**
	MCh$	**MCh$**	**MCh$**
Dividends relating to Banco de Chile	n/a	90,869	52,996
Dividends per share relating to Banco de Chile	n/a	2.02	0.78
Dividends relating to Banco de A. Edwards (1)(2)	1,702	10,546	—
Dividends per share relating to Banco de A. Edwards	0.07	0.46	—

(1) On January 1, 2002 Banco de A. Edwards merged with Banco de Chile.
(2) Dividends per share of Banco de A. Edwards are calculated with c ommon shares outstanding during the year, based on the exchange ratio of 3.135826295 shares of Banco de Chile for each outstanding share of Banco Edwards, which had 7,381.41 million shares and outstanding shares immediately prior to the merger.

(ag) Transactions with Related Parties

In accordance with the rules of the Superintendency of Banks, related parties are defined as individuals or companies who are directors, officers, or shareholders who own more than 1% of the Bank's shares.

Entities in which a director, officer or shareholder of the Bank holds more than a 5% interest as well as entities that have directors in common with the Bank are also considered to be related parties. In the following tables, trading and manufacturing companies are defined as operating companies, and companies whose purpose is to hold shares in other companies are defined as investment companies.

(Restated for general price - level changes and expressed in millions of constant
Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(ag) Transactions with Related Parties (continued)

(1) Loans granted to related parties

Loans to related parties, all of which are current, are as follows:

	As of December 31,					
	2001		2002		2003	
	Loans MCh$	Collateral Pledged MCh$	Loans MCh$	Collateral Pledged MCh$	Loans MCh$	Collateral Pledged MCh$
Operating companies	81,377	26,489	97,389	23,249	78,219	21,379
Investment companies	4,796	481	7,013	2,230	33,280	2,246
Individuals (1)	4,131	1,195	1,771	1,387	2,280	1,577
Total	**90,304**	**28,165**	**106,173**	**26,866**	**113,779**	**25,202**

(1) Includes only debt obligations that are equal to or greater than UF 3,000, equivalent to approximately MCh$51 as of December 31, 2003.

The activity in the balances of loans to related parties are as follows:

	As of December 31,		
	2001	2002	2003
	MCh$	MCh$	MCh$
Balance as of January 1	36,919	90,304	106,173
Incorporation of Banco de Chile as of March 31, 2001	82,348	—	—
New loans	119,213	75,253	55,953
Repayments	(145,032)	(56,753)	(47,296)
Price-level restatement (1)	(3,144)	(2,631)	(1,051)
Balance as of December 31	**90,304**	**106,173**	**113,779**

(1) Reflects the effect of restatement of beginning balances to constant pesos of December 31, 2003.

(Restated for general price - level changes and expressed in millions of constant
Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(ag) Transactions with Related Parties (continued)

(2) Other transactions with related parties.

During the years ended December 31, 2001, 2002 and 2003, the Bank incurred the following expenses and income as a result of transactions with related parties equal to or greater than UF 5,000 equivalent to approximately MCh$85 as of December 31, 2003.

	Years ended December 31,					
	2001		2002		2003	
	Expense MCh$	Revenue MCh$	Expense MCh$	Revenue MCh$	Expense MCh$	Revenue MCh$
Redbanc S.A.	2,776	—	2,239	—	2,433	—
Empresa Nacional de Telecomunicaciones S.A.	1,776	—	2,643	—	1,852	—
Operadora de Tarjetas de Crédito Nexus S.A.	1,763	—	1,608	—	1,704	—
Depósito Central de Valores, Depósitos de Valores S. A	—	—	194	—	281	—
Entel PCS Telecomunicaciones S.A.	—	—	337	—	225	—
Banchile Cía. de Seguros de Vida S.A.	—	—	157	—	219	—
Entel Telefonía Local S.A.	155	—	114	—	202	—
Hoteles Carrera S.A.	96	—	152	—	138	—
Compañía Nacional de Teléfonos Telefónica del Sur S.A.	—	—	101	—	135	—
Empresa de Tarjetas Inteligentes S.A	86	—	92	—	51	—
Telefónica del Sur Carrier S.A.	—	—	102	—	12	—
Línea Aérea Nacional de Chile S.A.	—	105	—	104	—	106
Corporación. Cultural de la Ilustre Municipalidad de Santiago	—	—	353	—	—	—
Empresa de Servicios Especializados S.A	942	—	156	—	—	—
Subtotal	**7,594**	**105**	**8,248**	**104**	**7,252**	**106**
Transactions between 1,000 and 5,000 UF:						
Services expenses	179	—	333	—	239	—
Advisory	—	—	—	—	61	—
Telephone expenses	62	—	33	—	—	—
Rental income	—	(15)	—	—	—	49
Subtotal	**241**	**(15)**	**366**	—	**300**	**49**
Total	**7,835**	**90**	**8,614**	**104**	**7,552**	**155**

These expense and income items are for services received by the Bank from related parties at market rates. Article 89 of the Chilean Corporations Law requires that the Bank's transactions with related parties be carried out on a market basis or on terms similar to those prevailing in the market.

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(ah) Fees and income from services

The Bank's fees and income from services and non-operating income and expenses for the years ended December 31, 2001, 2002 and 2003 are summarized as follows:

	Years ended December 31,					
	2001		2002		2003	
	Income MCh$	Expenses MCh$	Income MCh$	Expenses MCh$	Income MCh$	Expenses MCh$
Fees and income from services						
Sight accounts and ATMs	9,376	(2,578)	11,982	(2,601)	15,295	(4,696)
Mutual funds	9,279	(436)	13,287	(1,337)	14,663	(1,394)
Insurance	7,262	(602)	6,860	(720)	10,490	(1,128)
Stock brokerage	3,933	(449)	4,060	(435)	9,912	(612)
Collection of overdue loans	—	—	6,398	—	8,621	—
Collection and payment of services	3,752	—	5,748	—	7,179	—
Credit lines	3,451	—	5,033	—	5,521	—
Financial services	1,749	—	1,929	—	5,350	—
Demand deposits and overdrafts	10,827	—	9,098	—	4,909	—
Income and expense from goods received in lieu of payment	604	(2,041)	2,961	(1,730)	4,179	(1,753)
Contingent fees	4,766	—	3,277	—	3,261	—
Collection services	2,962	—	2,610	—	2,874	—
Foreign trade and currency exchange	1,979	—	1,766	—	2,418	—
Prepayment of loans	676	—	1,208	—	1,969	—
Letters of credit guarantees, collaterals and other contingent loans	3,272	(2,127)	1,743	—	1,737	—
Leasing	408	(672)	1,685	(484)	1,637	(514)
Custody and trust services	639	—	595	—	911	—
Factoring	290	(51)	298	(4)	735	(3)
Fees from sales force	—	(4,508)	—	(8,553)	—	(10,864)
Teller services (Servipag)	—	(2,103)	—	(2,765)	—	(3,179)
Other	2,755	(2,552)	2,134	(1,444)	4,177	(2,454)
Total	**67,980**	**(18,119)**	**82,672**	**(20,073)**	**105,838**	**(26,597)**

(ai) Non-operating income and expense

	Years ended December 31,		
	2001	2002	2003

	Income MCh$	Expenses MCh$	Income MCh$	Expenses MCh$	Income MCh$	Expenses MCh$
Non-operating income and expenses						
Rental income	2,448	—	2,699	—	2,554	—
Gains on sales of assets received in lieu of payment	4,366	—	964	—	1,095	—
Income from correspondent banks	838	—	584	—	941	—
Income from sale of fixed assets	201	—	524	—	453	—
Recoveries of expenses	626	—	863	—	428	—
Securities in companies and shares	85	—	298	—	19	—
Amortization of intangibles	—	(14,128)	—	(20,796)	—	(17,547)
Charge-offs and provision of assets received in lieu of payment	—	(4,336)	—	(8,373)	—	(7,357)
Administration and credit card contracts	—	(1,727)	—	(3,072)	—	(5,946)
Charge-offs	—	(383)	—	(1,315)	—	(2,257)
Income (losses) attributable to investments in other companies	1,451	(26)	—	(1,301)	—	(1,122)
Delivery services of bank products	—	(586)	—	(644)	—	(637)
Asset received in lieu of payment	515	—	—	(1,739)	—	(381)
Legal contingencies provision	—	(188)	—	(972)	—	(147)
Charge-offs and provision related to fixed assets	—	(184)	—	(4,409)	—	(124)
Miscellaneous gains on exchange	135	—	—	—	—	—
Overestimated provision	(12)	—	—	—	—	—
Charge-offs of transaction in process related to the merger	—	—	—	(2,036)	—	—
Indemnity for termination of rental contracts	—	—	—	(588)	—	—
Merger expenses	—	—	—	(1,245)	—	—
Other	915	(1,173)	531	(2,131)	647	(4,312)
Total	**11,568**	**(22,731)**	**6,463**	**(48,621)**	**6,137**	**(39,830)**

(Restated for general price - level changes and expressed in millions of constant Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(aj) Pro Forma Information related to the acquisition of Banco de Chile (Unaudited)

Following the accounting requirements under U.S. GAAP, the financial information for the period between January 1, 2001 and March 27, 2001 reflects the financial information of the predecessor bank, Banco de A. Edwards. On March 27, 2001, Quiñenco, the common parent of the two banks, purchased a controlling interest in Banco de Chile. The following unaudited pro forma financial information gives effect to Quiñenco's acquisition of Banco de Chile as if it had occurred on January 1, 2001. The pro forma results from operations have been prepared for informational purposes only and do not purport to be indicative of the actual results of operations.

The pro forma results, under U.S. GAAP, are as follows:

	Year ended December 31,
	2001
	MCh$
Interest revenue	854,657
Net income	64,799
Earnings per share (Ch$) (1)	0.95

(1) Basic and diluted earnings per share have been calculated by dividing net income by the weighted average number of common shares outstanding during the year (8,089.8 million shares as of December 31, 2001) . The Bank has not issued convertible debt or equity securities. Consequently, there are no potentially dilutive effects on the earnings of the Bank.

(ak) Pro Forma Information related to the merger of Banco de Chile with Banco de A. Edwards (Unaudited)

The financial information presented under U.S. GAAP, reflects the merger of Banco de Chile with Banco de A. Edwards from March 27, 2001, the first date in which control of the banks was held by the common parent, although legally, the merger took place on January 1, 2002. As a result of this accounting treatment, the financial information for the year ended December 31, 2002 reflects the effects of the merger for the whole year (see Note 28 (a) for an explanation of the accounting for the merger under U.S. GAAP). The following unaudited pro forma financial information gives effect to the merger of the banks as if it had occurred on January 1, 2001. These pro forma results from operations have been prepared for informational purposes only and do not purport to be indicative of the actual results of operations.

The pro forma results, under U.S. GAAP, are as follows:

	Year ended December 31,
	2001
	MCh$
Interest revenue	866,097
Net income	81,925
Earnings per share (Ch$) (1)	1.20

(1) Basic and diluted earnings per share have been calculated by dividing net income by the weighted average number of common shares outstanding during the year (68,098.8 millions as of December 31, 2001 and 2002) . The Bank has not issued convertible debt or equity securities. Consequently, there are no potentially dilutive effects on the earnings of the Bank.

(Restated for general price - level changes and expressed in millions of constant
Chilean pesos as of December 31, 2003)

28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)

(al) Recent accounting pronouncements

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). The objective of this FASB Interpretation is to determine when a business enterprise should include the assets, liabilities, non controlling interests and results of a Variable Interest Entity in its consolidated financial statement. The Bank determined that there is no impact on applying the provisions of FIN 46 on its consolidated financial statements.

- On December 12, 2003, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) No. 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer" (SOP 03-3). SOP 03-3 is effective for loans acquired in fiscal years beginning after December 15, 2004.

  SOP 03-3 requires acquired loans to be recorded at fair value and prohibits carrying over valuation allowances in the initial accounting for all loans acquired in a transfer that have evidence of deterioration in credit quality since origination, when it is probable that the investor will be unable to collect all contractual cash flows. Loans carried at fair value, mortgage loans held-for-sale, and loans to borrowers in good standing under revolving credit agreements are excluded from the scope of SOP 03-3. SOP 03-3 limits the yield that may be accreted to the excess of the undiscounted expected cash flows over the investor's initial investment in the loan. The excess of the contractual cash flows over expected cash flows may not be recognized as an adjustment of yield. Subsequent increases in cash flows expected to be collected are recognized prospectively through an adjustment of the loan's yield over its remaining life. Decreases in expected cash flows are recognized as impairment. The Merged Bank is evaluating the effect of the adoption of SOP 03-3, however, management does not expect that the adoption will have a material impact on its financial position and results of operations.

29. Merger Expenses

Under Chilean GAAP, the Bank recorded MCh$31,193 in its consolidated statement of income as of December 31, 2002 for merger expenses that have been directly charged to income for the period, as follows:

	As of December 31, 2002
	MCh$
Staff severance indemnities	14,629
Charge-offs and provisions related to fixed assets	4,392
Charge-offs software development	3,909
Charge offs of other assets	2,155
Maintenance and remodeling of offices	1,275
Other personnel expenses	1,086
Consulting services	1,040
Marketing	590
Indemnity for termination of rental contracts	588
Other	1,529
Total	**31,193**

During the year 2001, the merger expenses charged to income amounted to MCh$14,735.

30. Relevant Events

(a) Effective January 1, 2002, Banco de A. Edwards merged with and into Banco de Chile, with Banco de Chile as the surviving entity. As a consequence of the merger, Banco de Chile acquired the assets and assumed the liabilities of Banco de A. Edwards, succeeding said bank in all of its rights and obligations, and incorporating the equity of Banco de A. Edwards into Banco de Chile (see Note 9). During 2003 there were no expenses related to the merger process (expenses of MCh$31,193 in 2002).

(b) On March 25, 2004, the Board of Directors resolved to issue a tender offer for 1,701,994,590 shares issued by Banco de Chile, representing 2.5% of the total capital, at the price of Ch$31 per share, according to the Program to Repurchase Shares, as agreed upon by the General Ordinary Shareholders Meeting held on March 20, 2003. The offer was addressed to all shareholders of Banco de Chile listed on any of the local Stock Exchanges and remained in force from March 27, 2004 until April 26, 2004. During the period of the offer there were received acceptance orders for a total amount of 5,000,844,940 shares. Due to the reception of acceptance orders for a total amount that exceeds the number of shares offered to buy and according with the terms of the offer, it was applied a pro-rata basis to each acceptance order received and accepted.

SIGNATURE

The registrant, Banco de Chile, hereby certifies that it meets all of the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this annual report on its behalf.

BANCO DE CHILE

By /s/ Pablo Granifo

Name: Pablo Granifo
Title: Chief Executive Officer

Date: June 25, 2004