

FINANCIAL SERVICES



vision



LQ INVERSIONES FINANCIERAS S.A.

LQIF

LQ Inversiones Financieras, a 99.9%-owned subsidiary, was created in 2000 to concentrate Quiñenco's holdings in the financial services sector. Today, through its holdings in Banco de Chile and SM Chile S.A., LQIF has 52.2% of the voting rights and a 29.2% interest in the dividend rights of Banco de Chile.

The financial sector is Quiñenco's most important business sector. Its investments in this sector represent about 59% of corporate assets and 67% of its total investments. In 2002, the contribution to Quiñenco's net results from Banco de Chile amounted to Ch\$15,424 million, representing the most significant contribution to Quiñenco results of all of its operating units.

The group has plotted a long and successful course in the banking sector. It has been active in banking since 1981, and today is one of the most experienced financial conglomerates in the country. Its experience includes the merger of Banco Santiago and Banco O'Higgins in 1997 as well as the subsequent sale of the group's holding in the entity which merged with Banco Santander Central Hispanoamericano, for US\$600 million in 1999. In the same year, LQIF bought a 51.2% stake in Banco Edwards, well known for its

excellent service and for having carved out an important niche in the Chilean financial sector.

After the purchase of Banco Edwards, Quiñenco dedicated its efforts during two years to the acquisition of a majority stake in Banco de Chile, one of the most important and profitable institutions in the Chilean banking sector. After reaching an important agreement with the Penta group, which controlled Banco de Chile at the time, and a public tender offer on the Santiago stock market, the group gained control of the bank at the beginning of 2001.

With control of both banks, the group began the merger process by carrying out a study of the possible benefits and equity exchange terms. By the end of 2001, it had secured the approval of regulatory bodies and shareholders to merge Banco de Chile with Banco Edwards, meeting the target set months earlier. On January 1, 2002, the two banks were merged to create a powerful platform for the future growth of the company.

LQIF reported a net loss of Ch\$19,802 million in 2002, mainly owing to the financial costs and amortization of goodwill expense incurred in connection with the acquisition of Banco de Chile.



Banco de Chile

Banco de Chile is the second-largest privately owned bank in the country, with assets of more than US\$11.9 billion, US\$8.6 billion in loans and US\$860 million in equity. Its market share was 18.6% at the end of 2002, according to the Superintendencia de Bancos e Instituciones Financieras (SBIF), a considerable feat given there are 25 national and international banks freely competing in the Chilean financial system.

The bank offers integral banking solutions to large, medium and small companies, as well as to individuals of all income levels. Its more than one million clients have easy access to a broad network of services encompassing 237 branches, 758 ATMs, and internet and international services which operate through a branch in New York, an agency in Miami and representative offices in Buenos Aires, Sao Paulo and Mexico City. The bank also counts on the additional support of a global network of more than 1,000 correspondent banks.

At the same time, Banco de Chile offers an extensive and interesting array of products and services through its subsidiary operations in insurance, stock brokerage, mutual funds, factoring, financial consultancy and securitization, among others. Given the prestige and value of the Banco Edwards brand - which stands for personal banking - the newly merged entity continues to make the most of this important brand through its branch network.

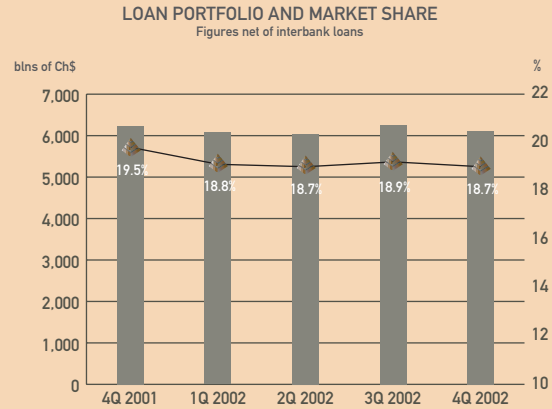
In terms of competitiveness, Banco de Chile is proud to be the only Chilean entity which is quoted on four international stock markets. With a market capitalization of more than US\$1.8 billion, the bank's

shares are traded not only on the Chilean stock exchanges, but also as American Depositary Receipts on the New York Stock Exchange. Since the end of 2002, the shares are also traded on the Latibex exchange in Madrid and on the London Stock Exchange.

During the 2002 reporting period, the focus at Banco de Chile was its merger process. The success of this operation is best measured as complete operative and technological integration, within budget, time and proposed cost limits, all the while maintaining the excellent service standards required by its clients. To achieve this, the bank started the year by integrating the two banks' information platform, leaving that of Banco de Chile's as the base. In October 2002, the merger process was concluded, successfully and ahead of schedule.

Banco de Chile		12/31/2001*	12/31/2002
Total loans	MCh\$	6,259,647	6,162,396
Total assets	MCh\$	9,252,500	8,597,051
Shareholders' equity	MCh\$	656,769	618,230
ROAA		1.07%	0.58%
ROAE		16.2%	8.9%
Net Financial Margin		4.1%	4.1%
Efficiency ratio		57.3%	60.6%

* Proforma figures are included for purposes of comparison



On a parallel basis, and with the aim of cutting costs and increasing the efficiency of the newly merged bank's operations, a total of 51 branches were closed. At the same time, there was a 15% reduction in personnel, which left the structure more in tune with the size of its business.

In 2003, the bank is looking to consolidate its significant share in the loan market, which will allow it to achieve commercial synergies. Its short-term objective in terms of return on equity and indicators of asset quality is to hit targets above the industry average.

2002 RESULTS

Banco de Chile reported a net profit of Ch\$52,635 million in 2002, down from the Ch\$99,983 million reported in 2001. The reduction in net profit was primarily attributable to merger related costs and allowances for loan losses made during the year.

Operating revenues were Ch\$424,257 million in 2002, a slight reduction from the Ch\$435,617 million reported in 2001. The decline in operating revenues was due to a lower level of net interest revenue earned and lower gains on sales of financial instruments, partially offset by an increase in fee income, which grew by more than 12% during the year.

Allowances for loan losses increased by 31.9% in 2002 to Ch\$118,750 million. The additional allowances were made cohering to the bank's conservative credit policy in a context of low economic growth in Chile and as a safeguard against risks associated with

Argentine borrowers. As a consequence, the Bank's risk index rose to 3% as of December 31, 2002.

Costs related to the merger process totaled Ch\$30,884 million in 2002, of which Ch\$25,530 million and Ch\$5,374 million corresponded to operating expenses and non-operating expenses, respectively.

SM Chile S.A., through its wholly-owned subsidiary, SAOS S.A., maintains a subordinated debt with the Central Bank of Chile. Repayment terms require that 42.8% of the total dividends paid by Banco de Chile each year are used to service the subordinated debt obligation.

